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## INFORMATION NOTE

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From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	Proposal for a Regulation of the European Parliament and of the Council on Money Market Funds – Outcome of the European Parliament's first reading (Strasbourg, 3 to 6 April 2017)

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### I. INTRODUCTION

In accordance with the provisions of Article 294 of the TFEU and the joint declaration on practical arrangements for the codecision procedure <sup>1</sup>, a number of informal contacts have taken place between the Council, the European Parliament and the Commission with a view to reaching an agreement on this dossier at first reading, thereby avoiding the need for second reading and conciliation.

In this context, the rapporteur, Ms Neena GILL (S&D - UK) presented one compromise amendment (amendment 12) to the proposal for Regulation, on behalf of the Committee on Economic and Monetary Affairs. This amendment had been agreed during the informal contacts referred to above.

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<sup>1</sup> OJ C 145, 30.6.2007, p.5

## II. VOTE

When it voted on 5 April 2017, the plenary adopted the compromise amendment (amendment 12) to the proposal for a Regulation.

The Commission proposal as thus amended and the legislative resolution constitute the Parliament's first-reading position<sup>2</sup>, it reflects what had been previously agreed between the institutions. The Council should therefore be in a position to approve the Parliament's position.

The act would then be adopted in the wording which corresponds to the Parliament's position.

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<sup>2</sup> The text of the amendment adopted and the European Parliament's legislative resolution are set out in the Annex. The amendment is presented in the form of a consolidated text, where changes to the Commission's proposal are highlighted in bold and italics. The symbol "■" indicates deleted text.

## **Money market funds \*\*\*I**

### **European Parliament legislative resolution of 5 April 2017 on the proposal for a regulation of the European Parliament and of the Council on Money Market Funds (COM(2013)0615 – C7-0263/2013 – 2013/0306(COD))**

#### **(Ordinary legislative procedure: first reading)**

*The European Parliament,*

- having regard to the Commission proposal to Parliament and the Council (COM(2013)0615),
  - having regard to Article 294(2) and Article 114 of the Treaty on the Functioning of the European Union, pursuant to which the Commission submitted the proposal to Parliament (C7-0263/2013),
  - having regard to Article 294(3) of the Treaty on the Functioning of the European Union,
  - having regard to the opinion of the European Central Bank of 21 May 2014<sup>3</sup>,
  - having regard to the opinion of the European Economic and Social Committee of 10 December 2013<sup>4</sup>,
  - having regard to the provisional agreement approved by the responsible committee and the undertaking given by the Council representative by letter of 7 December 2016 to approve Parliament's position, in accordance with Article 294(4) of the Treaty on the Functioning of the European Union,
  - having regard to Rule 59 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs (A8-0041/2015),
1. Adopts its position at first reading hereinafter set out<sup>5</sup>;
  2. Calls on the Commission to refer the matter to Parliament again if it replaces, substantially amends or intends to substantially amend its proposal;
  3. Instructs its President to forward its position to the Council, the Commission and the national parliaments.

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<sup>3</sup> OJ C 255, 6.8.2014, p. 3.

<sup>4</sup> OJ C 170, 5.6.2014, p. 50.

<sup>5</sup> This position replaces the amendments adopted on 29 April 2015 (Texts adopted, P8\_TA(2015)0170).

**Position of the European Parliament adopted at first reading on 5 April 2017 with a view to the adoption of Regulation (EU) 2017/... of the European Parliament and of the Council on money market funds**

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Central Bank<sup>6</sup>,

Having regard to the opinion of the European Economic and Social Committee<sup>7</sup>,

Acting in accordance with the ordinary legislative procedure<sup>8</sup>,

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<sup>6</sup> OJ C 255, 6.8.2014, p. 3.

<sup>7</sup> OJ C 170, 5.6.2014, p. 50.

<sup>8</sup> Position of the European Parliament of 5 April 2017.

Whereas:

- (1) Money market funds (MMFs) provide short-term finance to financial institutions, corporations and governments. By providing finance to those entities, MMFs contribute to the financing of the economy of the Union. *Those entities use their investments in MMFs as an efficient way to spread their credit risk and exposure, rather than relying solely on bank deposits.*
- (2) On the demand side, MMFs are short-term cash management tools that provide a high degree of liquidity, diversification and stability of value of the principal invested, combined with a market-based yield. MMFs are mainly used by corporations seeking to invest their excess cash for a short time frame. MMFs, therefore, represent a crucial link bringing together demands and offers of short-term cash.
- (3) Events that occurred during the financial crisis have shed light on several features of MMFs that make them vulnerable when there are difficulties in financial markets in which case *MMFs could* spread or amplify risks throughout the financial system. When the prices of the assets in which an MMF has invested start to decrease, especially during stressed market situations, the MMF cannot always maintain its promise to redeem immediately and to preserve the principal value of a unit or share issued by the MMF to investors. That situation, *which according to the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) can be particularly serious for constant or stable net asset value MMFs*, could trigger *substantial* and sudden redemption requests, potentially *triggering* broader macroeconomic consequences.

- (4) Large redemption requests *could* force MMFs to sell some of their investment assets in a declining market, *potentially* fuelling a liquidity crisis. In those circumstances, money market issuers can face severe funding difficulties if the *markets for commercial paper* and other money market instruments *dry up*. *That in turn could lead to* contagion *within* the short-term funding market *and result in* direct and major difficulties *in* the financing of ■ financial institutions, corporations and governments, *and* thus the economy.
- (5) Asset managers, *backed* by sponsors, can decide to provide discretionary support to maintain the liquidity and the stability of their MMFs. Sponsors are often forced to support their sponsored MMFs *that are* losing value due to ■ reputational risk and fear that panic could spread into *sponsors'* other businesses. Depending on the size of the MMF and the extent of *the* redemption pressure, sponsor support could reach proportions that exceed their readily available reserves. Therefore, *an MMF should not receive external support*.
- (6) In order to preserve the integrity and stability of the internal market ■, it is necessary to lay down rules regarding the operation of MMFs, in particular on the composition of the portfolio of MMFs. *Those rules are intended to make MMFs more resilient and limit contagion channels*. Uniform rules across the Union are necessary to ensure that MMFs are able to *honour redemption requests from* investors, especially during stressed market situations. Uniform rules on the portfolio of an MMF are also required to ensure that MMFs are able to face *substantial* and sudden redemption requests by a large group of investors.

- (7) Uniform rules on MMFs are furthermore necessary to ensure *the* smooth operation of the short-term funding market for financial institutions, corporate issuers of short-term debt and governments. They are also required to ensure *the* equal treatment *of* investors in an MMF and to avoid late redeemers *being disadvantaged if* redemptions are temporarily suspended or *if* an MMF is liquidated.
- (8) It is necessary to provide for the harmonisation of prudential requirements related to MMFs by setting out clear rules that impose direct obligations on MMFs and the managers of MMFs throughout the Union. Such harmonisation would enhance *the* stability of MMFs as a source of short-term finance for *governments* and the corporate sector across the Union. It would also ensure that MMFs remain a reliable tool for the cash management needs of industry in the Union.
- (9) The Guidelines on a common definition of European money market funds adopted by the Committee of European Securities Regulators on 19 May 2010 to create a minimum level playing field for MMFs in the Union were, one year after their entry into force, applied by only 12 Member States, thus demonstrating the persistence of divergent national rules. Different national approaches fail to address the vulnerabilities of *money markets in* the Union and *fail* to mitigate contagion risks, thereby endangering the functioning and stability of the internal market, *as evidenced during the financial crisis*. The common rules on MMFs provided for in this Regulation therefore aim to provide a high level of protection *for* investors and to prevent and mitigate any potential contagion risks resulting from possible runs by investors *on* MMFs.

- (10) In the absence of a regulation setting out rules on MMFs, diverging measures might continue to be adopted at national level. *Such measures* would continue to cause significant distortions of competition resulting from significant differences in essential investment protection standards. Diverging requirements on portfolio composition, eligible assets, their maturity, liquidity and diversification, as well as on credit quality of issuers and of money market instruments, lead to different levels of investor protection because of the different levels of risk attached to the investment proposition associated with an MMF. *It is therefore essential to adopt a uniform set of rules in order to avoid contagion of the short-term funding market which would put at risk the stability of the Union's financial market. In order to mitigate systemic risk, constant net asset value MMFs (CNAV MMFs) should only operate in the Union as public debt CNAV MMFs .*
- (11) The new rules on MMFs *build upon* Directive 2009/65/EC of the European Parliament and of the Council<sup>9</sup>, *which forms* the legal framework governing the establishment, management and marketing of undertakings for collective investment in transferable securities (UCITS) in the Union, *and* also upon *Directive 2011/61/EU of the European Parliament and of the Council*<sup>10</sup>, *which forms the legal framework governing the establishment, management and marketing of* alternative investment funds (AIFs) *in the Union.*

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<sup>9</sup> Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 302, 17.11.2009, p. 32).

<sup>10</sup> Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (OJ L 174, 1.7.2011, p. 1).



- (12) *In the Union, collective investment undertakings can operate as UCITS, managed by UCITS management companies or UCITS investment companies authorised under Directive 2009/65/EC, or as AIFs, managed by alternative investment fund managers (AIFMs) authorised or registered under Directive 2011/61/EU. The new rules on MMFs build on the existing legal framework established by those Directives, including the acts adopted for their implementation, and should therefore apply in addition to those Directives. Furthermore, the management and marketing rules laid down in the existing legal framework should apply to MMFs taking into account whether they are UCITS or AIFs. Equally, the rules on the cross-border provision of services and freedom of establishment laid down in Directives 2009/65/EC and 2011/61/EU should apply correspondingly to the cross-border activities of MMFs. At the same time, a number of rules in relation to the investment policies of UCITS laid down in Chapter VII of Directive 2009/65/EC should be explicitly disapplied.*
- (13) Harmonised rules should apply to collective investment undertakings whose characteristics correspond to those associated with an MMF. For UCITS and AIFs that *have the objective of offering returns in line with money market rates, or of preserving the value of the investment, and that seek to achieve those objectives by investing* in short-term assets such as money market instruments or deposits, or *entering into* reverse repurchase agreements or certain derivative contracts with the *sole* purpose of hedging risks inherent to other investments of the fund, **■** compliance with the new rules on MMFs should be mandatory.

- (14) The specificity of MMFs results from the combination of the assets in which they invest and the objectives they pursue. The objective of offering returns in line with money market rates and the objective of preserving the value of an investment are not mutually exclusive. An MMF can have either one of those objectives or both objectives jointly.
- (15) The objective of offering returns in line with money market rates is to be understood in a broad sense. The anticipated return does not need to be perfectly aligned with EONIA, Libor, Euribor or any other relevant money market rate. An objective *which seeks* to outperform the money market rate by a slight margin is not to be considered to take a UCITS or AIF outside the scope of the new uniform rules provided for in this Regulation.
- (16) The objective of preserving the value of the investment is not to be understood to be a capital guarantee promised by an MMF. It is to be understood as an aim that a UCITS or AIF seeks to pursue. A decrease in value of the investments does not imply that the collective investment undertaking has changed its objective of preserving the value of an investment.

- (17) It is important that UCITS and AIFs that have the characteristics of MMFs be identified as MMFs and that their capacity to comply on an ongoing basis with the new uniform rules on MMFs be explicitly verified. For that purpose, competent authorities should authorise MMFs. For UCITS, their authorisation as MMFs should be part of the authorisation as UCITS in accordance with the harmonised procedures under Directive 2009/65/EC. For AIFs, as they are not subject to harmonised authorisation and supervision procedures under Directive 2011/61/EU, it is necessary to provide for common basic rules on authorisation that mirror the existing harmonised rules for UCITS. Such procedures should ensure that *the manager of* an AIF authorised as an MMF *is* an AIFM authorised in accordance with Directive 2011/61/EU.
- (18) In order to ensure that all collective investment undertakings displaying the characteristics of MMFs are subject to the new common rules on MMFs, the use of the designation ‘MMF’, or any other term that suggests that a collective investment undertaking shares the characteristics of MMFs, should be prohibited unless that undertaking is authorised as an MMF under this Regulation. To prevent circumvention of the rules in this Regulation, competent authorities should monitor the market practices of collective investment undertakings established or marketed in their jurisdiction to verify that they do not misuse the MMF designation or suggest that they are an MMF without complying with the new legal framework.

- (19) Given that UCITS and AIFs can take different legal forms that do not necessarily endow them with legal personality, the provisions in this Regulation requiring MMFs to take action are to be understood to refer to the manager of the MMF in cases where the MMF is constituted as a UCITS or as an AIF that is not in a position to act by itself because it has no legal personality of its own.
- (20) Rules on the portfolio of MMFs should clearly identify the categories of assets that are eligible for investment by MMFs and the conditions under which they are eligible. To ensure the integrity of MMFs, MMFs should also be prohibited from engaging in certain financial transactions that would endanger their investment strategy and objectives.

