Peer Review of Regulation of Money Market Funds: Final Report

THE BOARD
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

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Contents

1. Executive Summary

This report (**Report**) sets out the findings of the review (**Review**) by the International Organization of Securities Commissions (**IOSCO**) of the progress in adopting legislation, regulation and other policies in relation to money market funds (**MMFs**) in the following areas (**Reform Areas**):[1]

a. Scope of the regulatory reform — explicit definition of MMFs in regulation and appropriate inclusion of other investment products presenting features and investment objectives similar to MMFs;

b. Limitations to the types of assets of, and risks taken by, MMFs;

c. Valuation practices of MMFs — addressing specific valuation issues for MMFs and their portfolios;

d. Liquidity management for MMFs — aimed at ensuring MMFs maintain adequate liquidity resources in normal business conditions as well as in stressed market conditions;

e. MMFs that offer a stable Net Asset Value (**NAV**) — addressing the risks and issues which may affect the stability of MMFs that offer a stable NAV;

f. Use of ratings by the MMF industry;

g. Disclosure to investors; and

h. Repos — MMF practices in relation to repurchase agreement transactions.

Background

The Review was a Level 1 or 'Adoption Monitoring Review'. It measured implementation progress only and did not assess the consistency of implementation measures against IOSCO's *Policy Recommendations for Money Market Funds* (2012).

Implementation progress is reported as at 31 March 2015 (**Reporting Date**).

Thirty-one jurisdictions participated in the Review, of which 24 were Financial Stability Board (**FSB**) members. A full list of participating jurisdictions is set out at Annexure A.

Industry and Market Environment

Using the most current data available at the Reporting Date, the global MMF market is dominated by 5 jurisdictions (the U.S., France, Luxembourg, Ireland and China) (**Largest Jurisdictions**) which together account for just under 90% of global assets under management in MMFs. Assets under management in MMFs declined and then have been stable in the

[1] As detailed further below at Section 2.1, IOSCO published 15 key policy recommendations relating to these 8 Reform Areas in 2012.

U.S. and each of the European jurisdictions since 2009, with dramatic growth evident in China (particularly since 2011).

Key Findings

Overall, the Review found that as at the Reporting Date, participating jurisdictions had made progress in introducing implementation measures across the 8 Reform Areas.

Implementation progress varied between jurisdictions and Reform Areas.

For the Largest Jurisdictions, only the U.S. reported having final implementation measures in all Reform Areas, with China and the EU members still in the process of developing and finalising relevant reforms.

For jurisdictions with smaller MMF markets, implementation progress was less advanced, with only four other participating jurisdictions (Brazil, India, Italy and Thailand, the first 3 being FSB members) reported having final implementation measures in all Reform Areas.

The Review's main findings by Reform Area are:

- On **Definition of MMFs (Reform Area (a))**, almost all participating jurisdictions (including each of the Largest Jurisdictions) reported having introduced an express definition under their CIS regulation.

- On **Limitations to asset types and risks (Reform Area (b))**, implementation was generally well progressed with a substantial majority of jurisdictions (including each of the Largest Jurisdictions) reporting implementation of all measures in this Reform Area. Further progress was needed in some jurisdictions on requirements about imposing credit limits and defining both limits on the average weighted term to maturity (**WAM**) and the weighted average life (**WAL**) of the portfolio of a MMF.

- On **Valuation (Reform Area (c)),** implementation is generally well progressed. However, a number of jurisdictions reported having no requirements for MMFs to comply with the general principle of fair value and/or use the amortized cost method only in limited circumstances. Of the Largest Jurisdictions, China is currently in the process of introducing further reforms for their MMFs for this Reform Area.

- On **Liquidity management (Reform Area (d))**, implementation progress was less advanced and uneven, perhaps reflecting that pre-crisis, most jurisdictions did not have requirements in this area. Critically, implementation progress was least advanced for requirements on MMFs to establish sound policies and procedures to know their investors and requirements to hold a minimum amount of liquid assets, with a sizeable number of jurisdictions reporting they are still finalising reforms on these two aspects of this Reform Area. Of the Largest Jurisdictions, only the U.S. reported implementing all measures in this Reform Area.

- On **MMFs that offer a stable NAV (Reform Area (e))**, further work is needed. Twelve (12) jurisdictions reported continuing to permit stable NAV MMFs, including

4 of the 5 Largest Jurisdictions (China, Ireland, Luxembourg and the U.S.). Participating jurisdictions which continue to permit stable NAV MMFs have generally chosen to progress implementation measures that aim to reinforce a stable NAV MMF's resilience and ability to face significant redemptions.

- On **Use of ratings (Reform Area (f))**, there had been some progress in implementation, although a number of participating jurisdictions reported they continue to have requirements restricting their MMFs to invest in instruments with specified external credit ratings. Of the Largest Jurisdictions, measures are still being implemented in China.

- On **Disclosure to investors (Reform Area (g)**, implementation was generally well progressed on valuation practices and procedures to deal with significant market stress. Where stable NAV's are permitted, the absence of a capital guarantee and possibility of loss were generally reported as being required. Final implementation measures are reported to be in place in each of the Largest Jurisdictions.

- On **Repos (Reform Area (h))**, implementation was well progressed, with the few jurisdictions that have not progressed any reforms generally reporting the use of repos by MMFs in their jurisdiction as very low.

Further Monitoring

The IOSCO Board has accepted the following recommendation from the Review Team on further monitoring:

- **A further Adoption Monitoring Review — or 'Level 1-style' review — is undertaken starting in 2016** — this will be an opportunity to report progress jurisdictions have made in their MMF reforms since the Review. This further Review will be limited to the 15 jurisdictions that the Review Team has identified as having a 'significant MMF industry' as set out in Annexure A in which final implementation measures are still to come into force in one or more Reform Areas. It will report on the status of implementation of those remaining measures.

- **No recommendations are made in this Report about Implementation Monitoring — or 'Level 2-style' — Reviews. Separate recommendations will be made by the Assessment Committee to the Board at an appropriate time after the completion of the further Adoption Monitoring Reviews.**

2. Background

2.1. IOSCO Policy Recommendations for MMFs

The run on some MMFs during the financial crisis alerted regulators to their systemic relevance. Although MMFs did not cause the financial crisis, the crisis highlighted their potential to spread or even amplify a financial crisis. The G20 expressed concerns regarding the stability of the MMF industry and the risks it may pose to the broader financial system.

