

Link'n Learn

Money Market Funds

International developments



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Agenda

CNAV funds

Directors' responsibilities

Diversification & concentration

Stress testing & credit assessment

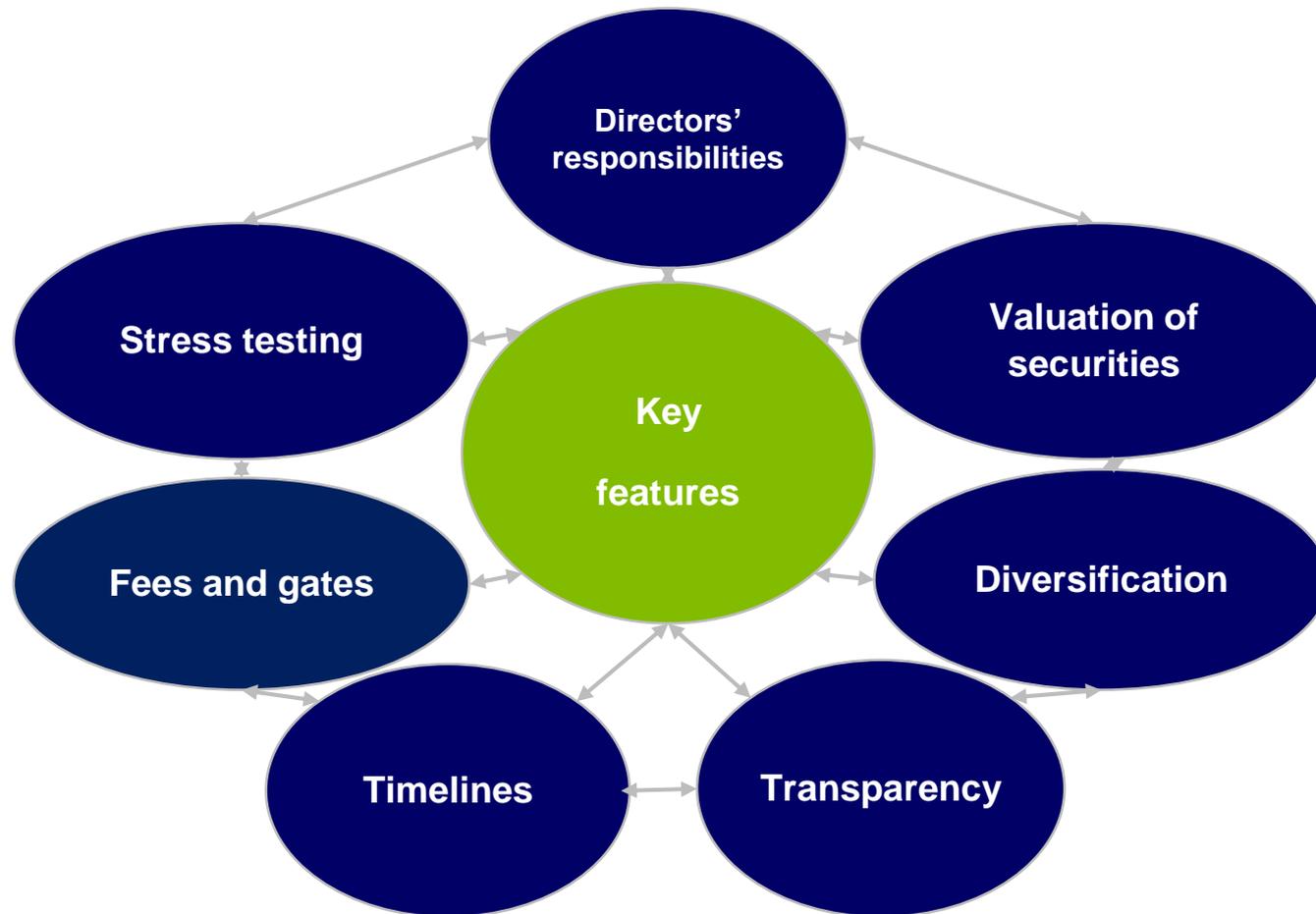
Valuation

Authorisation

External support

Transparency

Money market funds



Valuation of securities

amortised cost allowed?

US

Stable NAV funds maintain a steady NAV of \$1, and use 'amortized cost' accounting to value their securities

Amortized cost can be used for:

- ✓ securities with maturities of less than 60 days
- ✓ Government money market funds
- ✓ Retail money market funds

Government money market funds

- ✓ Must invest at least 99.5% of its total assets in cash, government securities or repos collateralized by cash or government securities

Retail money market funds

- ✓ Must be limited to 'natural persons'.
- ✓ Omnibus accounts may qualify, if limited to natural persons.