- (21) Money market instruments are transferable instruments normally dealt in on the money market and include treasury and local authority bills, certificates of deposits, commercial papers, bankers' acceptances, and medium- or short-term notes. Money market instruments should be eligible for investment by MMFs only insofar as they comply with maturity limits and are considered by an MMF to be of high credit quality.
- (22) *In addition to the case in which an MMF invests in bank deposits in accordance with its fund rules or its instruments of incorporation, it should be possible to allow an MMF to hold ancillary liquid assets, such as cash in a bank account accessible at any time. The holding of such ancillary liquid assets could be justified, inter alia, in order to cover current or exceptional payments, in the case of sales, for the time necessary to reinvest in eligible assets.*
- (23) *Securitisations and* asset-backed commercial paper (ABCPs), should be considered to be eligible to the extent that they respect certain requirements. Due to the fact that during the financial crisis certain securitisations were particularly unstable, *certain* quality criteria *should be imposed on securitisations and ABCPs so that only those securitisations and ABCPs that perform well should be eligible. Until such time as the Regulation of the European Parliament and of the Council for simple, transparent and standardised (STS) securitisations that is proposed (the proposed Regulation on STS securitisations) is adopted and becomes applicable for the purposes of this Regulation, MMFs should be allowed to invest in securitisations and ABCPs up to a limit of 15 % of their assets. The Commission should adopt a delegated act to ensure that the criteria identifying STS securitisations apply for the purposes of this Regulation. Once that delegated act applies, MMFs should be allowed to invest in securitisations and ABCPs up to a limit of 20 % of their assets, whereby up to 15 % should be able to be invested in securitisations and ABCPs which are not STS.*

- (24) An MMF should be allowed to invest in deposits to the extent that it is able to withdraw the money at any time. The effective possibility of withdrawal would be impaired if the penalties associated with early withdrawal are so high as to exceed the interest accrued prior to withdrawal. For that reason, an MMF should take due care not to make deposits with a credit institution that requires above average penalties or to engage in too long deposits where that results in too high penalties.
- (25) *In order to take account of the differences in banking structures across the Union, particularly in smaller Member States or in Member States where there is a highly concentrated banking sector, and where it would be uneconomical for an MMF to use the services of a credit institution in another Member State, such as where that would necessitate a currency exchange with all the associated costs and risks, some flexibility in the diversification requirement for deposits with the same credit institution should be allowed.*
- (26) Financial derivative instruments eligible for investment by an MMF should only serve the purpose of hedging interest rate and currency risk and should only have as an underlying instrument interest rates, foreign exchange rates, currencies or indices representing those categories. Any use of derivatives for another purpose or on other underlying assets should be prohibited. Derivatives should only be used as a complement to the strategy of an MMF and not as the main tool for achieving the MMF's objectives. In the event that an MMF invests in assets labelled in another currency than the currency of the MMF, it is expected that the manager of the MMF would hedge the entire currency risk exposure, including via derivatives. *MMFs should be entitled to invest in financial derivative instruments if that instrument is traded on a regulated market as referred to in points (a), (b) or (c) of Article 50(1) of Directive 2009/65/EC or traded over-the-counter (OTC) provided certain conditions are fulfilled.*

- (27) Reverse repurchase agreements should be able to be used by MMFs as a means to invest excess cash on a very short-term basis, provided that the position is fully collateralised. In order to protect investors, it is necessary to ensure that the collateral provided in the framework of reverse repurchase agreements *is of high quality and does not display a high correlation with the performance of the counterparty, in order to avoid a negative impact in the event of default of the counterparty. In addition, an MMF should be allowed to invest in repurchase agreements up to a limit of 10% of its assets.* Other efficient portfolio management techniques, including securities lending and borrowing, should not be used by an MMF as they are likely to impinge on achieving the investment objectives of the MMF.
- (28) In order to limit risk-taking by MMFs, it is essential to reduce counterparty risk by subjecting the portfolio of MMFs to clear diversification requirements. To that end, reverse repurchase agreements should be fully collateralised and, in order to limit the operational risk, a single reverse repurchase agreement counterparty should not account for more than **15%** of an MMF's assets. All OTC derivatives should be subject to Regulation (EU) No 648/2012 of the European Parliament and of the Council<sup>11</sup>.
- (29) For prudential reasons and *in order to avoid* the exercise of significant influence over the management of an issuing body by an MMF, excessive concentration by an MMF in investments issued by the same issuing body should be avoided.

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<sup>11</sup> Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201, 27.7.2012, p. 1).

(30) *MMFs operating solely as employee savings schemes should be able to diverge from certain requirements applicable to investments in other MMFs insofar as the participants in such schemes, who are natural persons, are subject to restrictive redemption conditions that are not linked to market developments but instead related to particular and predefined life events, such as retirement, and other special circumstances, including but not limited to the acquisition of a main residence, divorce, sickness or unemployment. It is important for employees to be allowed to invest in MMFs, which are considered to be one of the safest short-term investments. Such derogation does not endanger the objective of this Regulation to ensure financial stability, as employees investing in MMFs via their employee savings schemes cannot redeem their investment on demand. Redemptions are only able to occur in the case of certain predefined life events. Therefore, even in stressed market situations, employees will not be able to redeem their investment in MMFs.*



- (31) MMFs should have a responsibility to invest in high-quality eligible assets. Therefore, an MMF should have a prudent internal **credit quality** assessment procedure for determining the credit quality of the money market instruments, *securitisations and ABCPs* in which it intends to invest. In accordance with Union law limiting over-reliance on credit ratings, it is important that MMFs avoid mechanistic reliance **and over-reliance** on ratings issued by rating agencies. *MMFs should be able to use ratings as a complement to their own assessment of the quality of eligible assets. Managers of MMFs should undertake a new assessment of money market instruments, securitisations and ABCPs whenever there is a material change, in particular when it comes to the attention of the manager of an MMF that a money market instrument, securitisation or ABCP is downgraded below the two highest short-term credit ratings provided by any credit rating agency regulated and certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council<sup>12</sup>. To that end, the manager of an MMF should be able to establish an internal procedure for the selection of credit rating agencies suited to the specific investment portfolio of the MMF and for determining the frequency at which the MMF should monitor the ratings of those agencies. The selection of credit rating agencies should remain consistent over time.*

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<sup>12</sup> Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302, 17.11.2009, p. 1).

- (32) *Taking note of the work done on reducing investor over-reliance on credit ratings by international bodies, such as IOSCO and the FSB, as well as in Union law, including in Regulation (EC) No 1060/2009 and Directive 2013/14/EU of the European Parliament and of the Council<sup>13</sup>, it is not appropriate to prohibit any product, including MMFs, from soliciting or financing an external credit rating.*
- (33) In order to ensure that managers of MMFs do not use different assessment criteria for evaluating the credit *quality* of a money market instrument, *securitisation or ABCP* and thus attribute different risk characteristics to the same instrument, it is essential that managers of MMFs rely on the same criteria. To *that* end, the *minimum* criteria *for the assessment of a money market instrument, securitisation and ABCP* should be *harmonised*. Examples of internal *credit quality assessment* criteria are quantitative measures on the issuer of the instrument, such as financial ratios, balance sheet dynamics *and* profitability guidelines, *each of* which is evaluated and compared to those of industry peers and groups, and qualitative measures on the issuer of the instrument, such as management effectiveness *and* corporate strategy, *each of* which is analysed with a view to determining that the issuer's overall strategy does not impede on its future credit quality. *A favourable outcome of the internal credit quality assessment* should reflect *sufficient* creditworthiness of the issuer of the instruments *and sufficient credit quality of the instruments*.

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<sup>13</sup> *Directive 2013/14/EU of the European Parliament and of the Council of 21 May 2013 amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings (OJ L 145, 31.5.2013, p. 1).*

- (34) In order to develop a transparent and coherent internal *credit quality assessment procedure*, the manager of an MMF should document the *procedure and the credit quality assessments*. That requirement should ensure that the procedure follows a clear set of rules that can be monitored and that the methodologies employed are communicated, upon request, to the *investors and competent authorities in accordance with this Regulation*.
- (35) To reduce the portfolio risk of MMFs, it is important to set maturity limitations, providing for a maximum allowable weighted average maturity (WAM) and weighted average life (WAL).
- (36) WAM is used to measure the sensitivity of an MMF to changing money market interest rates. When determining the WAM, managers of MMFs should take into account the impact of financial derivative instruments, deposits, *repurchase agreements* and reverse repurchase agreements and reflect their effect on the interest rate risk of the MMF. When an MMF enters into a swap transaction in order to gain exposure to a fixed rate instrument instead of a floating rate, that fact should be taken into account for determining the WAM.

(37) WAL is used to measure the credit risk of an MMF's portfolio: the longer the reimbursement of the principal is postponed, the higher the credit risk. WAL is also used to limit the liquidity risk of an MMF's portfolio. In contrast to the calculation of the WAM, the calculation of the WAL for floating rate securities and structured financial instruments does not permit the use of interest rate reset dates and instead only uses a financial instrument's stated final maturity. The maturity used for calculating the WAL is the residual maturity until legal redemption, since that is the only date on which the management company can *reasonably expect* that the instrument will have been reimbursed. *Due to the particular nature of the underlying assets for some securitisations and ABCPs, in the case of amortising instruments, the WAL should be able to be based on the maturity calculation for amortising instruments either on the contractual amortisation profile of such instruments or the amortisation profile of the underlying assets from which the cash-flows for the redemption of such instruments result.*

(38) In order to strengthen MMFs' ability to face redemptions and prevent their assets from being liquidated at heavily discounted prices, MMFs should hold on an ongoing basis a minimum amount of liquid assets that mature daily or weekly. *Daily maturing assets should comprise assets such as cash, securities that mature within one working day and reverse repurchase agreements. Weekly maturing assets should comprise assets such as cash, securities that mature within one week and reverse repurchase agreements. In the case of public debt CNAV MMFs and low volatility net asset value MMFs (LVNAV MMFs), a limited percentage of government paper with a residual maturity of 190 days that can be settled within one working day should also be able to be counted towards the weekly liquidity requirements. In the case of variable net asset value MMFs (VNAV MMFs), a limited percentage of money market instruments or units or shares of eligible MMFs should also be able to be counted towards the weekly liquidity requirements provided they can be settled within five working days.* To calculate the proportion of daily and weekly maturing assets, the legal redemption date of the asset should be used. The possibility for the manager of an MMF to terminate a contract on a short-term basis can be taken into consideration. For instance, if a reverse repurchase agreement can be terminated by giving prior notice of one working day, it should count as a daily maturing asset. If the manager has the possibility of withdrawing cash from a deposit account by giving prior notice of one working day, it should count as a daily maturing asset. *When a financial instrument embeds a put option and the put can be freely exercised on a daily basis, or within five working days, and the strike price of the put is close to the expected value of the instrument, that instrument should count respectively as a daily or weekly maturing asset.*

- (39) Given that MMFs can invest in assets with different maturity ranges, it is important for investors to be able to distinguish between different categories of MMFs. Therefore, an MMF should be classified as either a short-term MMF or as a standard MMF. Short-term MMFs have the objective of offering money market rate returns while ensuring the highest possible level of safety for the investors. With short WAM and WAL, the duration risk and credit risk of short-term MMFs are kept at low levels.
- (40) Standard MMFs have the objective of offering returns slightly higher than money market returns, and they therefore invest in assets that have an extended maturity. *To* achieve such outperformance, standard MMFs should be permitted to employ extended limits for the portfolio risk such as WAM and WAL.
- (41) Under Article 84 of Directive 2009/65/EC, the managers of MMFs that are UCITS have the possibility of temporarily suspending redemptions in exceptional cases where circumstances so require. Under Article 16 of Directive 2011/61/EU and in Article 47 of the Commission Delegated Regulation (EU) No 231/2013<sup>14</sup>, the managers of MMFs that are AIFs can use special arrangements in order to cope with a supervening illiquidity of the funds' assets.

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<sup>14</sup> Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (OJ L 83, 22.3.2013, p. 1).

- (42) ***In order to ensure*** appropriate liquidity management, MMFs should establish sound policies and procedures to get to know their investors. The policies that the manager of an MMF puts in place should help in understanding the MMF's investor base, to the extent that large redemptions could be anticipated. So that an MMF does not face sudden massive redemptions, particular attention should be paid to large investors representing a substantial portion of the MMF's assets, such as with one investor representing more than the proportion of daily maturing assets. ■ The manager of an MMF should whenever possible look at the identity of its investors, even if they are represented by nominee accounts, portals or any other indirect buyer.
- (43) As part of prudent risk management, MMFs should, ***at least bi-annually***, conduct stress testing. The manager of an MMF is expected to act in order to strengthen the MMF's robustness whenever the results of stress testing point to vulnerabilities.

- (44) In order to reflect the actual value of assets, the use of **mark**-to-market should be the preferred method **of valuation**. The manager of an MMF should not be allowed to use **mark**-to-model when mark-to-market provides a reliable value of the asset, as mark-to-model is prone to **providing** less accurate valuation. Assets such as treasury and local authority bills, medium- or short-term notes are generally the ones that are expected to have a reliable **mark**-to-market **value**. For valuing commercial papers or certificates of deposit, the manager of an MMF should check if accurate pricing is provided by a secondary market. The buy-back price offered by the issuer is also considered to represent a good estimate of the value of the commercial paper. *Some assets can be inherently difficult to value based on market prices, for example some OTC derivatives which are thinly traded. Where that is the case and where mark-to-market does not provide a reliable value of the assets, the manager of an MMF should assign a fair value to the asset by using mark-to-model, for example the manager of an MMF should use market data such as yields on comparable issues and comparable issuers or by discounting the asset's cash-flows. Mark-to-model uses financial models to allocate a fair value to an asset. Such models can, for example, be developed by the MMF itself, or the MMF can use existing models from external parties such as data vendors.*



- (45) Public debt CNAV MMFs have the objective of preserving the capital of the investment while ensuring a high degree of liquidity. The majority of public debt CNAV MMFs have a net asset value (NAV) per unit or share set, for example, at EUR 1, USD 1 or GBP 1, when they distribute the income to the investors. Other public debt CNAV MMFs accumulate income in the NAV of the fund while maintaining the intrinsic value of the asset at a constant value.
- (46) To allow for the specificities of *public debt* CNAV MMFs *and LVNAV* MMFs, *they should also* be permitted to use the *internationally recognised* amortised cost method *as set out under international accounting standards adopted by the Union for certain assets. Nevertheless*, for the purpose of ensuring that the difference between the constant NAV per unit or share and the NAV per unit or share is monitored at all times, *public debt* CNAV MMFs *and LVNAV* MMFs should also calculate the value of their assets on the basis of *mark*-to-market or *mark*-to-model.
- (47) As an MMF should publish a NAV that reflects all movements in the value of its assets, the published NAV should be rounded at a maximum to the nearest basis point or its equivalent. As a consequence, when the NAV is published in a specific currency, for example EUR 1, the incremental change in value should be done every EUR 0,0001. In the case of a NAV at EUR 100, the incremental change in value should be done every EUR 0,01. *In addition*, if the MMF is a public debt CNAV MMF *or a LVNAV* MMF, the MMF *should be able to* publish *the constant NAV and the difference between the constant NAV and the NAV*. In that case, the *constant NAV is calculated by rounding the NAV* to the nearest cent for a NAV at EUR 1 (every EUR 0,01 move).