The Financial Stability Board (**FSB**) requested that IOSCO undertake a review of potential regulatory reforms of MMFs as part of efforts to strengthen the oversight and regulation of the shadow banking system and to carry out the G20 endorsed objective to mitigate the susceptibility of MMFs to runs and other systemic risks (**G20 Objective**).

In 2012, in response to the FSB request and to advance the G20 Objective, IOSCO, through Committee 5 on Investment Management (**C5**), undertook a project to analyse the risks that MMFs pose to financial stability and develop a range of policy recommendations to address those risks, to be considered by IOSCO members as they develop standards for the regulation and management of MMFs, consistent with their statutory or legal or other powers. C5 considered there was a need for regulatory reform in the 8 Reform Areas.

In October 2012, IOSCO published its report *Policy Recommendations for Money Market Funds* (**2012 IOSCO Report**),[2] which contains 15 key policy recommendations relating to the Reform Areas.[3]

2.2. Reasons for the Review

The 2012 IOSCO Report noted that IOSCO would conduct a review of the application of these recommendations within two years of publication. The 2012 IOSCO Report envisaged the review would also consider other market and regulatory developments to the time of the review. The form of the review was left open in the 2012 IOSCO Report.

In September 2013, the G20 Leaders in St Petersburg called for IOSCO to launch a peer review and to report on progress regarding MMF regulatory reforms in late 2014.[4]

Pursuant to the G20 Leaders' request and consistent with the FSB's *Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms*, IOSCO agreed to conduct a review consisting of an implementation progress report on the current regulatory reform efforts of participating jurisdictions, with the possibility of a separate review being conducted once national or regional implementation of regulatory reform is deemed sufficiently underway.

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2 http://www.iosco.org/library/pubdocs/pdf/IOSCOPD392.pdf.

3 The IOSCO Board approved the 2012 IOSCO Report during its meeting on 3–4 October 2012 in Madrid. While it was noted that a majority of the Commissioners of the U.S. Securities and Exchange Commission did not support its publication, there were no other objections.

4 See *G20 Roadmap towards Strengthened Oversight and Regulation of Shadow Banking* (September 2013) http://en.g20russia.ru/load/782788663. Some authorities or market participants prefer to use other terms such as 'market-based financing' instead of 'shadow banking'. The use of the term 'shadow banking' is not intended to cast a pejorative tone on this system of credit intermediation. However, the G20 and FSB are using the term 'shadow banking' as this has been used in the earlier G20 communications.

3. Methodology

3.1. Nature of the Review and Objectives

The main objective of the Review was to identify progress in adopting legislation, regulation and other policies in relation to MMFs in the Reform Areas. The Review also considered market and regulatory developments in each participating jurisdiction which may have impacted MMFs or the MMF industry since the 2012 Report. It also sought to identify differences in approach to, and in progress of, implementation, or proposed implementation, of regulatory reforms, with commentary on the drivers for these differences and whether further implementation monitoring is recommended

While the Review reports on the status and timeliness of reforms, it does not assess the consistency of implementation measures against the 2012 IOSCO Report's recommendations. The Review Team decided to conduct this Level 1 adoption monitoring exercise against the 8 Reform Areas rather than the 15 individual recommendations in the 2012 IOSCO Report.

3.2. Review Team

The Review was conducted by a team comprised of the following staff from the following national authorities: Steven Bardy and Angus Chan (Australian Securities and Investments Commission), Eduardo Gomes and Augusto Carlos Cunha Correa Pina Filho (Comissão de Valores Mobiliários, Brazil), Natasha Cazenave and Domitille Dessertine (Autorité des marchés financiers, France), Ananta Barua, Rinkal Sanghavi and Ishita Sharma (Securities and Exchange Board of India), Raluca Tircoci-Craciun (IOSCO General Secretariat), Yuri Yoshida (Financial Services Agency, Japan) and Sara Crovitz (Securities and Exchange Commission, U.S.) (**Review Team**).

The Review Team was chaired by Steven Bardy from the Australian Securities and Investments Commission.

3.3. Review Process

The Review was a desk-based exercise, using responses provided by IOSCO members to a questionnaire designed and developed by the Review Team. The questionnaire was circulated on 25 August 2014, with responses due on 19 September 2014. Respondents were given the opportunity to update their questionnaire responses based on any further implementation progress. In addition, in most cases the Review Team sought additional information to clarify or verify aspects of responses.

The questionnaire focused on topics covered in the 8 Reform Areas. It asked national authorities to indicate the status of reform activity for their jurisdiction as at the reporting date of 25 August 2014 by reference to one of the following five reporting scales:

- Final implementation measures in force;
- Final implementation measures published;

- Draft implementation measures published;
- Draft implementation measures not published; or
- No implementation measures needed (as measures were already in place before 1 October 2012, the publication date of the IOSCO 2012 Report).

Where measures were yet to be implemented, national authorities were asked to describe the timeframes for implementation.

The questionnaire consisted of questions asking whether the respondent jurisdiction had adopted reforms in relation to the matters covered by the 8 Reform Areas and if so, asked to indicate the status of the reform and references to relevant legislation, rules or guidance. The questionnaire also sought background information about the MMF industry and activity in the respondent jurisdiction, as well as information (where relevant) on any issues encountered by the respondent jurisdiction in implementing or planning reforms concerning any of the Reform Areas.

In 2014, the Review Team agreed to produce two reports, one high level summary for the FSB for inclusion in its report to the G20 (**FSB Interim Report**), and a separate, more detailed report of the key findings to the G20 (**G20 Interim Report**). On 4 November 2014, the approved FSB Interim Report was sent to the FSB. On 13 and 16 November 2014, the approved G20 Interim Report was published on the IOSCO and G20 websites respectively.[5]

These Reports reported participants' unchallenged self-assessments.

Preparation of this Report

In its discussions after publication of the FSB and G20 Interim Reports, the Review Team agreed on its approach to reporting progress in implementation measures taken in each Reform Area. It also reviewed the self-assessments provided by participating jurisdictions and considered whether and when to challenge those self-assessments.