Determine whether amortized cost represents fair value each time the fund makes a valuation determination. This must be based on real data about actual market conditions such as credit, liquidity, or interest rate conditions in the relevant markets, as well as issuer-specific circumstances



EU

- ✓ Constant NAV funds maintain a steady NAV of either €1, \$1 or a £1 and may use 'amortized cost' accounting to value their securities. Other MMFs must use mark to market or mark to model.
- ✓ Constant NAV funds are available only to 'small professional' investors with a proven track record of not reacting instantly to a decline in the NAV of a fund.
- ✓ Must be short term MMFs (ie invests in money market instruments which can invest in similar securities as UCITS funds and which has either a legal maturity of 397 days or less; a residual maturity of 397 days or less; or the issuer has been awarded one of the two highest internal grades.)
- ✓ The difference between the constant NAV per unit/share and the NAV per unit/share must be continuously monitored.
- ✓ The NAV must be calculated at least daily

Directors
Responsibilities

Fees and gates

Board action – US	Triggering event	Board action - EU
<p>Allowed to establish a liquidity fee of up to 2% and/or</p> <p>Allowed to suspend redemptions (i.e., establish a “gate”) for up to 10 business days within a 90 day period</p>	<p>Weekly liquid assets* fall below 30% of total assets</p>	<p>Allowed to establish a liquidity fees of up to 2% ; and/or</p> <p>Allowed to establish a redemption gate where up to 10% of units in the CNAV can be redeemed on any one dealing day for up to 15 dealing days; or</p> <p>Allowed to suspend redemptions for up to 15 days; or</p> <p>Allowed to take appropriate action to protect shareholders.</p>
<p>Required to establish a liquidity fee of 1%, unless the board determines it is not in the best interest of the Fund to do so</p>	<p>Weekly liquid assets* fall below 10% of total assets</p>	<p>Required to impose liquidity fees of between 1% and 2%, or suspend redemptions for up to 15 days.</p>
<p>Required to lift fees and gates of total assets</p>	<p>Weekly liquid assets* rise to 30% or greater</p>	<p>n/a</p>
<p>n/a</p>	<p>When aggregated suspensions exceed 15 days within 90 days</p>	<p>The CNAV automatically ceases to be a CNAV MMF and is prohibited from using the amortized cost or rounding method.</p>

*“Weekly liquid assets” in the US generally include cash, direct obligations of the U.S. government, securities that will mature or are subject to a demand feature that is exercisable and payable within five business days. In the EU, these include cash and securities with maturities of one day or one week.

Diversification

US

- ✓ Aggregate affiliates for measuring diversification
- ✓ Treat certain affiliated entities as single issuers when measuring compliance with 5% diversification test
- ✓ Affiliated entities are defined by “control” concept (50% ownership test)
- ✓ Amended diversification rules exclude certain majority equity owners of asset backed commercial paper (ABCP) conduits from the requirement to aggregate affiliates for this purpose
- ✓ MMFs require MMFs to treat sponsors of asset-backed securities (ABS) as guarantors subject to the 10% diversification limits to guarantees and demand features, unless the board determines otherwise
- ✓ Elimination of 25% basket for portfolio securities subject to guarantees or demand features from single institution
- ✓ Reduction to 15% (rather than elimination of 25% basket) for tax-exempt MMFs, including single state MMFs, of portfolio securities subject to guarantees or demand features from a single institution



Directors Responsibilities



EU

- ✓ MM instruments issued by the same body - Standard MMFs capped at investing 10% of its assets, short term MMFs are subject to a 5% cap.
- ✓ Deposits with the same credit institution – both capped at investing 10% of their assets
- ✓ Exposures to securitisations – capped at 15% of the assets in aggregate
- ✓ Aggregate value of assets transferred by the MMF under repurchase agreements – 10% of the MMFs assets
- ✓ Aggregate risk exposure to the same counterparty of the MMF stemming from OTC derivative transactions – capped at 5% of the MMFs assets
- ✓ Aggregate cash provided to the same counterparty of a MMF in reverse repurchase agreements – capped at 20% of assets
- ✓ MMFs must not combine investments which would result in an investment in one body of more than 15% of the MMFs assets.
- ✓ Local regulators can authorise MMFs to invest 100% of its assets in different MMFs issued by Central, regional or local authorities or central banks in certain cases.