- (48) In order to be able to *mitigate potential investor redemptions in times of severe market stress, public debt CNAV MMFs and LVNAV MMFs should have in place provisions for liquidity fees and redemption gates to ensure investor protection and prevent a ‘first mover advantage’*. *The liquidity fee should adequately reflect the cost to the MMF of achieving liquidity and should not amount to a penalty charge that would offset losses incurred by other investors as a result of the redemption.*
- (49) External support provided to an MMF ■ with *a view to maintaining* either liquidity or stability, ■ or de facto having such effects, increases the contagion risk between the MMF sector and the rest of the financial sector. Third parties, *including credit institutions, other financial institutions or legal entities in the same group as the MMF*, providing such support *could* have an interest in doing so, either because they have an economic interest in the management company managing the MMF or because they want to avoid any reputational damage in the event that their name is associated with the failure of an MMF. Because those third parties do not *always* commit explicitly to providing or guaranteeing the support, there is uncertainty whether such support will be granted when the MMF needs it. In those circumstances, the discretionary nature of sponsor support contributes to uncertainty among market participants about who will bear losses of the MMF when they do occur. That uncertainty likely makes MMFs even more vulnerable to runs during periods of financial instability, when broader financial risks are most pronounced and when concerns arise about the health of the sponsors and their ability to provide support to affiliated MMFs. For those reasons, ■ external support *for MMFs should be prohibited*.

- (50) Prior to investing in an MMF, investors should be clearly informed whether the MMF is of a short-term nature or of a standard nature and *whether* the MMF is a **public debt CNAV MMF, a LVNAV MMF or a VNAV MMF**. In order to avoid misplaced expectations from the investor, it should also be clearly stated in any marketing document that an MMF is not a guaranteed investment vehicle. ***MMFs should also make available certain other information to investors on a weekly basis, including the maturity breakdown of the portfolio, the credit profile and details of the 10 largest holdings in the MMF.***
- (51) ***In addition to reporting already required under Directive 2009/65/EC or 2011/61/EU and to ensure that competent authorities are able to detect, monitor and respond to risks in the MMF market, MMFs should report to their competent authorities a detailed list of information on the MMF, including the type and characteristics of the MMF, portfolio indicators and information on the assets held in the portfolio.*** Competent authorities should collect that data in a consistent way throughout the Union in order to obtain a substantive knowledge of the main evolutions of the MMF market. To facilitate a collective analysis of potential impacts of the MMF market in the Union, such data should be transmitted to the European Supervisory Authority (European Securities and Markets Authority) (ESMA), established by Regulation (EU) No 1095/2010 of the European Parliament and of the Council<sup>15</sup>, which should create a central database of MMFs.

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<sup>15</sup> Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

- (52) The competent authority of an MMF should verify whether the MMF is able to comply with this Regulation on an ongoing basis. ***Therefore, competent authorities should be given all the supervisory and investigatory powers, including the ability to impose certain penalties and measures, necessary for the exercise of their functions with respect to this Regulation. Those powers should be without prejudice to powers existing under Directives 2009/65/EC and 2011/61/EU.*** The competent authorities of the UCITS or AIF should also verify compliance of all collective investment undertakings that display the characteristics of MMFs and that are in existence at the time this Regulation enters into force.
- (53) In order to specify further technical elements of this Regulation, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union (TFEU) should be delegated to the Commission in respect of the introduction of a cross-reference to the criteria for STS securitisations and ABCPs, in respect of specifying the quantitative and qualitative liquidity and credit quality requirements applicable to assets, and in respect of specifying the criteria for credit quality assessment. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making<sup>16</sup>. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts, and their experts systematically have access to meetings of Commission expert groups dealing with the preparation of delegated acts.

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<sup>16</sup> OJ L 123, 12.5.2016, p. 1.

- (54) The Commission should also be empowered to adopt implementing technical standards by means of implementing acts pursuant to Article 291 TFEU and in accordance with Article 15 of Regulation (EU) No 1095/2010. ESMA should be entrusted with drafting implementing technical standards for submission to the Commission with regard to a reporting template containing information on MMFs for competent authorities.
- (55) ESMA should be able to exercise all the powers conferred *on it* under Directives 2009/65/EC and 2011/61/EU with respect to this Regulation. It is also entrusted with developing draft ■ implementing technical standards.

(56) *By ... [five years after the date of entry into force of this Regulation], the Commission should undertake a review of this Regulation. That review should consider the experience acquired in applying this Regulation and analyse the impact on the different economic aspects attached to MMFs. It should also consider the impact on investors, MMFs and the managers of MMFs in the Union. It should also assess the role that MMFs play in purchasing debt issued or guaranteed by the Member States, while taking into account the specific characteristics of such debt given that it plays a vital role in financing Member States. In addition, the review should take into account the report referred to in Article 509(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council<sup>17</sup>, the impact of this Regulation on short-term financing markets, and regulatory developments at international level. Finally, by ... [five years after the date of entry into force of this Regulation], the Commission should present a report on the feasibility of establishing an 80% EU public debt quota, since the issuance of EU short-term public debt instruments is governed by Union law, which therefore justifies, from a prudential supervisory point of view, a preferential treatment as opposed to non-EU public debt. Given the current scarcity of EU short-term public debt instruments and the uncertainty with respect to the development of the newly established LVNAV MMFs, the Commission should review the viability of establishing an 80% EU public debt quota by ... [five years after the date of entry into force of this Regulation], including an assessment of whether the LVNAV MMF model has become an appropriate alternative to non-EU public debt CNAV MMFs.*

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<sup>17</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

- (57) The new uniform rules on MMFs provided for in this Regulation should comply with Directive 95/46/EC *of the European Parliament and of the Council*<sup>18</sup> and with Regulation (EC) No 45/2001 *of the European Parliament and of the Council*<sup>19</sup>.
- (58) Since the objectives of this Regulation, namely to ensure uniform prudential, ***governance and transparency*** requirements that apply to MMFs throughout the Union, while taking full account of the need to balance safety and reliability of MMFs with the efficient operation of the money markets and the cost for its various stakeholders, cannot be sufficiently achieved by the Member States but can rather, by reason of its scale and effects, be better achieved at Union level, the Union may adopt measures in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve those objectives.

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<sup>18</sup> Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (OJ L 281, 23.11.1995, p. 31).

<sup>19</sup> Regulation (EC) No 45/2001 of the European Parliament and of the Council of 18 December 2000 on the protection of individuals with regard to the processing of personal data by the Community institutions and bodies and of the free movement of such data (OJ L 8, 12.1.2001, p. 1).

- (59) The new uniform rules on MMFs provided for in this Regulation respect the fundamental rights and observe the principles recognised in particular by the Charter of Fundamental Rights of the European Union and notably consumer protection, the freedom to conduct a business and the protection of personal data. The new uniform rules on MMFs should be applied in accordance with those rights and principles,

HAVE ADOPTED THIS REGULATION:



Chapter I  
General provisions

Article 1  
Subject-matter and scope

1. This Regulation lays down rules for money market funds (MMFs) established, managed or marketed in the Union, concerning the financial instruments eligible for investment by a MMF, the portfolio of an MMF, the valuation of the assets of an MMF, and the reporting requirements in relation to an MMF.

This Regulation applies to collective investment undertakings that:

- (a) require authorisation as UCITS *or are authorised as UCITS* under Directive 2009/65/EC or are AIFs under Directive 2011/61/EU;
  - (b) invest in short-term assets; and
  - (c) have ■ distinct or cumulative objectives offering returns in line with money market rates or preserving the value of the investment.
2. Member States shall not add any additional requirements in the field covered by this Regulation.

## Article 2 Definitions

For the purposes of this Regulation, the following definitions apply:

- (1) ‘short-term assets’ means financial assets with a residual maturity not exceeding two years;
- (2) ‘money market instruments’ means money market instruments as defined in Article 2(1)(o) of Directive 2009/65/EC, *and instruments as referred to in Article 3 of Commission Directive 2007/16/EC*<sup>20</sup>;
- (3) ‘transferable securities’ means transferable securities as defined in Article 2(1)(n) of Directive 2009/65/EC, *and instruments as referred to in Article 2(1) of Directive 2007/16/EC*;
- (4) ‘repurchase agreement’ means any agreement in which one party transfers securities or any rights related to that title to a counterparty, subject to a commitment to repurchase them at a specified price on a future date specified or to be specified;
- (5) ‘reverse repurchase agreement’ means any agreement in which one party receives securities, or any rights related to a title or security from a counterparty subject to a commitment to sell them back at a specified price on a future date specified or to be specified;

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<sup>20</sup> Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions (OJ L 79, 20.3.2007, p. 11).

- (6) ‘securities lending’ and ‘securities borrowing’ mean any transaction in which an institution or its counterparty transfers securities subject to a commitment that the borrower will return equivalent securities at some future date or when requested to do so by the transferor, that transaction being known as ‘securities lending’ for the institution transferring the securities and being known as ‘securities borrowing’ for the institution to which they are transferred;
- (7) ‘securitisation’ means securitisation as defined in Article 4(1)(61) of Regulation (EU) No 575/2013;

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- (8) ‘*mark*-to-market’ means the valuation of positions at readily available close out prices that are sourced independently, including exchange prices, screen prices, or quotes from several independent reputable brokers;
- (9) ‘*mark*-to-model’ means any valuation which is benchmarked, extrapolated or otherwise calculated from one or more market input;
- (10) ‘amortised cost method’ means a valuation method which takes the acquisition cost of an asset and adjusts that value for amortisation of premiums or discounts until maturity;

- (11) *‘public debt constant net asset value MMF’ or ‘public debt CNAV MMF’ means an MMF:*
- (a) *that seeks to maintain an unchanging net asset value (NAV) per unit or share;*
  - (b) *where the income in the fund is accrued daily and can either be paid out to the investor or used to purchase more units or shares in the fund;*
  - (c) *where assets are generally valued according to the amortised cost method and where the NAV is rounded to the nearest percentage point or its equivalent in currency terms; and*
  - (d) *that invests at least 99,5% of its assets in instruments referred to in Article 17(7), reverse repurchase agreements secured with government debt referred to in Article 17(7) and in cash;*
- (12) *‘low volatility net asset value MMF’ or ‘LVNAV MMF’ means an MMF that complies with the specific requirements laid down in Articles 29, 30 and 32 and in Article 33(2)(b);*

- (13) *‘variable net asset value MMF’ or ‘VNAV MMF’ means an MMF that complies with the specific requirements laid down in Articles 29 and 30 and in Article 33(1);*
- (14) *‘short-term MMF’ means an MMF that invests in eligible money market instruments referred to in Article 10(1) and is subject to the portfolio rules set out in Article 24;*
- (15) *‘standard MMF’ means an MMF that invests in eligible money market instruments referred to in Article 10(1) and (2) and is subject to the portfolio rules set out in Article 25;*
- (16) *‘credit institution’ means credit institution as defined in point (1) of Article 4(1) of Regulation (EU) No 575/2013;*

(17) ‘competent authority of the MMF’ means:

- (a) for UCITS, the competent authority of the UCITS home Member State designated in accordance with Article 97 of Directive 2009/65/EC;
- (b) for EU *AIFs*, the competent authority of the home Member State of the AIF as defined in Article 4(1)(p) of Directive 2011/61/EU;
- (c) for non-EU *AIFs*, *any of the following*:
  - (i) the competent authority of the Member State where the non-EU AIF is marketed in the Union without a passport;
  - (ii) the competent authority of the EU AIFM managing the non-EU AIF, where the non-EU AIF is marketed in the Union with a passport or is not marketed in the Union;
  - (iii) the competent authority of the Member State of reference if the non-EU AIF is not managed by an EU AIFM and is marketed in the Union with a passport;

- (18) ‘legal maturity’ means the date when the principal of a security is to be repaid in full and which is not subject to any optionality;
- (19) ‘weighted average maturity’ or ‘WAM’ means the average length of time to legal maturity or, if shorter, to the next interest rate reset to a money market rate, of all of the underlying assets in the *MMF* reflecting the relative holdings in each asset;
- (20) ‘weighted average life’ or ‘WAL’ means the average length of time to legal maturity of all of the underlying assets in the *MMF* reflecting the relative holdings in each asset;
- (21) ‘residual maturity’ means the length of time *remaining until* the legal maturity of a security;

- (22) ‘short sale’ means *any sale by an MMF of an instrument which the MMF does not own at the time of entering into the agreement to sell, including such sale where, at the time of entering into the agreement to sell, the MMF has borrowed or agreed to borrow the instrument for delivery at settlement, not including:*
- (a) *a sale by either party under a repurchase agreement where one party has agreed to sell to the other a security at a specified price with a commitment from the other party to sell the security back at a later date at another specified price; or*
  - (b) *an entry into a futures contract or other derivative contract where it is agreed to sell securities at a specified price at a future date;*
- (23) ‘manager of an MMF’ means, *in the case of an MMF that is a UCITS, the UCITS management company, or the UCITS investment company in the case of a self-managed UCITS, and, in the case of an MMF that is an AIF, an AIFM or an internally-managed AIF.*



**Article 3**  
**Types of MMFs**

1. ***MMFs shall be set up as one of the following types:***
  - (a) ***a VNAV MMF;***
  - (b) ***a public debt CNAV MMF;***
  - (c) ***a LVNAV MMF.***
  
2. ***The authorisation of an MMF shall explicitly state the type of MMF, from those set out in paragraph 1.***

**Article 4**  
**Authorisation of MMFs**

1. No collective investment undertaking shall be established, marketed or managed in the Union as an MMF unless it has been authorised in accordance with this Regulation.

