IFIA Seminar on EU Money Market Fund Regulation

Dublin, 23 January 2015

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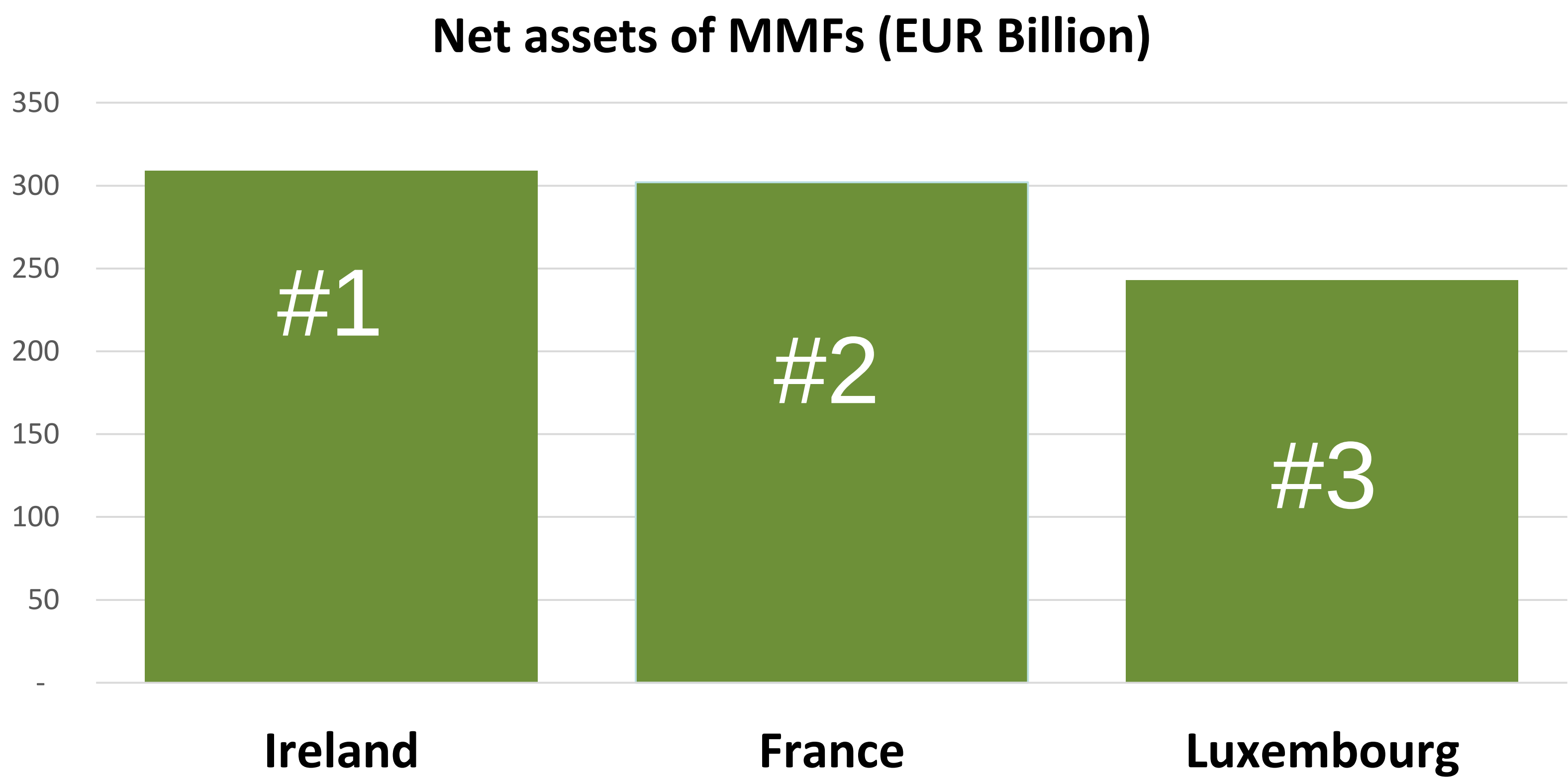
EU domiciled Money Market Funds