Transparency

US

Websites

- ✓ daily levels of daily and weekly liquid assets
- ✓ Net shareholder inflows and outflows
- ✓ market-based NAVs using basis point rounding
- ✓ 6 months of historical data

Form N-CR

- ✓ disclose within one business day of triggering event (Follow-up filing with more detail within four business days)

Form N-MFP

- ✓ Amendments to Form N-MFP now require risk assessment reporting
- ✓ Public disclosure is immediate upon filing

Form PF

- ✓ Registered advisers with \$1 billion or more in MMF and liquidity fund assets held in private funds must file quarterly reports with the same information that MMFs must file on Form N-MFP



EU

MMFs must supplement the existing disclosure requirements in AIFMD and UCITS with the following transparency disclosures:

- ✓ Whether they are short-term or standard MMFs;
- ✓ Whether they are CNAV MMFs;
- ✓ That an MMF is not a guaranteed investment;
- ✓ That an MMF does not rely on external support for guaranteeing the liquidity of the MMF or stabilising the NAV per unit or share;
- ✓ That the risk of loss of the principal has to be borne by an investor;
- ✓ The method used by an MMF to value the assets of an MMF and calculate the NAV

Regulatory reporting

Each MMF manager must report, at least quarterly, to the MMF's competent authority on matters such as the type and characteristics of the MMF, the results of stress tests, the shadow price, information both on the assets within the MMF's portfolio and on the MMF's liabilities.

Directors Responsibilities

Stress testing

US

- ✓ MMFs must periodically test ability maintain weekly liquid assets of at least 10% and to minimize volatility in response to hypothetical events including
 - Increases in the level of short-term interest rates
 - The downgrade or default of particular portfolio security positions
 - The widening of spreads in various sectors to which the MMF's portfolio is exposed
- ✓ Testing must be addressed in combination with various increases in shareholder redemptions
- ✓ MMF advisers must report the results of stress testing to the board, including information as may be reasonably necessary for the board to evaluate the stress testing results



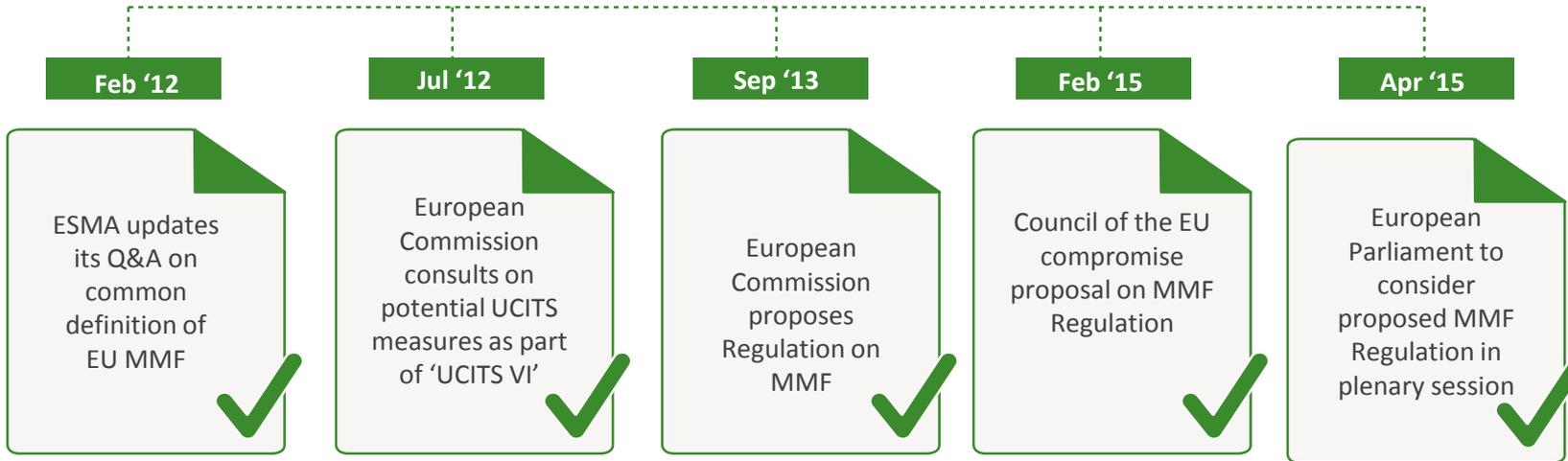
EU

- ✓ MMF managers must establish and apply several internal policies, including an assessment procedure to determine the credit quality of money market instruments and a “know your customer” policy which aims to correctly anticipate the effect of concurrent redemptions by several investors
- ✓ There are certain stress testing processes which MMF managers should have in place, including:
 - analyses on hypothetical changes in the level of liquidity
 - credit risk
 - interest rate changes
 - Redemptions
- ✓ Managers of MMF with less than EUR500M in assets can apply the policies in a proportionate manner