Such authorisation shall be valid for all Member States.

2. A collective investment undertaking that requires authorisation as a UCITS under Directive 2009/65/EC *and as an MMF under this Regulation for the first time* shall be authorised as an MMF as part of the UCITS authorisation procedure pursuant to Directive 2009/65/EC.

*Where a collective investment undertaking has already been authorised as a UCITS under Directive 2009/65/EC, it may apply for authorisation as an MMF in accordance with the procedure set out in paragraphs 4 and 5 of this Article.*

3. A collective investment undertaking that is an AIF and that requires authorisation as an MMF under this Regulation shall be authorised as an MMF pursuant to the authorisation procedure laid down in Article 5.
4. No collective investment undertaking shall be authorised as an MMF unless the competent authority of the MMF is satisfied that the MMF will be able to meet all the requirements of this Regulation.

5. For the purposes of authorisation as an MMF, a collective investment undertaking shall submit to its competent authority all of the following documents:
- (a) the fund rules or instruments of incorporation of the MMF, *including an indication of which type of MMF it is from those set out in Article 3(1)*;
  - (b) identification of the manager of the MMF;
  - (c) identification of the depositary;
  - (d) a description of, or any information on, the MMF available to investors;
  - (e) a description of, or any information on, the arrangements and procedures needed to comply with the requirements referred to in Chapters II to VII;
  - (f) any other information or document requested by the competent authority of the MMF to verify compliance with the requirements of this Regulation.
6. The competent authorities shall, on a quarterly basis, inform ESMA of authorisations granted or withdrawn pursuant to this Regulation.
7. ESMA shall keep a central public register identifying each MMF authorised under this Regulation, its *type in accordance with Article 3(1), whether it is a short-term or standard MMF*, the manager of an MMF and the competent authority of the MMF. The register shall be made available in electronic format.

## Article 5

### Procedure for authorising MMFs that are AIFs

1. An AIF shall be authorised as an MMF only if *the* competent authority *of the MMF approves* the application submitted by an AIFM, *that has already been* authorised under Directive 2011/61/EU to manage an *MMF that is an AIF*, and also approves the fund rules and the choice of the depositary.
2. When submitting the application for managing an MMF that is an AIF, the authorised AIFM shall provide the competent authority of the MMF with:
  - (a) the written agreement with the depositary;
  - (b) information on delegation arrangements regarding portfolio and risk management and administration with regard to the AIF;
  - (c) information about the investment strategies, the risk profile and other characteristics of *MMFs that are AIFs* that the AIFM *manages or intends to manage*.

The competent authority of the MMF may ask the competent authority of the AIFM for clarification and information concerning the documentation referred to in the first subparagraph or an attestation as to whether MMFs fall within the scope of the AIFM's management authorisation. The competent authority of the AIFM shall respond within 10 working days of such request.

3. Any subsequent modifications of the documentation referred to in paragraph 2 shall be immediately notified to the competent authority of the MMF by the AIFM.
4. The competent authority of the MMF shall refuse the application of the AIFM only *in the event that any of the following applies*:
  - (a) the AIFM does not comply with this Regulation;
  - (b) the AIFM does not comply with Directive 2011/61/EU;
  - (c) the AIFM is not authorised by its competent authority to manage MMFs;
  - (d) the AIFM has not provided the documentation referred to in paragraph 2.

Before refusing an application, the competent authority of the MMF shall consult the competent authority of the AIFM.

5. Authorisation of an AIF as an MMF shall not be subject to a requirement either that the AIF be managed by an AIFM authorised in the AIF home Member State or that the AIFM pursues or delegates any activities in the AIF home Member State.
6. Within two months of submission of a complete application, the AIFM shall be informed whether or not authorisation of the AIF as an MMF has been granted.
7. The competent authority of the MMF shall not grant authorisation of an AIF as an MMF if the AIF is legally prevented from marketing its units or shares in its home Member State.

## Article 6

### Use of designation as MMF

1. A UCITS or *an* AIF shall use the designation 'money market fund' or 'MMF' in relation to itself or the units or shares it issues only where the UCITS or *the* AIF has been authorised in accordance with this Regulation.

A UCITS or *an* AIF shall *not* use a *misleading or inaccurate* designation *which would suggest it is an MMF, unless it has* been authorised as an MMF in accordance with this Regulation.

*A UCITS or an AIF shall not have characteristics which are substantially similar to those referred to in Article 1(1), unless it has been authorised as an MMF in accordance with this Regulation.*

2. The use of the designation 'money market fund', 'MMF' or of *another* designation that suggests *that a UCITS or AIF is* an MMF shall *mean* use in any external **■** documents, *prospectuses*, reports, statements, advertisements, communications, letters or any other material addressed to or intended for distribution to prospective investors, unit-holders, shareholders or competent authorities in written, oral, electronic or any other form.

Article 7  
Applicable rules

1. An MMF *and the manager of the MMF* shall comply at all times with this Regulation.
2. An MMF which is a UCITS and the manager of the MMF shall comply at all times with the requirements of Directive 2009/65/EC, unless otherwise specified in this Regulation.
3. An MMF which is an AIF and the manager of the MMF shall comply at all times with the requirements of Directive 2011/61/EU, unless otherwise specified in this Regulation.
4. The manager of an MMF shall be responsible for ensuring compliance with this Regulation and shall be liable for any loss or damage resulting from non-compliance with this Regulation.
5. This Regulation shall not prevent MMFs from applying investment limits that are stricter than those required by this Regulation.

Chapter II  
Obligations concerning the investment policies of MMFs

*Section I*  
General rules and eligible assets

Article 8  
General principles

1. Where an MMF comprises more than one investment compartment, each compartment shall be regarded as a separate MMF for the purposes of Chapters II to VII.
2. MMFs authorised as UCITS shall not be subject to the obligations concerning investment policies of UCITS laid down in Articles 49 to 50a, **Article 51(2)**, and **Articles 52 to 57** of Directive 2009/65/EC, unless explicitly specified otherwise in this Regulation.



Article 9  
Eligible assets

1. An MMF shall invest only in one or more of the following categories of financial assets and only under the conditions specified in this Regulation:
  - (a) money market instruments *including financial instruments issued or guaranteed separately or jointly by the Union, the national, regional and local administrations of the Member States or their central banks, the European Central Bank, the European Investment Bank, the European Investment Fund, the European Stability Mechanism, the European Financial Stability Facility, a central authority or central bank of a third country, the International Monetary Fund, the International Bank for Reconstruction and Development, the Council of Europe Development Bank, the European Bank for Reconstruction and Development, the Bank for International Settlements or any other relevant international financial institution or organisation to which one or more Member States belong;*

- (b) *eligible securitisations and asset-backed commercial paper (ABCPs);*
- (c) deposits with credit institutions;
- (d) financial derivative instruments;
- (e) repurchase agreements *that fulfil the conditions set out in Article 14;*
- (f) *reverse repurchase agreements that fulfil the conditions set out in Article 15;*
- (g) *units or shares of other MMFs.*

2. An MMF shall not undertake any of the following activities:

- (a) investing in assets other than those referred to in paragraph 1;
- (b) short *sale of any of the following instruments: money market instruments, securitisations, ABCPs and units or shares of other MMFs;*
- (c) taking direct or indirect exposure to equity or commodities, including via derivatives, certificates representing them, indices based on them, or any other *means* or instrument that would give an exposure to them;
- (d) entering into securities lending agreements or securities borrowing agreements, **■** or any other agreement that would encumber the assets of the MMF;
- (e) borrowing and lending cash.

3. *An MMF may hold ancillary liquid assets in accordance with Article 50(2) of Directive 2009/65/EC.*

#### Article 10

##### Eligible money market instruments

1. A money market instrument shall be eligible for investment by an MMF provided that it fulfils all of the following requirements:
  - (a) it falls within one of the categories of money market instruments referred to in points (a), (b), (c) or (h) of Article 50(1) of Directive 2009/65/EC;
  - (b) it displays one of the following alternative characteristics:
    - (i) it has a legal maturity at issuance of 397 days or less;
    - (ii) it has a residual maturity of 397 days or less;
  - (c) the issuer of the money market instrument ***and the quality of the money market instrument have received a favourable assessment*** pursuant to Articles 19 to 22;
  - (d) ***where an MMF invests in*** a securitisation ***or ABCP***, it is subject to the **█** requirements laid down in Article 11.

2. ***Notwithstanding point (b) of paragraph 1, standard MMFs shall also be allowed to invest in money market instruments with a residual maturity until the legal redemption date of less than or equal to two years, provided that the time remaining until the next interest rate reset date is 397 days or less. For that purpose, floating-rate money-market instruments and fixed-rate money-market instruments hedged by a swap arrangement shall be reset to a money market rate or index.***
3. Point (c) of paragraph 1 shall not apply to money market instruments issued or guaranteed by the Union, a central authority or central bank of a Member State, the European Central Bank, the European Investment Bank, the **European Stability Mechanism or the European Financial Stability Facility**.

#### Article 11

##### Eligible securitisations *and ABCPs*

1. ***Both a securitisation and an ABCP shall be considered to be eligible for investment by an MMF provided that the securitisation or ABCP is sufficiently liquid, has received a favourable assessment pursuant to Articles 19 to 22, and is any of the following:***
  - (a) ***a securitisation referred to in Article 13 of Commission Delegated Regulation (EU) 2015/61<sup>21</sup>;***

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<sup>21</sup> Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (OJ L 11, 17.1.2015, p. 1).

- (b) *an ABCP issued by an ABCP programme which:*
- (i) *is fully supported by a regulated credit institution that covers all liquidity, credit and material dilution risks, as well as ongoing transaction costs and ongoing programme-wide costs related to the ABCP, if necessary to guarantee the investor the full payment of any amount under the ABCP;*
  - (ii) *is not a re-securitisation and the exposures underlying the securitisation at the level of each ABCP transaction do not include any securitisation position;*
  - (iii) *does not include a synthetic securitisation as defined in point (11) of Article 242 of Regulation (EU) No 575/2013;*
- (c) *a simple, transparent and standardised (STS) securitisation or ABCP.*

2. *A short-term MMF may invest in the securitisations or ABCPs referred to in paragraph 1 provided any of the following conditions is fulfilled, as applicable:*
- (a) the legal maturity at issuance of the securitisations referred to in point (a) of paragraph 1 is two years or less and the time remaining until the next interest rate reset date is 397 days or less;*
  - (b) the legal maturity at issuance or residual maturity of the securitisations or ABCPs referred to in points (b) and (c) of paragraph 1 is 397 days or less;*
  - (c) the securitisations referred to in points (a) and (c) of paragraph 1 are amortising instruments and have a WAL of two years or less.*
3. *A standard MMF may invest in the securitisations or ABCPs referred to in paragraph 1 provided any of the following conditions is fulfilled, as applicable:*
- (a) the legal maturity at issuance or residual maturity of the securitisations and ABCPs referred to in points (a), (b) and (c) of paragraph 1 is two years or less and the time remaining until the next interest rate reset date is 397 days or less;*
  - (b) the securitisations referred to in points (a) and (c) of paragraph 1 are amortising instruments and have a WAL of two years or less.*

4. *The Commission shall adopt, by six months from the date of entry into force of the proposed Regulation on STS securitisations, a delegated act in accordance with Article 45 amending this Article by introducing a cross-reference to the criteria identifying STS securitisations and ABCPs in the corresponding provisions of that Regulation. The amendment shall become effective at the latest by six months after the date of entry into force of that delegated act or from the date of application of the corresponding provisions in the proposed Regulation on STS securitisations, whichever is the later.*

*For the purposes of the first subparagraph, the criteria identifying STS securitisations and ABCPs shall include at least the following:*

- (a) requirements relating to the simplicity of the securitisation, including its true sale character and the respect of standards relating to the underwriting of the exposures;*
- (b) requirements relating to standardisation of the securitisation, including risk retention requirements;*
- (c) requirements relating to the transparency of the securitisation, including the provision of information to potential investors;*
- (d) for ABCPs, in addition to points (a), (b) and (c), requirements relating to the sponsor and to the sponsor support of the ABCP programme.*

## Article 12

### Eligible deposits with credit institutions

A deposit with a credit institution shall be eligible for investment by an MMF provided that all of the following conditions are fulfilled:

- (a) the deposit is repayable on demand or is able to be withdrawn at any time;
- (b) the deposit matures in no more than 12 months;
- (c) the credit institution has its registered office in a Member State or, where the credit institution has its registered office in a third country, it is subject to prudential rules considered equivalent to those laid down in Union law in accordance with the procedure laid down in Article 107(4) of Regulation (EU) No 575/2013.