On reporting progress in implementation, the Review Team agreed the following:

- It would report on implementation progress in relation to key elements of each Reform Area. These elements were chosen on the basis of their criticality to the outcome sought by reform in each area in the 2012 Report. The key elements for each Reform Area are set out in more detail in the discussion set out under Key Findings;
- It would report progress as at 31 March 2015. This was intended to enable this Report to provide a more up to date progress report than if the previous reporting date (25 August 2014) was used again. As a result, the Review Team asked all participating jurisdictions to provide, where relevant, any updated information to take into account this revised reporting date.

5 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD463.pdf and http://www.g20australia.org/sites/default/files/g20_resources/library/peer_review_regulation_money_market_funds.pdf.

- It would report using a modified scale:

	Final implementation measures in force;
	Final implementation measures published;
	Draft implementation measures published;
	Draft implementation measures not published;
	For Reform Area (e) only: No implementation measures needed (as MMFs offering a stable NAV are not permitted in this jurisdiction).

△ = Further reforms are underway in relation to the Reform Area.

♦ = The rating reported is for the element of a Reform Area which is least progressed. One or more element of a Reform Area is further progressed than the reported rating.

The reporting scale was different to that used in the FSB and G20 Interim Reports.

- The Review Team decided to combine the two reporting scales 'Final implementation measures in force' and 'No implementation measures needed (as measures were already in place before 1 October 2012' into the one reporting scale 'Final implementation measures in force'. The earlier distinction on whether final implementation measures entered into force before or after 1 October 2012 was not deemed meaningful enough to warrant its retention.

- In the interests of clarity, for Reform Area (e), the Review Team introduced a new rating of 'No implementation measures needed (as MMFs offering a stable NAV are not permitted in this jurisdiction)'.

- The Review Team agreed to introduce two new annotations. The first is a white triangle (△) to indicate where a participating jurisdiction has further reforms underway for a Reform Area. The second is a black diamond (♦) which indicates implementation of elements of Reform Areas is at different stages. The need for this latter annotation is a result of the Review Team's decision to apply the reporting scale at the Reform Area level of the least advanced progress at the individual element level.[6]

On whether and when to challenge self-assessments, the Review Team agreed to challenge a self-assessment 'only where a cited implementation measure is *obviously not related to or aimed* at the Reform Area being rated' (emphasis added). The Review Team decided that this standard was appropriate for a Level 1-style 'adoption monitoring' review — i.e. it will be for any future Level 2-style 'implementation monitoring' exercise to assess the consistency of

[6] For instance, where a Reform Area consists of a number of elements (e.g. Reform Area (d), which has four elements or questions), a jurisdiction would be reported as 'Draft implementation measures not published' for that Reform Area if at least one of those four elements had been reported as 'Draft Implementation measures not published'. The black diamond is intended to indicate that the jurisdiction may have further progressed the other elements for that Reform Area, which cannot be accurately captured in assigning the one reporting scale ('Draft implementation measures not published') for the Reform Area.

cited implementation measures against the 2012 IOSCO Report's recommendations. Participating jurisdictions were provided with a copy of this Report and given an opportunity to comment.

It should be noted that the findings of the Review are based on information provided by the participating jurisdictions. This includes copies of relevant legislation, regulations or guidance. Where necessary, the Review Team has sought to clarify and verify the statements made by participating jurisdictions in their submissions. However, the Review Team has not sought independent confirmation of the matters reported by participating jurisdictions in their submissions for this Review.

3.4. Participating Jurisdictions

All IOSCO members from FSB jurisdictions and IOSCO members from non-FSB jurisdictions with a significant MMF industry were expected to participate in the Review. The criteria to determine the significance of the domestic MMF industry was established by the Review Team following the process at **Annexure A**. Other IOSCO members were also invited to participate in the Review.

Thirty one IOSCO members contributed to the Review. A full list of participating jurisdictions is set out at **Annexure A**. Based on the data used by the Review Team (as set out below), this resulted in a coverage of almost 98% of the global assets under management (**AUM**) of the MMF industry.

4. Key Findings

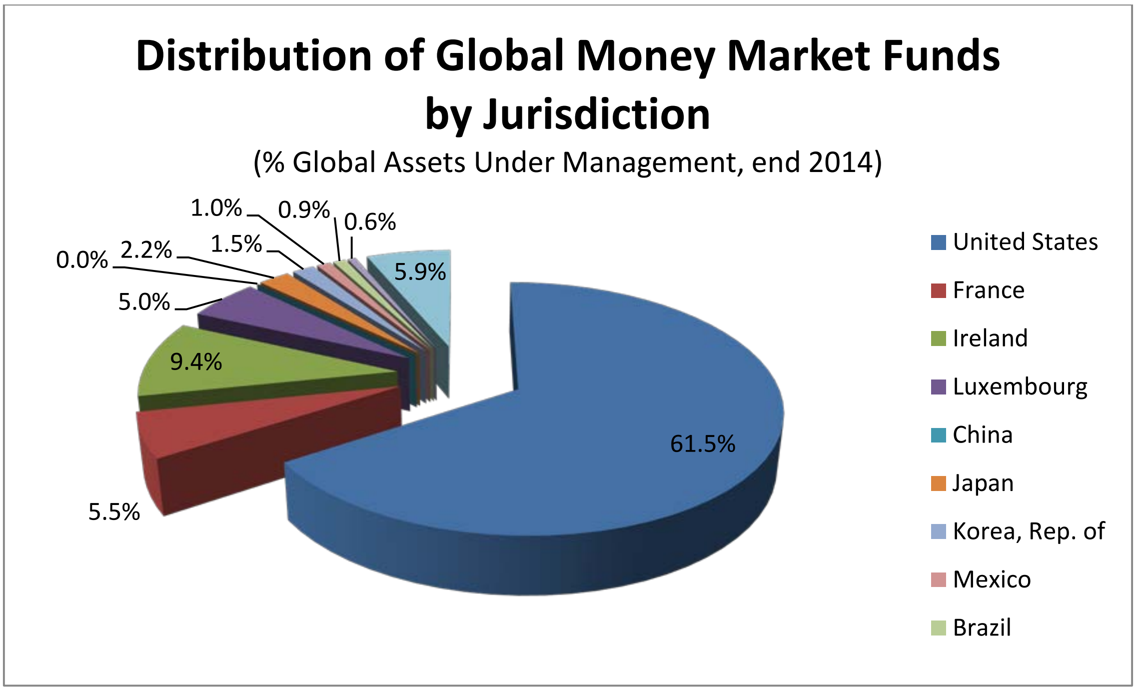
4.1. Industry and Market Environment

4.1.1. Global Markets Overview[7]

The global MMF industry (measured by assets under management) is dominated by the U.S. with sizeable markets in some European jurisdictions and China (as summarised in **Chart 1**). These markets together accounted for 88% of global assets under management in MMFs. The market share of all jurisdictions participating in this Review is set out in Column 2 of Table 1.

