

## Regulatory News Alert

### European Council approved the new rules on Money Market Funds

31 May 2017

#### Background

On 16 May 2017, the European Council **adopted a new regulation aimed at supporting the role of** money market funds (MMF) in financing the economy.

#### Purpose and key provisions

To improve MMFs' stress resistance, the proposed regulation provides requirements on diversification of the asset portfolios, on investment policy, and on liquidity and concentration. The new rule also foresees to initiate a stress test process. Moreover, the assets of the MMFs will have to be valued at least once a day and the results should be published daily on the MMF's website.

There will be three categories of MMFs:

- Variable NAV
- CNAVs
- LVNAV which is a new class of MMFs

#### LVNAV MMF

The European Parliament introduced a new category of MMF: Low Volatility Net Asset Value MMF (LVNAV MMF) designed to work for smaller players.

These LVNAV MMFs will have:

- a diversified portfolio with stringent concentration requirements to reduce risk, assets described more precisely and subject to strict conditions,
- only limited use of the amortized accounting method to value assets,
- strict daily and weekly liquidity requirements to fulfil potential redemption requests, and
- improved transparency, to ensure that investors and supervisors get better and earlier information.

However, these LVNAV MMFs will only be authorized for a period of five years. The European Union will assess whether these rules are fit for purpose four years after they enter into force and propose whether LVNAV MMFs should be authorized further or indefinitely.

## **Next step**

It is expected that the regulation will be published in the Official Journal of the European Union by the end of June. Most provisions will apply 12 months after entry into force (18 months for existing MMFs).

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