## Article 13

### Eligible financial derivative instruments

A financial derivative instrument shall be eligible for investment by an MMF provided it is dealt in on a regulated market as referred to in points (a), (b) or (c) of Article 50(1) of Directive 2009/65/EC or OTC and provided that all of the following conditions are fulfilled:

- (a) the underlying of the derivative instrument consists of interest rates, foreign exchange rates, currencies or indices representing one of those categories;
- (b) the derivative instrument serves only the purpose of hedging the *interest rate or exchange rate* risks inherent in other investments of the MMF;
- (c) the counterparties to OTC derivative transactions are institutions subject to prudential regulation and supervision and belonging to the categories approved by the competent *authority* of the *MMF*;
- (d) the OTC derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the MMF's initiative.

## Article 14

### *Eligible repurchase agreements*

*A repurchase agreement shall be eligible to be entered into by an MMF provided that all of the following conditions are fulfilled:*

- (a) it is used on a temporary basis, for no more than seven working days, only for liquidity management purposes and not for investment purposes other than as referred to in point (c);*
- (b) the counterparty receiving assets transferred by the MMF as collateral under the repurchase agreement is prohibited from selling, investing, pledging or otherwise transferring those assets without the MMF's prior consent;*
- (c) the cash received by the MMF as part of the repurchase agreement is able to be:*
  - (i) placed on deposits in accordance with point (f) of Article 50(1) of Directive 2009/65/EC; or*
  - (ii) invested in assets referred to in Article 15(6), but shall not otherwise be invested in eligible assets as referred to in Article 9, transferred or otherwise reused;*
- (d) the cash received by the MMF as part of the repurchase agreement does not exceed 10% of its assets;*
- (e) the MMF has the right to terminate the agreement at any time upon giving prior notice of no more than two working days.*

## Article 15

### Eligible reverse repurchase agreements

1. A reverse repurchase agreement shall be eligible to be entered into by an MMF provided that all of the following conditions are fulfilled:
  - (a) the MMF has the right to terminate the agreement at any time upon *giving prior* notice of *no more than* two working days;
  - (b) the market value of the assets received as part of the reverse repurchase agreement is at all times at least equal to the value of the cash *paid* out.
2. The assets received by an MMF as part of a reverse repurchase agreement shall be money market instruments *that fulfil the requirements set out in* Article 10.

The assets received by an MMF as part of a reverse repurchase agreement shall not be sold, reinvested, pledged or otherwise transferred.
3. Securitisations *and ABCPs* shall not be received by an MMF as part of a reverse repurchase agreement.

4. The assets received by an MMF as part of a reverse repurchase agreement shall be *sufficiently diversified with a maximum exposure to a given issuer of 15% of the MMF's NAV, except where those assets take the form of money market instruments that fulfil the requirements of Article 17(7). In addition, the assets received by an MMF as part of a reverse repurchase agreement shall be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty.*
  
5. *An MMF that enters into a reverse repurchase agreement shall ensure that it is able to recall the full amount of cash at any time on either an accrued basis or a mark-to-market basis. When the cash is recallable at any time on a mark-to-market basis, the mark-to-market value of the reverse repurchase agreement shall be used for the calculation of the NAV of the MMF.*

6. By way of derogation from paragraph 2 of this Article, an MMF may receive as part of a reverse repurchase agreement liquid transferable securities or money market instruments other than those *that fulfil the requirements set out in* Article 10 provided that those assets comply with one of the following conditions:

- (a) **█** they are issued or guaranteed by the Union, a central authority or central bank of a Member State, the European Central Bank, the European Investment Bank, the European Stability Mechanism or *the European Financial Stability Facility provided that a favourable assessment has been received pursuant to Articles 19 to 22;*
- (b) they are issued or guaranteed by a central authority or central bank of a third country, provided that *a favourable assessment has been received pursuant to* Articles 19 to 22.

The assets received as part of a reverse repurchase agreement in accordance with the first subparagraph of this paragraph shall be disclosed to MMF investors, *in accordance with Article 13 of Regulation (EU) 2015/2365 of the European Parliament and of the Council*<sup>22</sup>.

The assets received as part of a reverse repurchase agreement in accordance with the first subparagraph of this paragraph shall fulfil the requirements of Article 17(7).

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<sup>22</sup> Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (OJ L 337, 23.12.2015, p. 1).

7. The Commission shall be empowered to adopt delegated acts in accordance with Article 45 ***to supplement this Regulation by*** specifying quantitative and qualitative liquidity requirements applicable to assets referred to in paragraph 6 and quantitative and qualitative credit quality requirements applicable to assets referred to in point (a) of paragraph 6 of this Article.

For those purposes, the Commission shall take into account the report referred to in Article 509(3) of Regulation (EU) No 575/2013.

The Commission shall adopt the delegated act referred to in the first subparagraph no later than ... ***[six months after the date of entry into force of this Regulation]***.

#### ***Article 16***

##### ***Eligible units or shares of MMFs***

1. ***An MMF may acquire the units or shares of any other MMF ('targeted MMF') provided that all of the following conditions are fulfilled:***

- (a) ***no more than 10 % of the assets of the targeted MMF are able, according to its fund rules or instruments of incorporation, to be invested in aggregate in units or shares of other MMFs;***
- (b) ***the targeted MMF does not hold units or shares in the acquiring MMF.***

***An MMF whose units or shares have been acquired shall not invest in the acquiring MMF during the period in which the acquiring MMF holds units or shares in it.***

2. ***An MMF may acquire the units or shares of other MMFs, provided that no more than 5 % of its assets are invested in units or shares of a single MMF.***

3. *An MMF may, in aggregate, invest no more than 17,5 % of its assets in units or shares of other MMFs.*
4. *Units or shares of other MMFs shall be eligible for investment by an MMF provided that all of the following conditions are fulfilled:*
- (a) the targeted MMF is authorised under this Regulation;*
  - (b) where the targeted MMF is managed, whether directly or under a delegation, by the same manager as that of the acquiring MMF or by any other company to which the manager of the acquiring MMF is linked by common management or control, or by a substantial direct or indirect holding, the manager of the targeted MMF, or that other company, is prohibited from charging subscription or redemption fees on account of the investment by the acquiring MMF in the units or shares of the targeted MMF;*
  - (c) where an MMF invests 10% or more of its assets in units or shares of other MMFs:*
    - (i) the prospectus of that MMF shall disclose the maximum level of the management fees that may be charged to the MMF itself and to the other MMFs in which it invests; and*
    - (ii) the annual report shall indicate the maximum proportion of management fees charged to the MMF itself and to the other MMFs in which it invests.*

5. *Paragraphs 2 and 3 of this Article shall not apply to an MMF that is an AIF authorised in accordance with Article 5, where all of the following conditions are met:*

- (a) the MMF is marketed solely through an employee savings scheme governed by national law and which has only natural persons as investors;*
- (b) the employee savings scheme referred to in point (a) only allows investors to redeem their investment subject to restrictive redemption terms which are laid down in national law, whereby redemptions may only take place in certain circumstances that are not linked to market developments.*

*By way of derogation from paragraphs 2 and 3 of this Article, an MMF that is a UCITS authorised in accordance with Article 4(2) may acquire units or shares in other MMFs in accordance with Article 55 or 58 of Directive 2009/65/EC under the following conditions:*

- (a) the MMF is marketed solely through an employee savings scheme governed by national law and which has only natural persons as investors;*
- (b) the employee savings scheme referred to in point (a) only allows investors to redeem their investment subject to restrictive redemption terms which are laid down in national law, whereby redemptions may only take place in certain circumstances that are not linked to market developments.*

6. *Short-term MMFs may only invest in units or shares of other short-term MMFs.*

7. *Standard MMFs may invest in units or shares of short-term MMFs and standard MMFs.*



Section II  
Provisions on investment policies

Article 17  
Diversification

1. An MMF shall invest no more than **█** :
  - (a) **5% of its assets in** money market instruments, *securitisations and ABCPs* issued by the same body;
  - (b) **10% of its assets in** deposits made with the same credit institution, *unless the structure of the banking sector in the Member State in which the MMF is domiciled is such that there are insufficient viable credit institutions to meet that diversification requirement and it is not economically feasible for the MMF to make deposits in another Member State, in which case up to 15 % of its assets may be deposited with the same credit institution.*
  
2. *By way of derogation from point (a) of paragraph 1, a VNAV MMF may invest up to 10% of its assets in money market instruments, securitisations and ABCPs issued by the same body provided that the total value of such money market instruments, securitisations and ABCPs held by the VNAV MMF in each issuing body in which it invests more than 5 % of its assets does not exceed 40 % of the value of its assets.*

3. *Until the date of application of the delegated act referred to in Article 11(4), the aggregate of all of an MMF's exposures to securitisations and ABCPs shall not exceed 15% of the assets of the MMF.*

*As from the date of application of the delegated act referred to in Article 11(4), the aggregate of all of an MMF's exposures to securitisations and ABCPs shall not exceed 20 % of the assets of the MMF, whereby up to 15 % of the assets of the MMF may be invested in securitisations and ABCPs that do not comply with the criteria for the identification of STS securitisations and ABCPs.*

4. The aggregate risk exposure to the same counterparty of an MMF stemming from OTC derivative transactions *which fulfil the conditions set out in Article 13* shall not exceed 5% of the assets of the MMF.

5. The aggregate amount of cash provided to the same counterparty of an MMF in reverse repurchase agreements shall not exceed *15 %* of the assets of the MMF.

6. Notwithstanding the individual limits laid down in paragraphs 1 and 4, an MMF shall not combine, where to do so would result in an investment of more than **15 %** of its assets in a single body, any of the following:
- (a) investments in money market instruments, *securitisations and ABCPs* issued by that body;
  - (b) deposits made with that body;
  - (c) OTC financial derivative instruments giving counterparty risk exposure to that body.

*By way of derogation from the diversification requirement provided for in the first subparagraph, where the structure of the financial market in the Member State in which the MMF is domiciled is such that there are insufficient viable financial institutions to meet that diversification requirement and it is not economically feasible for the MMF to use financial institutions in another Member State, the MMF may combine the types of investments referred to in points (a) to (c) up to a maximum investment of 20 % of its assets in a single body.*

7. By way of derogation from *point (a) of paragraph 1, the* competent authority of an MMF may authorise an MMF to invest, in accordance with the principle of risk-spreading, up to 100 % of its assets in different money market instruments issued or guaranteed *separately or jointly* by the Union, *the national*, regional *and* local *administrations* of *the Member States or their central banks, the European Central Bank, the European Investment Bank, the European Investment Fund, the European Stability Mechanism, the European Financial Stability Facility*, a central authority or central bank of a third country, *the International Monetary Fund, the International Bank for Reconstruction and Development, the Council of Europe Development Bank, the European Bank for Reconstruction and Development, the Bank for International Settlements, or any other relevant international financial institution or organisation* to which one or more Member States belong.

The first subparagraph shall only apply where all of the following requirements are met:

- (a) the MMF holds money market instruments from at least six different issues by the issuer;
- (b) the MMF limits the investment in money market instruments from the same issue to a maximum of 30% of its assets;

- (c) the MMF makes express reference, in its fund rules or instruments of incorporation, to all administrations, institutions or organisations referred to in the first subparagraph that issue or guarantee separately or jointly money market instruments in which it intends to invest more than 5% of its assets;
- (d) the MMF includes a prominent statement in its prospectus and marketing communications drawing attention to the use of the derogation and indicating all administrations, institutions or organisations referred to in the first subparagraph that issue or guarantee separately or jointly money market instruments in which it intends to invest more than 5% of its assets.

8. *Notwithstanding the individual limits laid down in paragraph 1, an MMF may invest no more than 10 % of its assets in bonds issued by a single credit institution that has its registered office in a Member State and is subject by law to special public supervision designed to protect bond-holders. In particular, sums deriving from the issue of those bonds shall be invested in accordance with the law in assets which, during the whole period of validity of the bonds, are capable of covering claims attaching to the bonds and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.*

*Where an MMF invests more than 5 % of its assets in the bonds referred to in the first subparagraph issued by a single issuer, the total value of those investments shall not exceed 40 % of the value of the assets of the MMF.*

9. *Notwithstanding the individual limits laid down in paragraph 1, an MMF may invest no more than 20 % of its assets in bonds issued by a single credit institution where the requirements set out in point (f) of Article 10(1) or point (c) of Article 11(1) of Delegated Regulation (EU) 2015/61 are met, including any possible investment in assets referred to in paragraph 8 of this Article.*

*Where an MMF invests more than 5 % of its assets in the bonds referred to in the first subparagraph issued by a single issuer, the total value of those investments shall not exceed 60 % of the value of the assets of the MMF, including any possible investment in assets referred to in paragraph 8, respecting the limits set out therein.*

10. Companies which are included in the same group for the purposes of consolidated accounts under Directive 2013/34/EU of the European Parliament and of the Council<sup>23</sup> or in accordance with recognised international accounting rules, shall be regarded as a single body for the purpose of calculating the limits referred to in paragraphs 1 to 6 of this Article.