[7] Analysis is based on data provided by participating jurisdictions about assets under management as at 31 December 2014 (unless otherwise specified) and ICI's end 2014 data (ICI Supplement World Wide Managed Funds Market Data Q4 2014 (published 2 April 2015). No data was available for 4 jurisdictions (Colombia, the Netherlands, Russia and Thailand). ICI end 2014 data was used for Canada, Mexico, China, Korea, Spain, and Slovakia. Data provided by participating jurisdictions was used in all other cases.

Chart 1



Source: Data supplied by jurisdictions supplemented by the ICI Supplement World Wide Managed Funds Market Data Q4 2014 (published 2 April 2015).

At the end of 2014, MMFs accounted for an estimated 16% of all mutual funds globally (measured by assets under management).

Of jurisdictions participating in this Review, MMFs accounted for less than 5% of mutual fund assets under management in 8 jurisdictions[8], between 5% and 20% in 6 jurisdictions[9] and between 20% and 50% of assets under management in 7 jurisdictions,[10] with over 47% of mutual funds in China being MMFs[11].

As set out in more detail in Section 4.4.5 below, the stable NAV system continues to be permitted in a number of jurisdictions. Seven jurisdictions participating in the Review provided data about the assets under management in stable NAV funds (the U.S., Luxembourg, Canada, South Africa, Japan, the UK and Australia). This data points to stable NAV funds accounting for at least 65% of the value of global assets under management. The U.S. market, which comprises of virtually only stable NAV funds, accounts for nearly 60% of global AUM, largely contributing to this high percentage.[12]

MMFs are marketed to both retail and professional investors, with significant differences between participating jurisdictions. Retail activity dominates markets in Japan, China,

8 Brazil, Canada, Germany, Italy, Slovakia, Spain, the UK and Australia.

9 France, Greece, Japan, Luxembourg, Switzerland and the US

10 Argentina, China, India, Ireland, Korea, Mexico, Turkey.

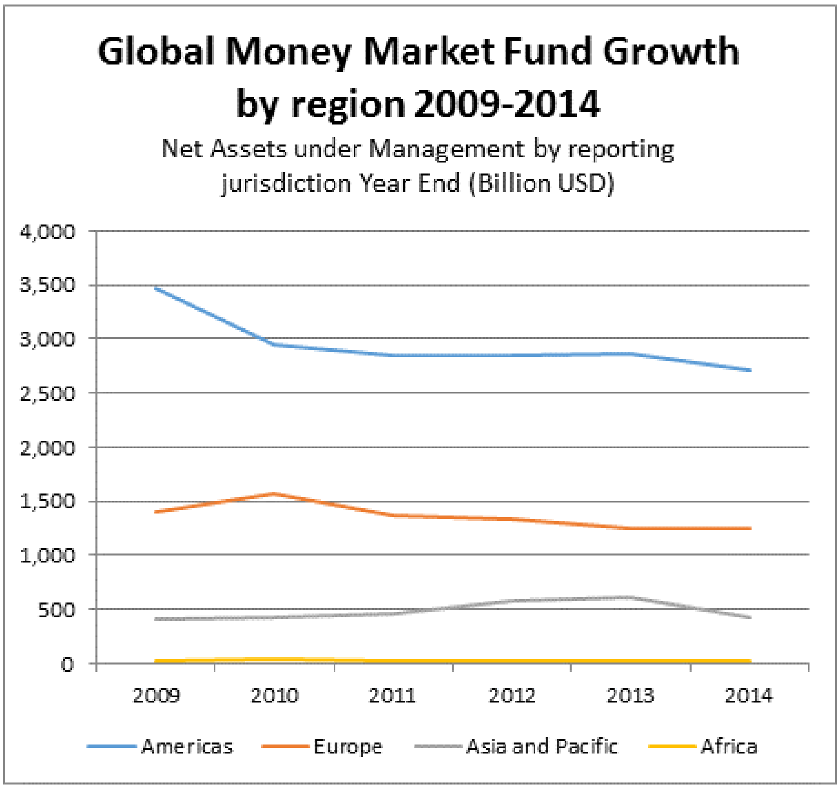
11 A full data set allowing for this analysis was not provided by other jurisdictions.

12 Based on data supplied by participating jurisdictions.

Australia, Spain and Canada, while in the larger markets in France, Ireland and Luxembourg, MMFs are mainly catered to professional investors.[13] In the U.S., as of 28 February 2014, funds that self-report as institutional money market funds held approximately 67% of MMF assets while funds that self-report as retail money market funds held approximately one-third of MMF assets.[14]

On a regional basis, the value of assets under management in MMFs has declined and stagnated since 2009, with key jurisdictions experiencing declines as set out in **Charts 2** and **3**. The only jurisdiction which has seen a significant increase in MMF assets under management is China.

<u>Chart 2</u>



Source: ICI Supplement World Wide Managed Funds Market Data Q4 2014 (published 2 April 2015) supplemented by data provided by participating jurisdictions.

