

European money market fund reform

BlackRock

Key takeaways

- On 20 July, the European Commission published their long-awaited report to the European Parliament and the Council on the adequacy of the European Money Market Fund Regulations.
- The report concludes that the regulations successfully passed the market stress of March 2020 indicating that the safeguards in the regulations have worked as intended.
- The report highlights that forthcoming improvements to the UCITS liquidity management toolkit (LMT) will further underpin money market fund (MMF) resilience. It also makes certain recommendations to be addressed by industry participants, including (1) the decoupling of formal links of LMTs from regulatory liquidity thresholds, (2) structural issues in short-term markets require further assessment, and (3) European MMFs will benefit from UCITS review for wider implementation of liquidity management techniques.

Context

Money Market Fund Reform (MMFR) has been a focus for policy makers since the COVID-19 related market disruptions in March 2020 and more recently in the UK following the UK gilt crisis in October 2022.

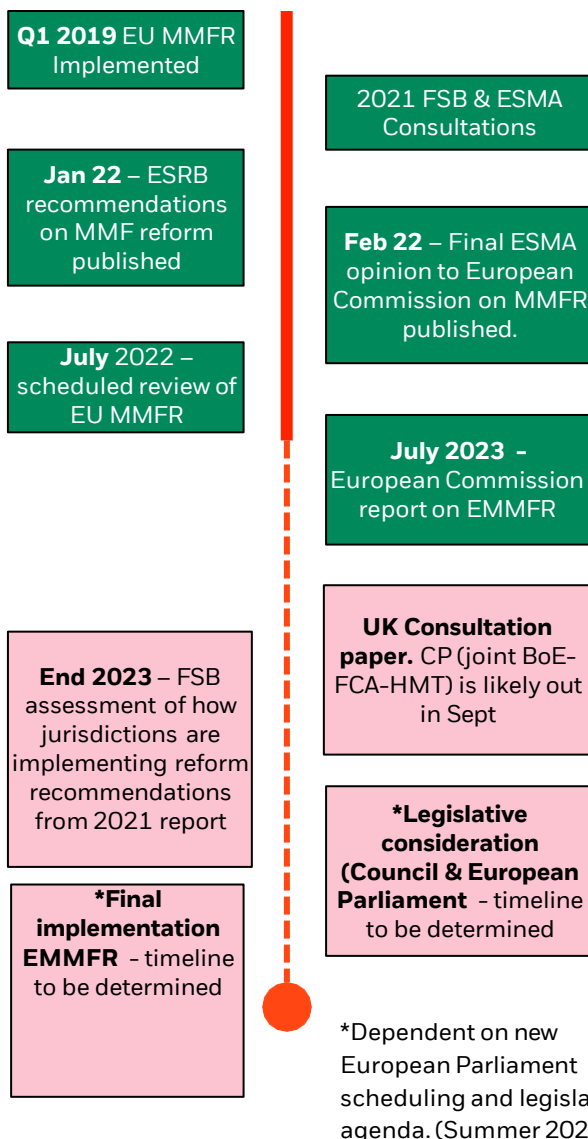
The Financial Stability Board (FSB) and International Organisation of Securities Commissions (IOSCO) have brought together work by US, European and other regulators that focused on their respective MMF industries and how they coped with the redemption pressures of instability in the financial system.

The European Central Bank (ECB), European Systemic Risk Board (ESRB) and European Securities and Markets Authority (ESMA) have all made proposals for European Money Market Fund Reform (EMMFR). BlackRock and other industry participants have responded to these with their own reform **viewpoint** using fund data and empirical evidence to expel certain assumptions, particularly around the concerns that the LVNAV (Low Volatility Net Asset Value) fund structure is in itself a destabilising factor.

The European Commission (EC) have responded with a confirmation that the European MMF industry “successfully passed the test of the liquidity stress....of March 2020” and that the 2019 Reform implementation significantly strengthened the regulatory framework for MMFs in the EU. The EC did however identify some shortcomings to be addressed including the decoupling of formal link of LMTs from regulatory liquidity thresholds, structural issues in short-term markets which require further assessment and the fact that EU MMFs which already benefit from a LMT under EUMMFR, will be part of a wider review of LMTs across AIFM and UCITs frameworks.

With European Parliament elections next year, a lot depends on whether, given the supportive stance of the commission, MMF regulation is a priority for the new Parliament and Council. The UK consultation paper on MMFs is also likely to impact industry regulatory policy and is expected in H2 this year.

EMMFR timeline



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What are the main proposals?	European Commission's recommendation	Potential implications
Reducing threshold effects related to potential breaches of weekly liquid asset minimums	Recommended to remove the threshold effect.	Decoupling of gates and fees from trigger point. More clarity for clients.
Requiring MMFs to incorporate a liquidity management toolkit that is appropriate to the fund and the prevailing market conditions. **	No change to the current regulation – although changes may be effective through the UCITS / AIFM review	This could come in the form of increased minimum liquidity requirements or mandated holdings of government securities.
Enhancing reporting requirements	Recommended to maintain the industry's status quo	Supervisors and regulators have more granular and frequent data relating to individual MMFs, and by extension, the market.
Clearer procedures for pricing and dealing when an LVNAV breaches the 20bps collar	Recommended to maintain the status quo	More clarity for fund managers and investors to underpin the continued operational resilience of these funds
Raising the daily / weekly liquidity requirements for short-term MMFs	Recommended to maintain the status quo	Increased minimum liquidity to enhance flexibility for redemptions around risk events
Removal of ability of LVNAV to round to 1.00	Recommended to maintain the status quo	Removes CNAV element of European LVNAV Prime funds, Investors would be exposed to the potential for NAV changes, reflecting the market fluctuations of the fund's holdings. Less choice for investors and addition of another VNAV MMF structure without clear differences.

**** BlackRock MMFs already have liquidity management tools in place.**

The above assumptions are based on BlackRock's own opinion and consultations with regulators and other market participants. Our views, as well as regulatory guidance, is subject to change. The above proposals represent a select few from ESMA, The ECB, and the ESRB. The full breakdown of the reviews from these agencies can be found online. Additional detail on the implications can be found in BlackRock's own [viewpoint](#).

What happens next?

- **Any immediate legislative changes are very unlikely given time restraints.** Time is short for any European Parliament Level 1 change and very short for the trialogue process of bringing together European Parliament, the Council of the European Union and the European Commission this summer.
- **Regardless there will be no imminent change to the MMF industry or EMEA based MMFs**
- **UK (FCA / Bank of England / UK Treasury) Consultation** response remains outstanding.
- **For now the status quo will persist with ongoing discussions and consultations into next year**

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