#### Article 18

#### Concentration

1. An MMF shall not hold more than 10% of the money market instruments, *securitisations and ABCPs* issued by a single body.
2. The limit laid down in paragraph 1 shall not apply in respect of holdings of money market instruments issued or guaranteed by the Union, *national*, regional *and* local *administrations* of *the Member States or their central banks, the European Central Bank, the European Investment Bank, the European Investment Fund*, the *European Stability Mechanism, the European Financial Stability Facility*, a central authority or central bank of a third country, *the International Monetary Fund, the International Bank for Reconstruction and Development, the Council of Europe Development Bank, the European Bank for Reconstruction and Development, the Bank for International Settlements*, or *any other relevant international financial institution or organisation* to which one or more Member States belong.

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<sup>23</sup> Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

### Section III

#### Credit quality of money market instruments, *securitisations and ABCPs*

#### Article 19

##### Internal *credit quality* assessment procedure

1. The manager of an MMF shall establish, implement and consistently apply a prudent **■** internal *credit quality* assessment procedure for determining the credit quality of money market instruments, *securitisations and ABCPs*, taking into account the issuer of the instrument and the characteristics of the instrument itself.
2. ***The manager of an MMF shall ensure that the information used in applying the internal credit quality assessment procedure is of sufficient quality, up-to-date and from reliable sources.***
3. The internal assessment procedure shall be based on **■** prudent, **■** systematic and continuous *assessment* methodologies. The **■** methodologies *used* shall be subject to validation by the manager *of an MMF* based on historical experience and empirical evidence, including back testing.



4. *The manager of an MMF shall ensure that the internal credit quality assessment procedure complies with all of the following general principles:*
- (a) **█** *an effective process is to be established to obtain and update relevant information on the issuer and the instrument's characteristics;*
  - (b) **█** *adequate measures are to be adopted and implemented to ensure that the internal credit quality assessment is based on a thorough analysis of the information that is available and pertinent, and includes all relevant driving factors that influence the creditworthiness of the issuer and the credit quality of the instrument;*
  - (c) *the internal credit quality assessment procedure is to be monitored on an ongoing basis and all credit quality assessments shall be reviewed at least annually* **█** ;
  - (d) *while there is to be no mechanistic over-reliance on external ratings in accordance with Article 5a of Regulation (EC) No 1060/2009, the manager of an MMF shall undertake a new credit quality assessment for a money market instrument, securitisations and ABCPs when there is a material change that could have an impact on the existing assessment of the instrument;*

■

- (e) *the credit quality assessment* methodologies are to be reviewed at least annually **by the manager of an MMF** to determine whether they remain appropriate for the current portfolio and external conditions **and the review shall be transmitted to the competent authority of the manager of the MMF. Where the manager of the MMF becomes aware of errors in the credit quality assessment methodology or in its application, it shall immediately correct those errors;**
- (f) when methodologies, models or key ■ assumptions used in the internal *credit quality assessment procedure* are changed, the manager of an MMF **is to** review all affected internal credit *quality assessments* as soon as possible ■ .

## Article 20

### Internal *credit quality assessment*

1. ***The manager of an MMF shall apply the procedure laid down in Article 19 to determine whether the credit quality of a money market instrument, securitisation or ABCP receives a favourable assessment. Where a credit rating agency registered and certified in accordance with Regulation (EC) No 1060/2009 has provided a rating of that money market instrument, the manager of the MMF may have regard to such rating and supplementary information and analysis in its internal credit quality assessment, while not solely or mechanistically relying on such rating in accordance with Article 5a of Regulation (EC) No 1060/2009.***
  
2. ***The credit quality assessment shall take into account at least the following factors and general principles:***
  - (a) ***the quantification of the credit risk of the issuer and of the relative risk of default of the issuer and of the instrument;***
  
  - (b) ***qualitative indicators on the issuer of the instrument, including in the light of the macro-economic and financial market situation;***

- (c) ■ the short-term nature of money market instruments;
- (d) *the asset class of the instrument;*
- (e) *the type of issuer distinguishing at least the following types of issuers: national, regional or local administrations, financial corporations, and non-financial corporations;*
- (f) *for structured financial instruments, the operational and counterparty risk inherent within the structured financial transaction and, in case of exposure to securitisations, the credit risk of the issuer, the structure of the securitisation and the credit risk of the underlying assets;*
- (g) *the liquidity profile of the instrument.*

*The manager of an MMF may, in addition to the factors and general principles referred to in this paragraph, take into account warnings and indicators when determining the credit quality of a money market instrument referred to in Article 17(7).*

■

Article 21  
Documentation

1. The manager of an MMF shall document its internal *credit quality* assessment procedure and *credit quality assessments*. Documentation shall include all of the following:
- (a) the design and operational details of its internal *credit quality* assessment *procedure* in a manner that allows competent authorities to understand ■ and ■ evaluate the appropriateness of *a credit quality assessment*;
  - (b) the rationale for and the analysis supporting *the credit quality assessment, as well as* the manager of the MMF's choice of ■ criteria *for*, and *the* frequency of, *the* review *of the credit quality assessment*;
  - (c) all major changes to the internal *credit quality* assessment procedure, including identification of the triggers of *such* changes;
  - (d) the organisation of the internal *credit quality* assessment procedure ■ and the internal control structure;
  - (e) complete internal *credit quality assessment* histories on *instruments*, issuers and, *where relevant*, recognised guarantors;
  - 
  - (f) the person or persons responsible for the internal *credit quality assessment procedure*.

2. ***The manager of an MMF shall keep all the documentation referred to in paragraph 1 for at least three complete annual accounting periods.***
3. The internal ***credit quality*** assessment procedure shall be detailed in the fund rules or rules of incorporation of the MMF and all documents referred to in paragraph 1 shall be made available upon request ***to*** the competent authorities of the MMF and ***to*** the competent authorities of the manager of the MMF.

## Article 22

### Delegated acts ***for the credit quality assessment***

The Commission shall ■ adopt delegated acts in accordance with Article 45 ***in order to supplement this Regulation by*** specifying the following points:

- (a) the ***criteria for*** the validation ***of the credit quality assessment methodology, as*** referred to in Article 19(3);
- (b) the ***criteria for*** quantification of the credit risk, ***and of the relative risk of default*** of an issuer ***and of the instrument,*** as referred to in point (a) of Article 20(2) ■ ;
- (c) ***the criteria for establishing qualitative indicators on the issuer of the instrument, as referred to in point (b) of Article 20(2);***
- (d) the meaning of material change as referred to in point (d) of Article 19(4).

## Article 23

### Governance of the credit quality assessment

1. The internal *credit quality* assessment *procedure* shall be approved by the senior management, the governing body, and, where it exists, the supervisory function of the manager of an MMF.

Those parties shall have a good understanding of the internal *credit quality* assessment *procedure and the* methodologies *applied by* the manager of an MMF, as well as a detailed comprehension of the associated reports.

2. *The manager of an MMF shall report* to the parties referred to in paragraph 1 *on the MMF's credit* risk profile, *based on an analysis of the MMF's internal credit quality assessments*. Reporting frequencies shall depend on the significance and type of information and shall be at least annual.

3. Senior management shall ensure, on an *ongoing* basis, that the internal *credit quality* assessment procedure is operating properly.

Senior management shall be regularly informed about the performance of the internal *credit quality* assessment *procedures*, the areas where deficiencies were identified, and the status of efforts and actions taken to improve previously identified deficiencies.

4. *Internal credit quality assessments and their periodic reviews by the manager of an MMF shall not be performed by the persons performing or responsible for the portfolio management of an MMF.*

Chapter III  
Obligations concerning the risk management of MMFs

Article 24

Portfolio rules for short-term MMFs

- I.** A short-term MMF shall comply *on an ongoing basis* with all of the following portfolio requirements:
- (a) its portfolio is to have a **WAM** of no more than 60 days ;
  - (b) its portfolio is to have a **WAL** of no more than 120 days, *subject to the second and third subparagraphs*;
  - (c) *for LVNAV MMFs and public debt CNAV MMFs*, at least 10% of their assets are to be comprised of daily maturing assets, *reverse repurchase agreements which are able to be terminated by giving prior notice of one working day or cash which is able to be withdrawn by giving prior notice of one working day*. A LVNAV MMF or public debt CNAV MMF is not to acquire any asset other than a daily maturing asset when such acquisition would result in *that* MMF investing less than 10% of its portfolio in daily maturing assets;
  - (d) *for a short-term VNAV MMF*, at least 7,5% of its assets are to be comprised of daily maturing assets, *reverse repurchase agreements which are able to be terminated by giving prior notice of one working day, or cash which is able to be withdrawn by giving prior notice of one working day*. A short-term VNAV MMF is not to acquire any asset other than a daily maturing asset when such acquisition would result in *that* MMF investing less than 7,5% of its portfolio in daily maturing assets;



- (e) *for LVNAV MMFs and public debt CNAV MMFs, at least 30% of their assets are to be comprised of weekly maturing assets, reverse repurchase agreements which are able to be terminated by giving prior notice of five working days or cash which is able to be withdrawn by giving prior notice of five working days. A LVNAV MMF or public debt CNAV MMF is not to acquire any asset other than a weekly maturing asset when such acquisition would result in that MMF investing less than 30% of its portfolio in weekly maturing assets;*
- (f) *for a short-term VNAV MMF, at least 15% of its assets are to be comprised of weekly maturing assets, reverse repurchase agreements which are able to be terminated by giving prior notice of five working days, or cash which is able to be withdrawn by giving prior notice of five working days. A short-term VNAV MMF is not to acquire any asset other than a weekly maturing asset when such acquisition would result in that MMF investing less than 15% of its portfolio in weekly maturing assets;*

- (g) *for the purpose of the calculation in point (e), assets referred to in Article 17(7) which are highly liquid and can be redeemed and settled within one working day and have a residual maturity of up to 190 days may also be included within the weekly maturing assets of a LVNAV MMF and public debt CNAV MMF, up to a limit of 17,5% of its assets;*
- (h) *for the purpose of the calculation in point (f), money market instruments or units or shares of other MMFs may be included within the weekly maturing assets of a short-term VNAV MMF up to a limit of 7,5% of its assets provided they are able to be redeemed and settled within five working days.*

*For the purposes of point (b) of the first subparagraph, when calculating the WAL for securities, including structured financial instruments, a short-term MMF shall base the maturity calculation on the residual maturity until the legal redemption of the instruments. However, in the event that a financial instrument embeds a put option, a short-term MMF may base the maturity calculation on the exercise date of the put option instead of the residual maturity, but only if all of the following conditions are fulfilled at all times:*

- (i) the put option is able to be freely exercised by the short-term MMF at its exercise date;*
- (ii) the strike price of the put option remains close to the expected value of the instrument at the exercise date;**(iii) the investment strategy of the short-term MMF implies that there is a high probability that the option will be exercised at the exercise date.*

*By way of derogation from the second subparagraph, when calculating the WAL for securitisations and ABCPs, a short-term MMF may instead, in the case of amortising instruments, base the maturity calculation on one of the following:*

- (i) the contractual amortisation profile of such instruments;*
- (ii) the amortisation profile of the underlying assets from which the cash-flows for the redemption of such instruments result.*

2. *If the limits referred to in this Article are exceeded for reasons beyond the control of an MMF, or as a result of the exercise of subscription or redemption rights, that MMF shall adopt as a priority objective the correction of that situation, taking due account of the interests of its unit holders or shareholders.*
3. *All MMFs referred to in Article 3(1) of this Regulation may take the form of a short-term MMF.*

## Article 25

### Portfolio rules for standard MMFs

1. A standard MMF shall comply *on an ongoing basis* with all of the following requirements:
  - (a) its portfolio is to have at all times a WAM of no more than six months;
  - (b) its portfolio is to have at all times a WAL of no more than 12 *months, subject to the second and third subparagraphs*;
  - (c) at least 7,5% of its assets are to be comprised of daily maturing assets, *reverse repurchase agreements which can be terminated by giving prior notice of one working day or cash which can be withdrawn by giving prior notice of one working day*. A standard MMF is not to acquire any asset other than a daily maturing asset when such acquisition would result in *that* MMF investing less than 7,5% of its portfolio in daily maturing assets;

- (d) at least **15%** of its assets are to be comprised of weekly maturing assets, ***reverse repurchase agreements which can be terminated by giving prior notice of five working days or cash which can be withdrawn by giving prior notice of five working days***. A standard MMF is not to acquire any asset other than a weekly maturing asset when such acquisition would result in ***that*** MMF investing less than **15%** of its portfolio in weekly maturing assets;
- (e) for the purpose of the calculation in point (d), money market instruments or units or shares of other MMFs may be included within the weekly maturing assets up to 7,5% of its assets provided they are able to be redeemed and settled within five working days.

***For the purposes of point (b) of the first subparagraph, when calculating the WAL for securities, including structured financial instruments, a standard MMF shall base the maturity calculation on the residual maturity until the legal redemption of the instruments. However, in the event that a financial instrument embeds a put option, a standard MMF may base the maturity calculation on the exercise date of the put option instead of the residual maturity, but only if all of the following conditions are fulfilled at all times:***

- (i) ***the put option is able to be freely exercised by the standard MMF at its exercise date;***

- (ii) *the strike price of the put option remains close to the expected value of the instrument at the exercise date;*
- (iii) *the investment strategy of the standard MMF implies that there is a high probability that the option will be exercised at the exercise date.*

*By way of derogation from the second subparagraph, when calculating the WAL for securitisations and ABCPs, a standard MMF may instead, in the case of amortising instruments, base the maturity calculation on one of the following:*

- (i) *the contractual amortisation profile of such instruments;*
- (ii) *the amortisation profile of the underlying assets from which the cash-flows for the redemption of such instruments result.*

2. *If the limits referred to in this Article are exceeded for reasons beyond the control of a standard MMF or as a result of the exercise of subscription or redemption rights, that MMF shall adopt as a priority objective the correction of that situation, taking due account of the interests of its unit holders or shareholders.*
3. A standard MMF shall not take the form of a public debt CNAV MMF *or a LVNAV MMF*.