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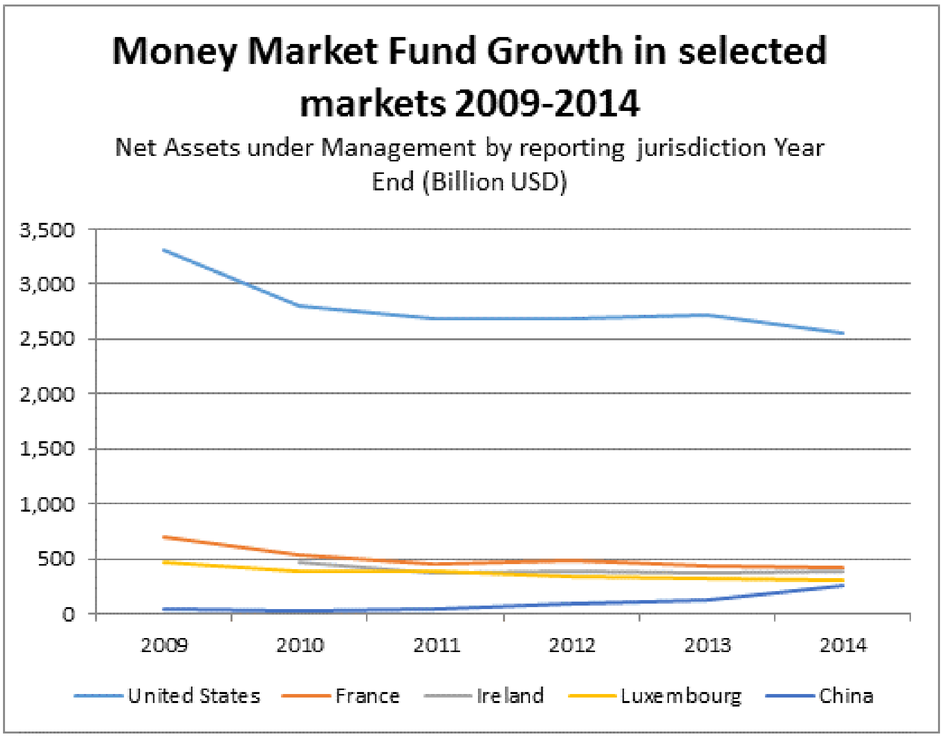
13 Based on data supplied by participating jurisdictions.

14 Based on IMoneyNet data available at http://www.imoneynet.com/. As stated, this data is based on self-reporting. In addition, omnibus accounts may include both retail and institutional beneficial owners.

Chart 3

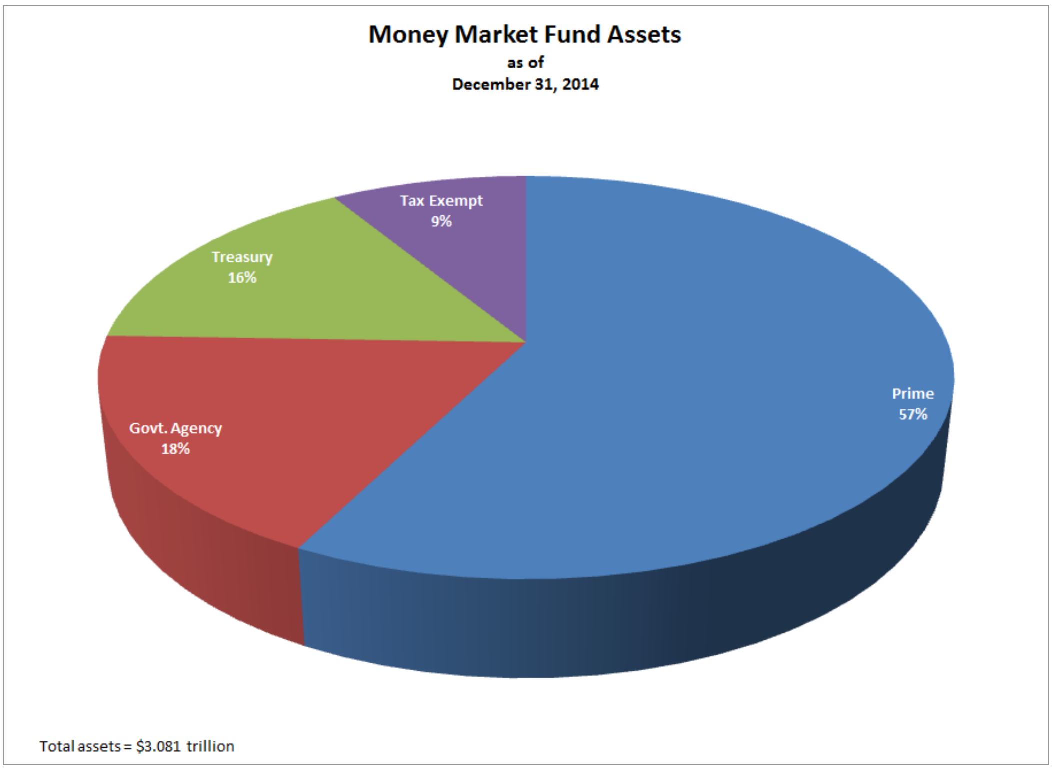


Source: ICI Supplement World Wide Managed Funds Market Data Q4 2014 (published 2 April 2015) supplemented by data provided by participating jurisdictions.

4.1.2 U.S.

MMFs have existed as a type of registered investment company in the U.S. for over 30 years. MMFs are open to, and used by, both retail and institutional investors. MMFs in the U.S. had approximately USD 3.1 trillion in assets under management as of the end of 2014, and virtually all MMFs were stable NAV funds.

Different types of MMFs have been introduced in the U.S. to meet the varying needs of MMF investors. Historically, most investors have invested in 'prime' MMFs, which generally hold a variety of taxable short-term obligations issued by corporations and banks, as well as repurchase agreements and asset-backed commercial paper. 'Government' MMFs principally hold obligations of the U.S. government, including obligations of the U.S. Treasury and federal agencies and instrumentalities, as well as repurchase agreements collateralized by government securities. Some government MMFs limit their holdings to only U.S. Treasury obligations or repurchase agreements collateralized by U.S. Treasury securities and are called 'Treasury' MMFs. Compared to prime MMFs, government and U.S. Treasury MMFs generally offer greater safety of principal but historically have paid lower yields. 'Tax-exempt' MMFs primarily hold obligations of state and local governments and their instrumentalities, and pay interest that is generally exempt from federal income tax.



Source: SEC (data from Form N-MFP).