Source: EFAMA, September 2014

Agenda

- Overview of the key developments on the MMF file
- Insights on the latest developments in the European Parliament from MEP Brian Hayes
- Panel discussion on the current proposals and options, providing an investor, manager, legal and operational perspective
- Q&A

MMF Regulation

Overview of key developments

Patrick Rooney

Regulatory Affairs Manager

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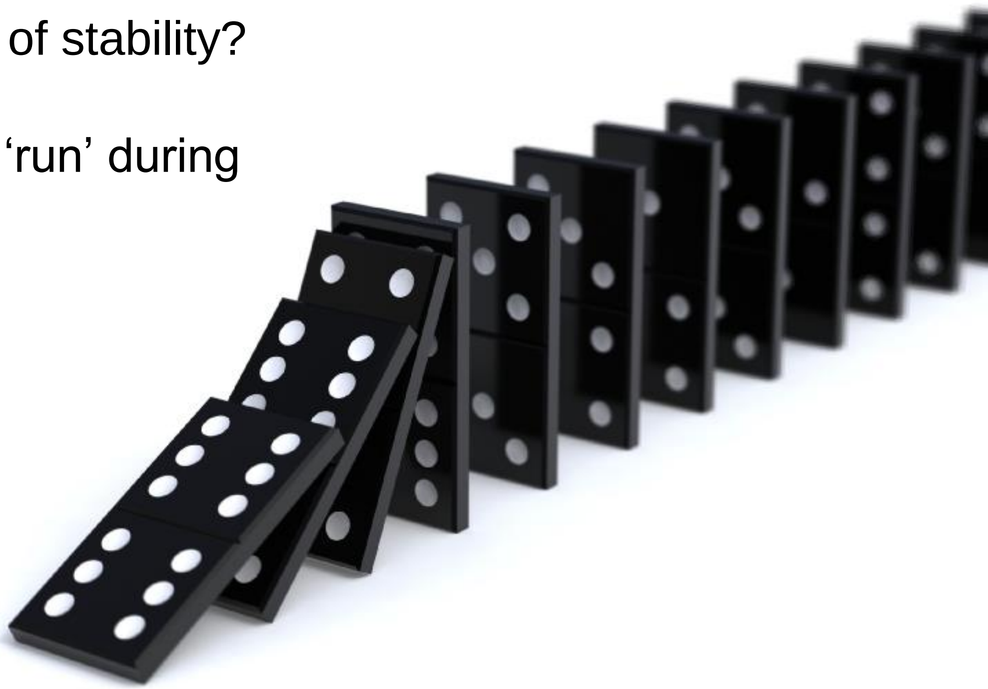
Why MMF reform?

- International research on “shadow banking” following the financial crisis
- MMFs viewed as “systemically important” due to links to real economy
- FSB and ESRB recommendations
- Constant NAV = false impression of stability?
- Address the risk from an investor ‘run’ during stressed market conditions
- Prevent market contagion



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Commission proposal

- 3% capital buffer
- Prohibition on sponsor support
- Valuations and use of amortised cost accounting
- Eligible assets – restrictions on ABCP and reverse repos
- Credit assessment – ban on external ratings
- Liquidity
- Diversification
- Risk management
- Disclosure and transparency

Addressing the key risk

Most effective way to prevent a run

=

Liquidity fees + redemption gates

Escalation Procedure

Liquidity

Transparency

Diversification

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Council of Ministers

- Italian Presidency (July 2014 – December 2014)
- Intensive period of discussions on the MMF file but ultimately a compromise solution could not be achieved
- The Progress Report highlights the most disputed issue as "the definition of the scope and treatment of constant NAV MMFs"

Proposals

- Mandatory conversion to VNAV versus Stable NAV MMF
- Retail/Small Professional CNAV MMF
- **Low Volatility NAV (LV-NAV) MMF**
- **Variable Shares MMF**

