

MEMO# 35011

February 23, 2023

ESMA Report on European Union Money Market Funds

[35011]

February 23, 2023

TO: ICI Global Members SUBJECTS: International/Global
MiFID, EMIR, AIFMD, UCITS V RE: ESMA Report on European Union Money Market Funds

On February 8, the European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, published its inaugural market report on European Union (EU) Money Market Funds (MMF).[\[1\]](#) The report provides a comprehensive market-level view of EU MMFs, which is based on supervisory information collected by National Competent Authorities (NCAs) and ESMA. The report will likely serve as a reference point for the European Commission when it determines how it plans to re-assess the Money Market Fund Regulation (MMFR). The report follows ESMA's February 2022 opinion on the MMFR in which ESMA recommended for the regulation to be reviewed and to undergo a set of changes in the interest of MMF resilience.

ESMA's main findings include the following:

- EU MMF sector:
 - The EU MMF sector had €1.44tn of assets in 2021, with 89% of the funds domiciled in France, Luxembourg, and Ireland.
 - Low-volatility NAV (LVNAV) MMFs account for 46% of the total assets, followed by Variable NAV (VNAV) MMFs (42%) and Constant NAV (CNAV) MMFs (12%).
 - All MMFs domiciled in France are of the VNAV type and almost exclusively denominated in EUR.
 - MMFs in Luxembourg and Ireland are mainly in non-EU currencies and set up mostly as CNAVs and LVNAVs.
 - MMFs authorised in other EU jurisdictions are VNAVs denominated in other EU domestic currencies and account only for a small fraction of assets.
 - The EU MMF industry shows a high degree of concentration as the 20 largest MMFs of each type hold close to 80% of total MMF assets.
- Asset allocation:
 - The portfolio structure of EU MMFs remains relatively stable over time, and they are mainly exposed to the financial sector.
 - Between March 2020 and June 2022, average exposures to credit institutions amount to 60% of total assets, including 42% in money market instruments

- issued by banks, 17% in deposits.
- Most of the EU MMFs' government debt exposure is towards non-EU sovereigns, and during March to December 2020, LVNAVs increased their share of government bonds before starting a slow readjustment back to the pre-COVID composition.
 - Liquid assets and risk sensitivity:
 - The share of daily and weekly liquid assets remained above the regulatory minimum, and increased for CNAVs at a regular pace starting in 3Q20.
 - As of 3Q21, EU MMFs have significantly reduced the interest rate risk sensitivity of their portfolios, measured as the weighted average maturity of assets (WAM), to improve resilience to a rate rise.
 - Across the different types, most EU MMFs appear to be more conservative when compared with the regulatory maximum limits for the measure of liquidity and credit risk, computed as weighted average liquidity of the portfolio (WAL).
 - Ownership and liabilities:
 - Professional investors hold more than 90% of EU MMFs. They account for 95% of the NAV for CNAVs and 99% for LVNAVs.
 - The share of retail investors is higher for VNAVs, with respectively 13% for short term and 12% for standard VNAVs. This is driven by VNAVs domiciled in France, where retail clients account for 12% of NAV.
 - Non-EU investors are dominant in Luxembourg and Ireland. Reflecting the importance of MMFs EU-domiciled in non-EU currencies, non-EU investors account for 77% of the NAV of Irish MMFs (including 60% from the UK) and 63% of the NAV of Luxembourg MMFs (including 30% from the UK and 10% from the US). In contrast, EU investors hold around 94% of NAV in France, with 76% being domestic investors.
 - Financial corporations are the main unitholders of MMF shares across regulatory types (70% of NAV). Insurances, pension funds, and banks account together for 25% of NAV. Other financial institutions, a category that includes collective investment undertakings, have the highest equity interest in MMFs with 45% of NAV.
 - Between December 2021 and March 2022 MMFs experienced substantial outflows, partially driven by investor expectations linked to the increase in interest rates and a turning investor sentiment away from fixed income instruments in general, a trend that reversed later in 2022.
 - MMFR data reporting:
 - Overall, the completeness of reporting reaches 95% of active funds reporting at the end of 2020 and 2021. Funds reporting on a yearly basis only represent around 0.2% of the total net assets reported at the end of the year.
 - Overall, quality of the data can be considered satisfactory. However, some issues in the reporting persist, mainly pertaining to the classification of issuers of money market instruments.

Eva M. Mykolenko
Associate Chief Counsel - Securities Regulation

Notes

[\[1\]](#) The report is available at:

https://www.esma.europa.eu/sites/default/files/library/ESMA50-165-2391_MMF_market_2023.pdf.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.