The major development in the U.S. with regard to MMFs is the recent regulatory reform (discussed in more detail below in Section 4.2.1). In particular, on 23 July 2014, the U.S. Securities and Exchange Commission (**SEC**) adopted amendments to the rules governing MMFs, pursuant to which, among other amendments, institutional prime MMFs will be required to operate as variable net asset value (**VNAV**) funds and MMFs will be able to impose liquidity fees and redemption gates. While these amendments are not required to be implemented until 2016, there has been some initial industry reaction. For example, some MMF complexes announced that they did not intend to institute fees and gates in their government MMFs,[15] while others announced that certain prime MMFs will convert to VNAV.[16] Some smaller MMF sponsors have announced an intention to exit the business, and it appears that other MMF sponsors will pick up the assets.[17] Some MMF complexes

15 See e.g. 'JPMorgan Money Market Funds Announce Intended Money Market Fund Designations in Response to SEC Reforms,' available at: http://www.prnewswire.com/news-releases/jpmorgan-money-market-funds-announce-intended-money-market-fund-designations-in-response-to-sec-reforms-300039146.html and 'Schwab announces money market fund updates in light of SEC's reform,' available at: . http://www.investmentnews.com/article/20150501/FREE/150509995/schwab-announces-money-market-fund-updates-in-light-of-secs-reform.

16 See e.g. 'BlackRock Letter to Money Market Fund Clients dated 6 April 6 2015,' available at https://www.blackrock.com/cash/literature/shareholder-letters/blackrock-product-plans-mmf-reform-april-twenty-fifteen-letter-web.pdf.

17 See e.g. 'Federated Investors, Inc. Finalizes Arrangement with Reich & Tang Asset Management, LLC to Transition Approximately $7 Billion in Money Market Fund Shareholder Assets.' Available at: http://www.thestreet.com/story/13116400/1/federated-investors-inc-finalizes-arrangement-with-reich-tang-asset-management-llc-to-transition-approximately-7-billion-in-money-market-fund-shareholder-assets.html.

have announced that they are considering new types of funds, such as a 60-day maximum maturity fund.[18]

4.1.3. Europe

Market Overview

Total European MMF assets stood at EUR 952bn at end-2014,[19] concentrated in three markets with France, Ireland and Luxembourg representing more than 95% of the European market.[20] Stable NAV funds share represents EUR 581 bn. While most VNAV MMFs are euro-denominated, EU stable NAV MMFs may be denominated in Euro, Sterling or Dollar.

Table 2: CNAV MMF breakdown, 2015

Type of CNAV	*No. of Funds*	*AuM (€m)*	*7 day simple yield* (%) Net*	*1-Year Net Return (30/11/2014)*
USD Prime MMF	21	192,013.6	0.05	0.04
Euro Prime MMF	17	88,347.3	0.00	0.07
Sterling Prime MMF	20	193,542.4	0.39	0.36
USD Gov. MMF	8	61,227.4	0.01	0.01
Euro Gov. MMF	2	654.0	-0.04	0.00
Sterling Gov. MMF	4	4,157.3	0.24	0.20
Total	70	539,941.9	-	-

Source: Impact Assessment of the European Parliament Directorate for Research Services – Money Market Fund, February 2015. Based on data from iMoneyNet as of 16/01/2015.

The majority of MMFs, around 80% of the assets and 60% of the funds, operate under the rules of the Directive 2009/65/EC on Undertakings for Collective Investment in Transferable Securities (**UCITS**). The rest of MMFs operate under the rules of *the Alternative Investment Fund Manager* (**AIFM**) *Directive* 2011/61/EU.

Market Developments

The conjunction of historically low interest rates over a prolonged period of time with more stringent prudential requirements has profoundly changed the market conditions forcing MMFs to adjust to this new and increasingly challenging environment. While until last year, MMFs still managed to generate positive yields, the ECB quantitative easing program consisting of successive decreases in the deposit facility rate and the start of an asset purchasing program of EUR 60 bn per month has led certain interest rates into negative territory. By February 2015, 65% of German sovereign debt and 46% of French sovereign debt were yielding negative returns, with positive yields requiring investment in in maturities

18 See e.g. « First American Outlines Money Fund Changes, » available at http://ignites.com and 'What does this mean for First American Money Market Funds?' available at http://www.icdportal.com/downloads/FAF_2A7_Summary_Money_Market_Fund_Regulations.pdf.

19 FitchRatings, European MMFs Quarterly 1Q15, ibid.

20 European Commission's Proposal for a Regulation of the European Parliament and the Council on Money Market Funds, September 2013 (available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52013PC0615).

of up to 6 and 4 years respectively.[21] Given the very low level of returns offered, MMF providers have waived their management fees as a marketing gesture towards their investors and have done so for several years.[22]

Against this backdrop, a number of MMF managers reacted to their shrinking profits by lengthening the overall maturity of their portfolio or by changing their asset allocation through opening up to new markets, or asset classes or increasing their holdings of specific types of assets.[23]

Investments in sovereigns or quasi sovereigns instruments, for which there is more flexibility to invest in longer-dated maturities increased. Money market funds also diversified the range of issuers they invest in and increased their allocation to sovereign debt from emerging markets including China, South Korea or Singapore for instance.

MMFs also faced a significant shortfall of the eligible assets available, mainly due to the prudential requirements introduced following the financial crisis which has introduced a number of measures aimed at strengthening the banking system including by discouraging short term financing. This reduced the pool of banks' short-term debt, deposits and repos available. Further, several European banks have recently seen their credit ratings put under significant pressure on the grounds of a diminishing probability of sovereign support in case of distress thereby limiting their eligibility as investments for MMFs.[24]

Confronted with negative yields, providers of euro denominated stable NAV MMFs have developed innovative mechanisms to pass on negative yields to investors while maintaining a stable NAV. To that end, a number of stable NAV MMFs introduced new provisions in the funds prospectuses in order to enable the manager to introduce a mechanism, by which in case of negative yields, the number of units would be reduced accordingly.[25] These mechanisms were activated in 2015.

On the investor side, cash managers and corporate treasurers are rethinking their investment strategies and cash management options in light of the erosion of their yields as banks started to charge for depositing cash. Some corporate treasurers may decide shift their investments

[21] Article of Bfinance *What Solutions for Cash Management in a Context of Low Interest Rates*, 5 March 2015, available at: http://www.bfinance.fr/quelles-solutions-de-placement-de-tresorerie-face-aux-taux-negatifs/.

