

Box 3:

SUMMARY OF CESR GUIDELINES FOR A HARMONIZED MMF DEFINITION

In May 2010 CESR (succeeded by ESMA as a European authority) established a set of criteria with the intention to create a harmonized definition of MMFs in Europe. The CESR guidelines established a dual classification for MMFs consisting of "Money Market Funds" (MMFs) and "short-term money market funds" (ST-MMFs). The ESMA Guidelines impose strict standards on MMFs in terms of their sensitivity to interest rate risk, their liquidity requirements, the maturity of assets held by MMFs and credit risk exposures. From a prudential perspective, ST-MMFs operate with very short WAM and WAL while MMFs operate with longer WAM and WAL giving rise to important and characteristic policy considerations for each category of fund (i.e. maturity transformation, etc...)

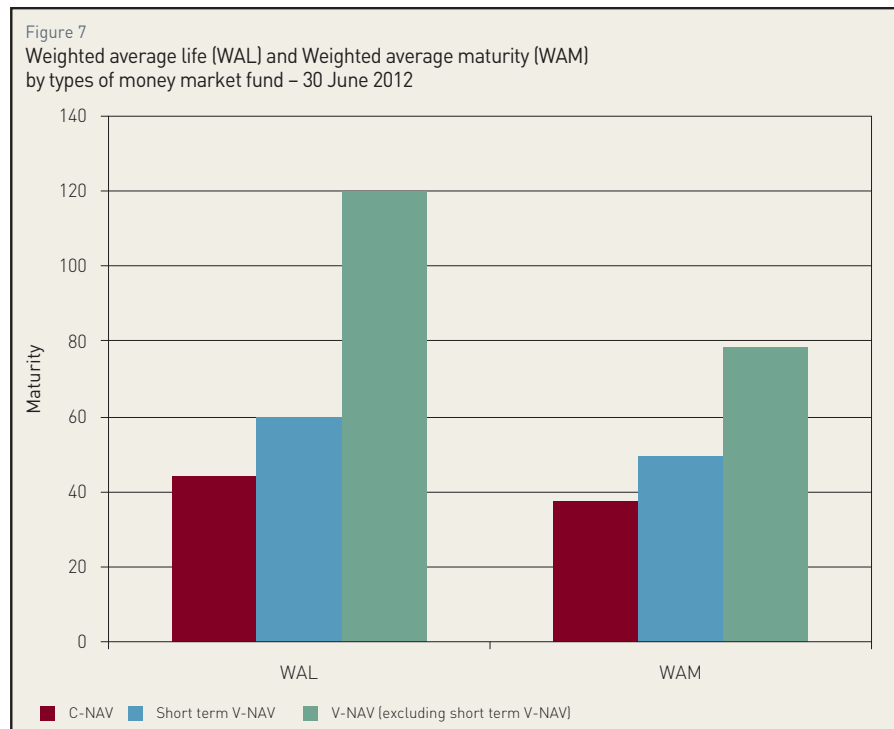
The CESR standards also impose requirements on the specific information disclosures with particular emphasis being placed on MMF shares differences with actual bank deposits. Under the guidelines it is required that MMF documentation is clear in delineating that the objective of the fund is to preserve the initial capital investment and not for the fund to be construed as a capital guarantee. Additionally, MMFs are also required to provide disclosures on the impact of their long average duration on the risk profile of the particular fund.

The CESR guidelines entered into effect in July 2011.

For the Luxembourg data, one can see from figure 7 that on 30 June 2012, the WAL amounted to 44 days for C-NAV funds, 60 days for V-NAV funds (excluding short-term V-NAV) and slightly less than 120 days for short-term V-NAV funds. The WAM was 37 days for C-NAV funds, 49 days for V-NAV funds (excluding short-term V-NAV) and less than 78 days for short-term V-NAV funds.

As regards the breakdown of securities held by Luxembourg money market funds by countries on 30 June 2012, figure 8 below shows that the US represents 32% while France 13%, the UK 11%, Germany 9% and the Netherlands 9%.

As regards the breakdown of securities held by Luxembourg money market funds by currencies on 30 June 2012, according to figure 9 it appears that the share of the USD



Sources: CSSF [survey covering 24 Luxembourg Money Market Funds and covering 75% of Luxembourg total aggregated assets size]; Calculation: BCL