LV-NAV MMF

- CNAVs convert to Low Volatility NAV (LV-NAV) MMF
- NAV rounded to three decimal places
- Share price would remain stable at 1.00 between 0.995 and 1.005
- Amortised cost accounting for the short term portfolio (<90 days)
- Valuation by an independent third party
- Fees and gates
- Liquidity standards (10% daily and 30% weekly)
- *Capital buffer*
- *Transition to VNAV after 2-5 years*

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Variable Shares MMF

- CNAVs convert to a variable shares mechanism where the number of shares held by an investor is adjusted in line with market movements, while maintaining a stable NAV

- Investor's amount of shares (and the monetary amount of their holding) will change but not the NAV

- Drawing inspiration from the current variable share practice developed to address the negative interest rate environment in Europe

- Requires a move to model based pricing to make daily adjustments to the amount of shares held

- Significant operational challenges?

- Investor appetite?

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Neena Gill Report

- EU Public Debt CNAV MMF – must invest up to 80% of its assets in public debt instruments of EU Member States by 2020 (now reduced to **60%**)
- A risk based capital buffer to be applied on a sliding scale until the Public Debt CNAV MMF reaches 80% investment in EU public debt
- A further exemption for Retail CNAV MMF, with a broad definition of “retail”
- Amortised cost accounting permitted only for instruments with maturities not exceeding 60 days
- Fees and gates applied to CNAVs, except EU Public Debt MMFs
- External support is not permitted unless it is notified to approved by the European Commission
- Increased transparency and liquidity requirements
- ESMA should establish a new Department for supervising and advising on the functioning of MMFs

MEP Amendments

- 800+ Amendments tabled
- **EPP:** Shadow Brian Hayes introduces three categories of CNAVs: Government CNAV MMF, Retail CNAV MMF and Low Volatility NAV MMF
- **S&D:** Various approach to ending CNAVs including an LV-NAV transition and application of a capital buffer
- **ECR:** Shadow Kamall takes the same approach as last term, deleting all references to the capital buffer in favour of fees and gates approach
- **ALDE:** Shadow Jezek proposes a Variable Shares Mechanism
- **Greens:** Shadow Joly endorses buffer but goes further by asking for it to be put in place by 31 December 2015

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MMF Regulation
Insights from the European Parliament

Brian Hayes

MEP and Member of the ECON Committee

Shadow Rapporteur on the MMF Regulation

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MMF Regulation
Panel discussion

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Moderator

Kevin Murphy, Chair of the IFIA MMF Working Group and Partner, Arthur Cox Solicitors

Panellists

- **Lorcan Travers**, Manager - Investment and Liquidity, Johnson & Johnson European Treasury Company
- **Debbie Cunningham**, Chief Investment Officer, Federated Investors
- **Michael Quigley**, Head of Money Market Fund Accounting and Money Market Product, State Street Fund Services Ireland
- **Declan Cronin**, Director - Head of Fund Accounting Oversight, BlackRock

MMF Proposals

EU Commission's Proposals	Italian Presidency's Variable Shares Mechanism	Italian Presidency's LVNAV Proposal	Neena Gill Report	Brian Hayes Proposals
• 3% capital buffer for CNAV – otherwise mandatory conversion to VNAV • Liquidity • Diversification • Disclosure and transparency • Restrictions on ABCP	• No of shares adjusted while maintaining stable NAV • Uses model based pricing	• CNAV convert to LV NAV • Rounded to 3 decimal places • Capital buffer • Amortised cost < 90 days • Fees and gates • Enhanced liquidity reqs • Transition to VNAV 2 – 5 years	• EU Public Debt CNAV (with minimum of 60% in EU Govt public debt) • Risk based capital buffer • Retail CNAV exemption • Amortised cost < 60 days • Fees and gates • Increased transparency and liquidity	• Government liquidity CNAV (includes US Treasuries) • Retail CNAV • LVNAV ➢ Amortised cost for secs with maturity < 90 days and all govt secs ➢ 25% cap on investing in non-govt secs with maturity > 90 days • Fees and gates • Enhanced liquidity requirements • Diversification • Disclosure and transparency

MMF Regulation

Q&A

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