[22] By end-September 2013, a majority of European MMFs had waivers in place according to FitchRatings 2014 Outlook for Money Market Funds '*Planned Regulatory Changes Pose Challenges, but Would Take Time to Implement*'.

[23] FitchRatings 2014 Outlook, ibid; and 2015 Outlook 'Regulatory Clarity Emerging but Supply Challenges Persist'.

[24] FitchRatings 2015 Outlook, ibid.

[25] On this, see Article on Bloomberg, '*BlackRock Money Market Funds Refuse to Lose Value'*, by Matt Levine, 12 September 2014.

to longer-term MMFs (**Standard MMFs**) but more generally, MMF investors increasingly turn to short-term bond funds as an alternative to MMFs.[26]

Despite negative yields and Europe's economic and political uncertainty, MMF's registered strong inflows from the beginning of 2015.[27] Recently, the prospect of diverging monetary policies between the U.S., the UK and Europe has resulted in funds denominated in different currencies following different paths. While euro-denominated MMFs have to face negative yields, U.S.-dollar and Sterling denominated funds have seen a slight yield rise.[28]

4.1.4. China

Since the establishment of the first Chinese MMF in 2003, the MMF sector in China has experienced rapid growth. Over the past four years, its expansion has been spectacular with assets under management growing nearly fifteen-fold to reach around RMB 1.9 tn as of October 2014 (equivalent to USD 306 bn). At the beginning of 2015, there were 231 active MMFs in the market, the vast majority of which are stable net asset value. Nevertheless, the bulk of the assets are managed by a limited number of key market players, making the MMF industry in China quite concentrated. The largest five MMF asset managers held 51% of overall Chinese MMF assets by the end of 2014. Among these, Tian Hong Zeng Li Bao fund, the MMF linked to Alibaba’s online investment fund (Yu’e Bao) and created in June 2013 quickly grew to become the largest Chinese MMF accounting for more than 26% of the market in China.

This outstanding growth results from the conjunction of both market and regulatory developments.

On the one hand, the interest rate liberalization process has incentivized a shift of savings from traditional bank deposits into alternative financial products offering low risks and more attractive yields. As a first stage, investments were primarily made into so-called 'wealth management products' (**WMPs**) mostly issued by banks which use them to invest in non-standard assets[29] and boost their returns. In addition, banks generally advertised the expected yields of the WMPs they were selling and provided implicit guarantees on such yields through emphasizing the size of their net assets and their creditworthiness thereby further increasing the attractiveness of such products to investors.

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[26] See Article of the Financial Times, '*Europe Money Market Funds hit by heavy outflows*', by Christopher Thompson, 4 February 2014 and Fitch Ratings 2014 and 2015 Outlooks for Money Market Funds, ibid.

[27] Article of the Financial Times *'Record cash flow into EU money funds'*, 15 January 2015. European money market funds registered a record U.S.D 27 bn in net inflows in the first month of January 2015 only; while in 2014 EU MMFs attracted U.S.D 40 bn.

[28] FitchRatings 2015 Outlook for Money Market Funds, ibid. In April 2015, the 7-day net yields for Euro-denominated MMFs were of around 0% (-0.05% as compared with June 2014), 0.09% for Dollar-denominated funds (+0.04% as compared with June 2014) and 0.4% for Sterling-denominated funds (+0.05% as compared with June 2014).

[29] Non-standard assets are defined as debt instruments that are not traded on the interbank bond market or stock exchange and which include categories such as trust loans, bills of exchange, accounts receivable and other credit products.

In view of the mounting risks represented by these products, between March 2013 and May 2014, the China Banking Regulatory Commission (**CBRC**) issued a set of decrees[30] to limit the investment WMPs can make into non-standard assets and therefore constrain their growth in the banking industry. As an indirect consequence, the shrinkage of the WMPs business has significantly accelerated the growth of the MMF sector.

In parallel, it should also be noted that in the second half of 2011, the China Securities Regulatory Commission (**CSRC**) lifted some of the MMFs' investment limits which provided MMFs with greater flexibility in building their portfolios, thereby contributing to the rapid expansion of the sector whose size more than tripled in 2012, compared to the previous year. The speed of expansion of the MMF sector outpaced the growth of the bond market which could not meet the asset allocation demand of MMFs any longer.[31] As a result, MMFs increased their investment into interbank deposits.[32] To date, Chinese MMFs are invested primarily in short-term bonds,[33] bills[34] (when available), time deposits,[35] and repos.[36] [37]

In June 2013, the taper tantrum caused some significant strains on the Chinese interbank credit market and MMFs in China experienced heavy redemptions causing several funds to 'break the buck' in particular in the funds catered to institutional investors.

Following this occurrence, the growth of the institutional segment of the MMF sector slowed down while the size of the retail segment significantly increased, largely propelled by the spread of internet-based investment and online e-commerce platforms. At the moment, the MMF sector in China is mostly retail-based; in 2015, Tian Hong Zenglibao MMF had over 140 million investors (against 80 million investors in early-2014) and the social media is

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30 A first decree (Decree No.8 '*Notice on Regulation of Investment made by Wealth Management Plans Offered by Commercial Banks'*) was issued on 25 March 2013 as a response to the rapid growth of non-standard assets within the banking industry and introduced a quantitative ceiling on the amount of wealth management money that banks can invest in non-standard assets. Banks reacted to this ceiling by turning to reverse repo arrangements to source the funding for their holdings of non-standard assets. A second decree (Decree No. 107 '*Decree on Issues Regarding Strengthening of Bank Regulation of Shadow Banking Businesses*') was issued in 2013 with the view to provide a clear definition of China's shadow banking, define the role of various regulatory agencies as regard to the supervision of shadow banking. A third decree (Decree No. 127 '*Decree on regulating Interbank Business of Financial Institutions*') was issued in May 2014 and aimed to further regulate interbank activities and in particular constrain banks' holdings of non-standard assets under reverse repo arrangements.

31 MMFs have been increased their investments in bonds since 2014, mostly issued with fixed rated thereby increasing MMFs sensitivity to potential interest-rate volatility.

32 Response from the Chinese authorities to the questionnaire circulated for the purpose of the review.

33 Short-term bonds include corporate securities and policy bank bonds issued by government-owned policy banks (Agricultural Development Bank of China, Export Import Bank of China and the China Development Bank). Policy bank bonds are somewhat similar to Agency paper in the U.S. and in Europe and represent the largest share of the fixed-income markets in China.

