

MEMO# 27053

March 8, 2013

ESRB Issues Recommendations Regarding Money Market Funds

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TO: ICI GLOBAL REGULATED FUNDS COMMITTEE No. 3-13
ICI GLOBAL SHADOW BANKING TASK FORCE RE: ESRB ISSUES RECOMMENDATIONS
REGARDING MONEY MARKET FUNDS

Earlier this week, the European Systemic Risk Board (“ESRB”) issued a set of recommendations to the European Commission (“Commission”) regarding money market funds. * Finding that money market funds are a “key component of the shadow banking system,” ESRB states that investors may perceive money market funds, in particular constant net asset value funds, as “safe alternatives to bank deposits,” despite the fact that money market funds do not have “direct access to a public safety net, such as central bank financing and deposit insurance.” ESRB cites “economic research” that provides “evidence” that money market funds are vulnerable to destabilizing investor runs, noting further that the risk of an investor run may be higher for constant net asset value funds.

Based on these findings, ESRB adopted the following recommendations.

- Mandatory move to variable net asset value.
 - Require money market funds to have a fluctuating net asset value;
 - Make general use of fair valuation; and
 - Restrict the use of amortized cost accounting to a limited number of predefined circumstances.
- Liquidity requirements.
 - Impose explicit minimum amounts of daily and weekly liquid assets that money market funds must hold;
 - Strengthen the responsibility of fund managers regarding the monitoring of liquidity risk; and
 - Ensure that national supervisory authorities and funds’ managers have in place effective tools, for example temporary suspensions of redemptions, to deal with liquidity constraints in times of stress resulting from both fund-specific and market-wide developments.
- Public disclosure.
 - Require money market funds to make specific disclosures to investors regarding the absence of a capital guarantee and the possibility of principal loss;

- Require that money market funds disclose the possibility of sponsor support if it is a firm commitment by the sponsor; and
- Require money market funds to disclose their valuation practices, particularly regarding the use of amortized cost accounting, as well as to provide appropriate information to investors regarding applicable redemption procedures in times of stress.
- Reporting and information sharing.
 - Require that any instances of sponsor support that may have an impact on the price of the money market fund be reported to the national supervisory authority, together with a full description of the nature and size of such support;
 - Enhance regular reporting by money market funds; and
 - Ensure that national supervisory authorities share relevant information with other national supervisory authorities, the European Supervisory Authorities, the members of the European System of Central Banks, and the ESRB.

As part of these recommendations, the Commission is required to report to ESRB the actions taken in response to the recommendations, or adequately justify inaction. An interim report containing a first assessment of the implementation of the recommendations is due by June 30, 2013, and a final report is due by June 30, 2014.

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endnotes

*The ESRB recommendations are available at http://www.esrb.europa.eu/pub/pdf/recommendations/2012/ESRB_2011_1.en.pdf?dc4242c0c12fab22c3a7bb2e256bb2fd. An annex that provides more detail regarding the ESRB recommendations is available at http://www.esrb.europa.eu/pub/pdf/recommendations/2012/ESRB_2011_1_annex.en.pdf?47001f62718b097679271822_75cb8a92

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