Article 26  
MMF credit ratings

*An MMF that solicits or finances an external credit rating shall do so in accordance with Regulation (EC) No 1060/2009. The MMF or the manager of the MMF shall **clearly indicate in the MMF's prospectus, and in all communication to investors in which the external credit rating is mentioned, that the rating was solicited or financed by the MMF or by the manager of the MMF.***

Article 27  
'Know your customer' policy

1. *Without prejudice to any more stringent requirements set out in Directive (EU) 2015/849 of the European Parliament and of the Council<sup>24</sup>, the manager of an MMF shall establish, implement and apply procedures and exercise all due diligence with a view to **anticipating** the effect of concurrent redemptions by several investors, **taking into account at least the type of investor, the number of units or shares in the fund owned by a single investor and the evolution of inflows and outflows.***
  
2. *If the value of the units or shares held by a single investor exceeds the amount of the corresponding daily liquidity requirement of an MMF, the manager of the MMF shall consider, in addition to the factors set out in paragraph 1, all of the following:*
  - (a) identifiable patterns in investor cash needs, **including the cyclical evolution of the number of shares in the MMF;**
  - (b) the risk aversion of the different investors;
  - (c) the degree of correlation or close links between different investors in the MMF.

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<sup>24</sup> Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (OJ L 141, 5.6.2015, p. 73).

3. *Where investors route their investments via an intermediary, the manager of an MMF shall request the information to comply with paragraphs 1 and 2 from the intermediary in order to manage appropriately the liquidity and investor concentration of the MMF.*
4. The manager of an MMF shall ensure that ■ the value of the units or shares held by a single investor does not *materially impact the liquidity profile of the MMF where it accounts for a substantial part of the total NAV of the MMF.*

#### Article 28

#### Stress testing

1. Each MMF shall have in place sound stress testing processes that *identify* possible events or future changes in economic conditions *which* could have unfavourable effects on the MMF. The *MMF or the* manager of an MMF *shall assess the possible impact that those events or changes could have on the MMF. The MMF or the manager of an MMF* shall regularly conduct stress testing ■ for different possible scenarios.



The stress tests shall be based on objective criteria and consider the effects of severe plausible scenarios. The stress test scenarios shall at least take into consideration reference parameters *that include* the following factors:

- (a) hypothetical changes in the level of liquidity of the assets held in the portfolio of the MMF;
- (b) hypothetical changes in the level of credit risk of the assets held in the portfolio of the MMF, including credit events and rating events;
- (c) hypothetical movements of the interest rates *and exchange rates*;
- (d) hypothetical levels of redemption;
- (e) *hypothetical widening or narrowing of spreads among indices to which interest rates of portfolio securities are tied*;
- (f) *hypothetical macro systemic shocks affecting the economy as a whole*.

2. In addition, in the case of public debt CNAV MMFs *and LVNAV* MMFs, the stress tests shall estimate for different scenarios the difference between the constant NAV per unit or share and the NAV per unit or share █ .

- █
3. Stress tests shall be conducted at a frequency determined by the board of directors █ of the MMF, *where applicable, or the board of directors of the manager of an MMF*, after considering what an appropriate and reasonable interval in light of the market conditions is and after considering any envisaged changes in the portfolio of the MMF. Such frequency shall be at least *bi-annual*.

4. *Where the stress test reveals any vulnerability of the MMF, the manager of an MMF shall draw up an extensive report with the results of the stress testing and a proposed action plan.*

*Where necessary, the manager of an MMF shall take action to strengthen the robustness of the MMF, including actions that reinforce the liquidity or the quality of the assets of the MMF and shall immediately inform the competent authority of the MMF of the measures taken.*

5. *The extensive report with the results of the stress testing and proposed action plan shall be submitted for examination to the board of directors of the MMF, where applicable, or the board of directors of the manager of an MMF. The board of directors shall amend the proposed action plan if necessary and approve the final action plan. The extensive report and the action plan shall be kept for a period of at least five years.*

*The extensive report and the action plan shall be submitted to the competent authority of the MMF for review.*

6. **■** *The competent authority of the MMF shall send the extensive report referred to in paragraph 5 to ESMA.*

7. ESMA shall issue guidelines with a view to establishing common reference parameters of the stress test scenarios to be included in the stress tests taking into account the factors specified in paragraph 1. The guidelines shall be updated at least every year taking into account the latest market developments.

#### Chapter IV

#### Valuation rules

#### Article 29

#### Valuation of *MMFs*

1. The assets of an MMF shall be valued on at least a daily basis.
2. The assets of an MMF shall be valued by using *mark*-to-market whenever possible.
3. When *using mark- to-market*:
  - (a) the asset of an MMF shall be valued at the more prudent side of bid and offer unless the *asset* can *be closed* out at mid-market;
  - (b) only *good* quality market data shall be used; such data shall be assessed on the basis of all of the following factors:
    - (i) the number and quality of the counterparties;
    - (ii) the volume and turnover in the market of the asset of the MMF;
    - (iii) the issue size and the portion of the issue that the MMF plans to buy or sell.

4. Where *use of mark-to-market* is not possible or *the* market data *is* not of sufficient quality, an asset of an MMF shall be valued conservatively by using *mark-to-model*.

The model shall accurately estimate the intrinsic value of the asset of an MMF, based on all of the following up-to-date key factors:

- (a) the volume and turnover in the market of that asset;
- (b) the issue size and the portion of the issue that the MMF plans to buy or sell;
- (c) market risk, interest rate risk, credit risk attached to the asset.

When *using mark-to-model*, *the* amortised cost *method* shall *not* be used.

5. *A valuation carried out in accordance with paragraphs 2, 3, 4, 6 and 7 shall be communicated to the competent authorities.*

6. *Notwithstanding paragraphs 2, 3 and 4, the assets of public debt CNAV MMFs may additionally be valued by using the amortised cost method.*
7. *By way of derogation from paragraphs 2 and 4, in addition to the mark-to-market referred to in paragraphs 2 and 3 and the mark-to-model referred to in paragraph 4, the assets of LVNAV MMFs that have a residual maturity of up to 75 days may be valued by using the amortised cost method.*

*The amortised cost method shall only be used for valuing an asset of a LVNAV MMF in circumstances where the price of that asset calculated in accordance with paragraphs 2, 3 and 4 does not deviate from the price of that asset calculated in accordance with the first subparagraph of this paragraph by more than 10 basis points. In the event of such a deviation, the price of that asset shall be calculated in accordance with paragraphs 2, 3 and 4.*

#### Article 30

##### Calculation of NAV per unit or share

1. *An MMF shall calculate a NAV per unit or share ■ as the difference between the sum of all assets of the MMF and the sum of all liabilities of the MMF valued in accordance with mark-to-market or mark-to-model, or both, divided by the number of outstanding units or shares of the MMF.*

■

2. The NAV per unit or share shall be rounded to the nearest basis point or its equivalent when the NAV is published in a currency unit.
3. The NAV per unit or share of an MMF shall be calculated ***and published*** at least daily ***on the public section of the website of the MMF***.

### ***Article 31***

#### ***Calculation of the constant NAV per unit or share of public debt CNAV MMFs***

1. ***A public debt CNAV MMF shall calculate a constant NAV per unit or share as the difference between the sum of all of its assets valued in accordance with the amortised cost method, as provided for in Article 29(6), and the sum of all of its liabilities, divided by the number of its outstanding units or shares.***
2. ***The constant NAV per unit or share of a public debt CNAV MMF shall be rounded to the nearest percentage point or its equivalent when the constant NAV is published in a currency unit.***
3. ***The constant NAV per unit or share of a public debt CNAV MMF shall be calculated at least daily.***
4. ***The difference between the constant NAV per unit or share and the NAV per unit or share calculated in accordance with Article 30 shall be monitored and published daily on the public section of the website of the MMF.***

## *Article 32*

### *Calculation of the constant NAV per unit or share of LVNAV MMFs*

- 1. A LVNAV MMF shall calculate a constant NAV per unit or share as the difference between the sum of all of its assets valued in accordance with the amortised cost method as specified in Article 29(7), and the sum of all its liabilities, divided by the number of its outstanding units or shares.*
- 2. The constant NAV per unit or share of a LVNAV MMF shall be rounded to the nearest percentage point or its equivalent when the constant NAV is published in a currency unit.*
- 3. The constant NAV per unit or share of a LVNAV MMF shall be calculated at least daily.*
- 4. The difference between the constant NAV per unit or share and the NAV per unit or share calculated in accordance with Article 30 shall be monitored and published daily on the public section of the website of the MMF.*

## Article 33

### Issue and redemption price

1. The units or shares of an MMF shall be issued or redeemed at a price that is equal to the MMF's NAV per unit or share, *notwithstanding permitted fees or charges as specified in the prospectus of the MMF.*
2. By way of derogation from paragraph 1:
  - (a) the units or shares of a public debt CNAV MMF *may* be issued or redeemed at a price that is equal to that MMF's constant NAV per unit or share;
  - (b) *the units or shares of a LVNAV MMF may be issued or redeemed at a price that is equal to that MMF's constant NAV per unit or share, but only where the constant NAV per unit or share calculated in accordance with Article 32(1), (2) and (3) does not deviate from the NAV per unit or share calculated in accordance with Article 30 by more than 20 basis points.*

*In relation to point (b), when the constant NAV per unit or share calculated in accordance with Article 32(1), (2) and (3) deviates from the NAV per unit or share calculated in accordance with Article 30 by more than 20 basis points, the following redemption or subscription shall be undertaken at a price that is equal to the NAV per unit or share calculated in accordance with Article 30.*

*Potential investors shall, prior to the conclusion of the contract, be clearly warned in writing by the manager of an MMF of the circumstances in which the LVNAV MMF will no longer redeem or subscribe at a constant NAV per unit or share.*



## Chapter V

### Specific requirements for public debt CNAV MMFs *and LVNAV MMFs*

#### Article 34

##### *Specific requirements for public debt CNAV MMFs and LVNAV MMFs*

- 1. *The manager of a public debt CNAV MMF or of a LVNAV MMF shall establish, implement and consistently apply prudent and rigorous liquidity management procedures for ensuring compliance with the weekly liquidity thresholds applicable to such funds. The liquidity management procedures shall be clearly described in the fund rules or instruments of incorporation, as well as in the prospectus.***

*In ensuring compliance with the weekly liquidity thresholds, the following shall apply:*

- (a) *whenever the proportion of weekly maturing assets as set out in point (e) of Article 24(1) falls below 30% of the total assets of the public debt CNAV MMF or of the LVNAV MMF and the net daily redemptions on a single working day exceed 10% of total assets, the manager of the public debt CNAV MMF or of the LVNAV MMF shall immediately inform its board thereof and the board shall undertake a documented assessment of the situation to determine the appropriate course of action having regard to the interests of the investors and shall decide whether to apply one or more of the following measures:***

- (i) *liquidity fees on redemptions that adequately reflect the cost to the MMF of achieving liquidity and ensure that investors who remain in the fund are not unfairly disadvantaged when other investors redeem their units or shares during the period;*
- (ii) *redemption gates that limit the amount of shares or units to be redeemed on any one working day to a maximum of 10% of the shares or units in the MMF for any period up to 15 working days;*
- (iii) *suspension of redemptions for any period up to 15 working days; or*
- (iv) *take no immediate action other than fulfilling the obligation laid down in Article 24(2);*

- (b) *whenever the proportion of weekly maturing assets as set out in point (e) of Article 24(1) falls below 10% of its total assets, the manager of a public debt CNAV MMF or of a LVNAV MMF shall immediately inform its board thereof and the board shall undertake a documented assessment of the situation and, on the basis of such assessment and having regard to the interests of the investors, shall apply one or more of the following measures and document the reasons for its choice:*
- (i) *liquidity fees on redemptions that adequately reflect the cost to the MMF of achieving liquidity and ensure that investors who remain in the fund are not unfairly disadvantaged when other investors redeem their units or shares during the period,*
- (ii) *a suspension of redemptions for a period of up to 15 working days.*

2. *When, within a period of 90 days, the total duration of the suspensions exceeds 15 days, a public debt CNAV MMF or a LVNAV MMF shall automatically cease to be a public debt CNAV MMF or a LVNAV MMF. The public debt CNAV MMF or the LVNAV MMF shall immediately inform each investor thereof in writing in a clear and comprehensible way.*
  
3. *After the board of the public debt CNAV MMF or of the LVNAV MMF has determined its course of action with regard to both points (a) and (b) of paragraph 1, it shall promptly provide details of its decision to the competent authority of that MMF.*

Chapter VI  
External support

Article 35  
External support

1. A MMF *shall* not receive external support .

2. External support means direct or indirect support offered *to an MMF* by a third party, *including a sponsor of the MMF*, that is intended for or in effect would result in guaranteeing the liquidity of the MMF or stabilising the NAV per unit or share of the MMF.