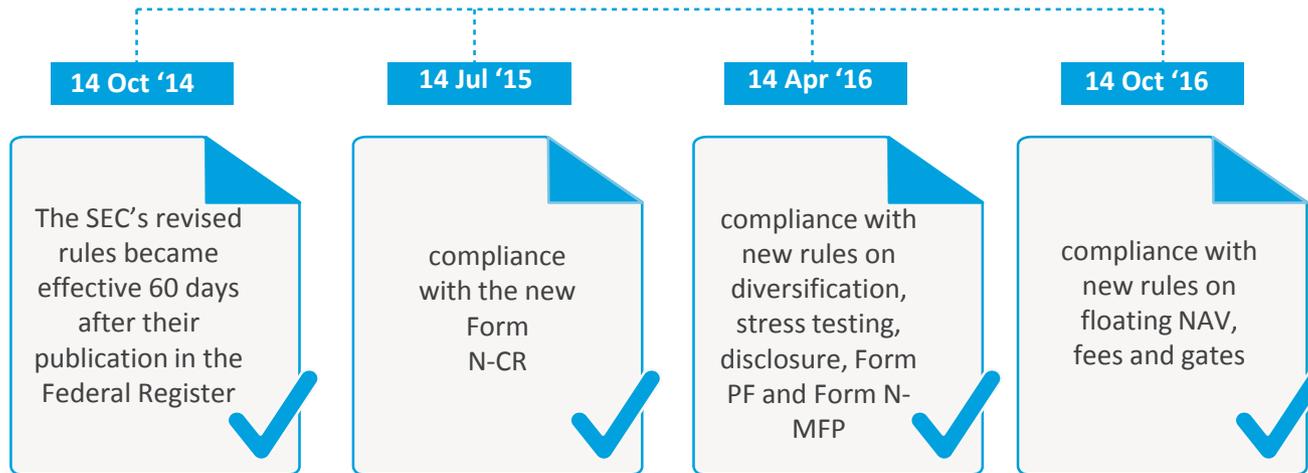
Directors Responsibilities

Timelines

European Timeline



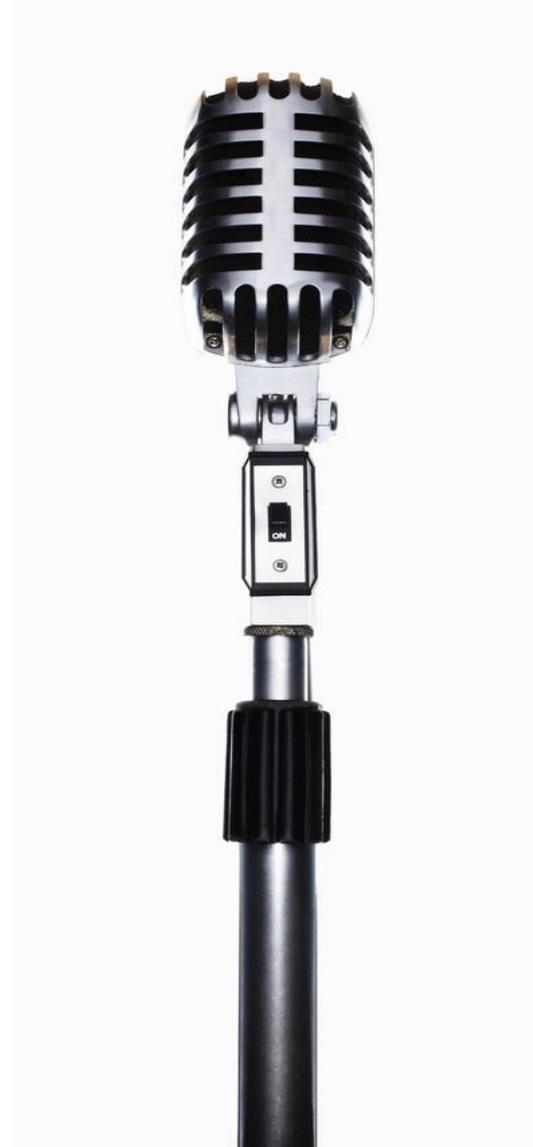
US Timeline



Additional features



Q&A





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