External support shall include:

- (a) cash injections from a third party;
- (b) purchase by a third party of assets of the MMF at an inflated price;
- (c) purchase by a third party of units or shares of the MMF in order to provide liquidity to the fund;
- (d) issuance by a third party of any kind of explicit or implicit guarantee, warranty or letter of support for the benefit of the MMF;
- (e) any action by a third party the direct or indirect objective of which is to maintain the liquidity profile and the NAV per unit or share of the MMF.

Chapter VII  
Transparency requirements

Article 36  
Transparency

1. An MMF shall indicate clearly ***which type of MMF it is in accordance with Article 3(1) and*** whether it is a short-term or a standard MMF in any external **■** document, report, statement, advertisement, letter or any other written evidence issued by it or by the manager of the MMF, addressed to or intended for distribution to prospective investors, unit-holders, ***or*** shareholders **■** .
  
2. ***The manager of an MMF shall, at least weekly, make all of the following information available to the MMF's investors:***
  - (a) ***the maturity breakdown of the portfolio of the MMF;***
  - (b) ***the credit profile of the MMF;***
  - (c) ***the WAM and WAL of the MMF;***
  - (d) ***details of the 10 largest holdings in the MMF, including the name, country, maturity and asset type, and the counterparty in the case of repurchase and reverse repurchase agreements;***
  - (e) ***the total value of the assets of the MMF;***
  - (f) ***the net yield of the MMF.***

3. Any document of an MMF used for marketing purposes shall clearly include all of the following statements:
  - (a) that the MMF is not a guaranteed investment;
  - (b) *that an investment in MMFs is different from an investment in deposits, with particular reference to the risk that the principal invested in an MMF is capable of fluctuation;*
  - (c) that the MMF does not rely on external support for guaranteeing the liquidity of the MMF or stabilising the NAV per unit or share;
  - (d) that the risk of loss of the principal is to be borne by the investor.
4. No communication by the MMF or by the manager of an MMF to investors or potential investors shall in any way suggest that an investment in the units or shares of the MMF is guaranteed.
5. Investors in an MMF shall be clearly informed of the method or methods used by the MMF to value the assets of the MMF and calculate the NAV. ■

Public debt CNAV *MMFs and LVNAV MMFs* shall explain clearly to investors and potential investors any use of the amortised cost method or of rounding or both. ■

## Article 37

### Reporting to competent authorities

1. For each MMF that it manages, the manager of the MMF shall report information to the competent authority of the MMF on at least a quarterly basis.

***By way of derogation from the first subparagraph, for an MMF whose assets under management in total do not exceed EUR 100 000 000, the manager of the MMF shall report to the competent authority of the MMF on at least an annual basis.***

The manager of an MMF shall upon request provide the information reported pursuant to the first and second subparagraphs also to the competent authority of the manager of an MMF, if different from the competent authority of the MMF.

2. The information reported pursuant to paragraph 1 shall comprise the following points:
  - (a) the type and characteristics of the MMF;
  - (b) portfolio indicators such as the total value of assets, NAV, WAM, WAL, maturity breakdown, liquidity and yield;
  - 
  - (c) the results of stress tests ***and, where applicable, the proposed action plan;***



- (d) information on the assets held in the portfolio of the MMF, including:
  - (i) the characteristics of each asset, such as name, country, issuer category, risk or maturity, and *the outcome of the internal credit quality assessment procedure*;
  - (ii) the type of asset, including details of the *counterparty* in *the* case of derivatives, *repurchase agreements* or reverse repurchase agreements;
- (e) information on the liabilities of the MMF, including:
  - (i) the country where the investor is established;
  - (ii) the investor category;
  - (iii) subscription and redemption activity.

If necessary and duly justified, competent authorities may solicit additional information.

**3. *In addition to the information referred to in paragraph 2, for each LVNAV MMF that it manages, the manager of an MMF shall report the following:***

- (a) *every event in which the price of an asset valued by using the amortised cost method in accordance with the first subparagraph of Article 29(7) deviates from the price of that asset calculated in accordance with Article 29(2), (3) and (4) by more than 10 basis points;***

- (b) *every event in which the constant NAV per unit or share calculated in accordance with Article 32(1) and (2) deviates from the NAV per unit or share calculated in accordance with Article 30 by more than 20 basis points;*
- (c) *every event in which a situation mentioned in Article 34(3) occurs and the measures taken by the board in accordance with points (a) and (b) of Article 34(1).*

4. ESMA shall develop draft implementing technical standards to establish a reporting template that shall contain all the information referred to in *paragraphs 2 and 3*.

*ESMA shall submit those draft implementing technical standards to the Commission by ...[six months after the date of entry into force of this Regulation].*

Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1095/2010.

5. Competent authorities shall transmit to ESMA all information received pursuant to this Article . Such information shall be transmitted to ESMA no later than 30 days after the end of the reporting quarter.

ESMA shall collect the information to create a central database of all MMFs established, managed or marketed in the Union. The European Central Bank shall have a right of access to that database, for statistical purposes only.

## Chapter VIII

### Supervision

#### Article 38

##### Supervision by the competent authorities

1. The competent authorities shall supervise compliance with this Regulation on an *ongoing* basis.
2. The competent authority *of the MMF or, where relevant, the competent authority of the manager* of an MMF shall be responsible for supervising compliance with Chapters II to VII.
3. The competent authority of the MMF shall be responsible for supervising compliance with the obligations set out in the fund rules or in the instruments of incorporation, and the obligations set out in the prospectus, which shall be consistent with this Regulation.
4. The competent authority of the manager of an MMF shall be responsible for supervising the adequacy of the arrangements and organisation of the manager of the MMF so that the manager of the MMF is in a position to comply with the obligations and rules which relate to the constitution and functioning of all the MMFs that it manages.
5. Competent authorities shall monitor UCITS and AIFs established or marketed in their territories to verify that they do not use the MMF designation or suggest that they are an MMF unless they comply with this Regulation.

## Article 39

### Powers of competent authorities

*Without prejudice to powers vested in competent authorities in accordance with Directive 2009/65/EC or 2011/61/EU, as applicable, competent authorities shall, in accordance with national law, have all supervisory and investigatory powers that are necessary for the exercise of their functions with respect to this Regulation. They shall, in particular, have the power to do all of the following:*

- (a) request access to any document in any form, and to receive or take a copy thereof;*
- (b) require an MMF or the manager of an MMF to provide information without delay;*
- (c) require information from any person related to the activities of an MMF or the manager of an MMF;*
- (d) carry out on-site inspections with or without prior announcement;*
- (e) take appropriate measures to ensure that an MMF or the manager of an MMF continues to comply with this Regulation;*
- (f) issue an order to ensure that an MMF or the manager of an MMF complies with this Regulation and desists from a repetition of any conduct that could infringe this Regulation.*

## *Article 40*

### *Penalties and other measures*

1. *Member States shall lay down the rules on penalties and other measures applicable to infringements of this Regulation and shall take all measures necessary to ensure that they are implemented. The penalties and other measures provided for shall be effective, proportionate and dissuasive.*
2. *By ... [12 months after the date of entry into force of this Regulation], the Member States shall notify the Commission and ESMA of the rules referred to in paragraph 1. They shall notify the Commission and ESMA without delay of any subsequent amendment thereto.*

## *Article 41*

### *Specific measures*

1. *Without prejudice to powers vested in competent authorities in accordance with Directive 2009/65/EC or 2011/61/EU, as applicable, the competent authority of an MMF or the manager of an MMF shall, while respecting the principle of proportionality, take the appropriate measures referred to in paragraph 2 where an MMF or the manager of an MMF:*
  - (a) *fails to comply with any of the requirements regarding asset composition, in infringement of Articles 9 to 16;*

- (b) fails to comply with any of the portfolio requirements, in infringement of Article 17, 18, 24 or 25;*
- (c) has obtained authorisation through false statements or any other irregular means, in infringement of Article 4 or 5;*
- (d) uses the designation ‘money market fund’, ‘MMF’ or of another designation that suggests that a UCITS or AIF is an MMF, in infringement of Article 6;*
- (e) fails to comply with any of the requirements regarding the internal credit quality assessment, in infringement of Article 19 or 20;*
- (f) fails to comply with any of the governance, documentation or transparency requirements, in infringement of Article 21, 23, 26, 27, 28 or 36;*
- (g) fails to comply with any of the requirements regarding valuation, in infringement of Article 29, 30, 31, 32, 33 or 34.*

**2. In the cases referred to in paragraph 1, the competent authority of the MMF shall, as appropriate:**

- (a) take measures to ensure that the MMF or the manager of an MMF concerned complies with the relevant provisions;*
- (b) withdraw an authorisation granted in accordance with Article 4 or 5.*

## Article 42

### Powers and competences of ESMA

1. ESMA shall have the powers necessary to carry out the tasks attributed to it by this Regulation.
2. ESMA's powers in accordance with Directives 2009/65/EC and 2011/61/EU shall be exercised also with respect to this Regulation and in compliance with Regulation (EC) No 45/2001.
3. For the purpose of Regulation (EU) No 1095/2010, this Regulation shall be included under any further legally binding Union act which confers tasks on the Authority referred to in Article 1(2) of Regulation (EU) No 1095/2010.

## Article 43

### Cooperation between authorities

1. The competent authority of *the* MMF and the competent authority of the manager of an MMF, if different, shall cooperate with each other and exchange information for the purpose of carrying out their duties under this Regulation.
2. Competent authorities and ESMA shall cooperate with each other for the purpose of carrying out their respective duties under this Regulation in accordance with Regulation (EU) No 1095/2010.

3. Competent authorities and ESMA shall exchange all information and documentation necessary to carry out their respective duties under this Regulation in accordance with Regulation (EU) No 1095/2010, in particular to identify and remedy infringements of this Regulation. *The competent authorities of the Member States responsible for the authorisation or supervision of MMFs under this Regulation shall communicate information to the competent authorities of other Member States where such information is relevant for monitoring and responding to the potential implications of the activities of individual MMFs or MMFs collectively for the stability of systemically relevant financial institutions and the orderly functioning of markets on which MMFs are active. ESMA and the European Systemic Risk Board (ESRB) shall also be informed and shall forward that information to the competent authorities of the other Member States.*
  
4. *On the basis of the information transmitted by national competent authorities pursuant to Article 37(5), ESMA shall, in accordance with powers conferred on it under Regulation (EU) No 1095/2010, prepare a report to the Commission in light of the review outlined in Article 46 of this Regulation.*



Chapter IX  
Final provisions

Article 44  
Treatment of existing UCITS and AIFs

1. By ... [**18** months *after* the date of entry into force of this Regulation], an existing UCITS or AIF that invests in short-term assets and has as distinct or cumulative objectives offering returns in line with money market rates or preserving the value of the investment shall submit an application to the competent authority of the MMF together with all documents and evidence necessary to demonstrate the compliance with this Regulation.
2. No later than two months after receiving the *complete* application, the competent authority of the MMF shall assess whether the UCITS or AIF is compliant with this Regulation in accordance with Articles 4 and 5. The competent authority of the MMF shall issue a decision and notify it immediately to the UCITS or AIF. ■

## Article 45

### Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Articles **II**, 15 and 22 shall be conferred on the Commission for an indeterminate period of time from the date of entry into force of this Regulation.
3. The delegation of power referred to in Articles **II**, 15 and 22 may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.
4. ***Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making.***

5. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.
6. The delegated acts adopted pursuant to Articles *II*, 15 and 22 shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of two months of notification of that act to the European Parliament and to the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

#### Article 46

##### Review

1. By ... [*five* years after the date of entry into force of this Regulation], the Commission shall review the adequacy of this Regulation from a prudential and economic point of view, *following consultations with ESMA and, where appropriate, the ESRB, including whether changes are to be made to the regime for public debt CNAV MMFs and LVNAV MMFs.*

2. The review shall *in particular*:

- (a) analyse the experience acquired in applying this Regulation, the impact on investors, MMFs and the managers of MMFs in the Union;
- (b) assess the role that MMFs play in purchasing debt issued or guaranteed by the Member States;
- (c) take into account the specific characteristics of the debt issued or guaranteed by the Member States and the role that the debt plays in financing the Member States;
- (d) take into account the report referred to in Article 509(3) of Regulation (EU) No 575/2013;
- (e) *take into account the impact of this Regulation on the short-term financing markets;*

(f) take into account the regulatory developments at international level.

*By ... [five years after the date of entry into force of this Regulation], the Commission shall present a report on the feasibility of establishing an 80% EU public debt quota. That report shall have regard to the availability of short-term EU public debt instruments and assess whether LVNAV MMFs might be an appropriate alternative to non-EU public debt CNAV MMFs. If the Commission concludes in the report that the introduction of an 80% EU public debt quota and the phasing out of public debt CNAV MMFs that include an unlimited amount of non-EU public debt are not feasible, it should present the reasons for that. In the event that the Commission concludes that the introduction of an 80% EU public debt quota is feasible, the Commission may make legislative proposals to introduce such a quota, whereby at least 80% of the assets of public debt CNAV MMFs are to be invested in EU public debt instruments. In addition, if the Commission concludes that LVNAV MMFs have become an appropriate alternative to non-EU public debt CNAV MMFs, it may make appropriate proposals to remove the derogation for public debt CNAV MMFs altogether.*

The results of the review shall be communicated to the European Parliament and to the Council, accompanied, where necessary, by appropriate proposals for amendments.

Article 47

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

***It shall apply from ... [12 months after the date of entry into force of this Regulation], with the exception of Article 11(4), Article 15(7), Article 22 and Article 37(4) which shall apply from ... [the date of entry into force of this Regulation].***

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at....

*For the European Parliament*

*For the Council*

*The President*

*The President*

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