34 Bills refer mostly to Treasury paper issued by the Ministry of Finance and the People's Bank of China.

35 MMFs generally use these time deposits to invest in interbank negotiated deposits with banks.

36 Including interbank and exchange-traded repos typically with high grade collateral.

37 FitchRatings Special Report Chinese Money Market Funds: Growth set to Slow, 9 March 2015.

likely to continue to propel growth.[38] The three Chinese big internet and E-commerce companies (Baidu, Alibaba and Tencent) all have their own asset management arm which provide MMFs that can be purchased and redeemed online. Nevertheless, the institutional segment may grow again as the internationalization of the renminbi continues and corporates operating in China may increasingly need renminbi-denominated cash management vehicles.

Top 5 Asset Managers in China

Q4 2014	AUM (USD bn)	Market Share (%)
Tian Hong Asset Management	93.6	26.5
ICBC Credit Suisse	22.6	6.4
China AMC	22.5	6.4
Bank of China Investment Management	16.5	4.7
China Southern Fund	16.0	4.5

Source: CSRC (August 2015)

4.1.5. Developments in Other Markets

MMFs are a relatively new development in South Africa having first appeared in the country in 1995. Currently, there are 43 MMFs in South Africa with a total of R 270,1 bn (€19,128 bn) assets under management. Approximately 70% of the investors in MMFs in South Africa are institutional (i.e., retirement funds, corporates, funds of funds, insurance and assurance companies). In South Africa, sponsors of MMFs are typically banks, long term insurance companies and asset management firms, with the largest sponsors being banks. All MMFs in South Africa operate on stable NAV.

A recent development regarding MMFs was the failure in 2014 of a second tier bank in South Africa, which was the country’s biggest provider of unsecured loans. Ten retail South African MMFs 'broke the buck'. MMFs addressed this by enforcing a single day loss and permitting side-pocketing of the illiquid assets and communication to investors. Some MMFs initially experienced large outflows, which stabilized once side-pocketing was introduced. The affected MMFs dealt with withdrawals and one fund substituted the illiquid assets with cash from its sponsor.

4.2. Regulatory Reforms

As discussed in the 2012 IOSCO Report, following the 2008 financial crisis, regulatory reforms on MMFs were undertaken in the U.S., Europe, Canada, China, India and South Africa. Several other countries are currently reviewing their regulatory framework for MMFs.

38 Response from the Chinese authorities to the questionnaire circulated for the Review.

4.2.1. U.S.

Rule 2a-7 under the Investment Company Act of 1940, which was adopted in 1983 and governs U.S. MMFs, has for many years addressed various aspects of the reform areas.[39] For example, even before amendments in 2010 and 2014 as discussed below, MMFs were:

- Subject to rule 2a-7's risk-limiting conditions, which imposed credit quality requirements; diversification limits; and maturity requirements, including a limit on a MMF's WAM;

- Subject to the regulations relating to the valuation of an investment company's portfolio securities that are included in the Investment Company Act of 1940 and U.S. Securities and Exchange Commission (SEC) rules adopted thereunder. MMFs also were required to periodically compare the amortized cost NAV per share of the MMF with the MMF's 'shadow NAV' and, if the market-based price per share and the amortized cost price deviate by more than 0.5% of the MMF's total assets, the MMF's board of directors must 'promptly consider what action, if any, should be initiated by the board of directors';

- Subject to section 22(e) of the Investment Company Act of 1940, which requires registered investment companies to satisfy redemption requests in no more than seven days—a requirement the SEC construed as restricting a MMF from investing more than 10% of its assets in illiquid securities;

- Subject to credit quality requirements, as noted above, which require the MMF's board of directors (or its delegate) to determine that each portfolio security presents minimal credit risks, which determination must be based on factors *in addition* to any credit rating assigned to the security;

- Subject to an extensive disclosure regime that requires a MMF, among other things, to deliver to investors a prospectus, which is intended to include all information that would be material to an investment decision by a prospective investor (and which also is available on the SEC's website); and

- Permitted to look through repos for purposes of rule 2a-7's diversification requirements only under certain conditions.

As noted above and as discussed in the 2012 IOSCO Report, in the U.S., in February 2010, the SEC adopted amendments to Rule 2a-7 aimed at making MMFs more resilient to short-

[39] See Valuation of Debt Instruments and Computation of Current Price Per Share by Certain Open-End Investment Companies (Money Market Funds), Investment Company Act Release No. 13380 (11 July 1983). Rule 2a-7 (together with other requirements applicable to mutual funds in the U.S, including MMFs) addressed various aspects of the reform areas even before the Securities and Exchange Commission (SEC) adopted significant amendments to rule 2a-7 and other rules and forms in 2010 and 2014, which went further in layering additional requirements and protections in many of the reform areas. See Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 31166 (23 July 2014), available at http://www.sec.gov/rules/final/2014/33-9616.pdf; Money Market Fund Reform, Investment Company Act Release No. 29132 (23 February 2010), available at http://www.sec.gov/rules/final/2010/ic-29132.pdf.

term risks and limiting the risks for investors and the financial system (**2010 Reforms**). In particular, among other things, the 2010 Reforms:

- Required that MMFs have a minimum percentage of their assets in highly liquid securities so that those assets can be readily converted to cash to pay redeeming shareholders and further restricted the ability of MMFs to purchase illiquid securities;
- Placed new limits on a MMF's ability to acquire lower quality securities, specifically by restricting a MMF from (i) investing more than 3% of its total assets in Second Tier securities (ii) investing more than 0.5% of its total assets in Second Tier securities issued by any single issuer; and (iii) buying Second Tier securities that mature in more than 45 days;
- Shortened the average maturity limits for MMFs, which would help to limit the exposure of funds to certain risks such as sudden interest rate movements by (1) restricting the maximum 'weighted average life' maturity of a fund's portfolio to 120 days and (2) restricting the maximum weighted average maturity of a fund's portfolio to 60 days;
- Required MMF managers to examine the fund's ability to maintain a stable net asset value per share in the event of shocks – such as interest rate changes, higher redemptions, and changes in credit quality of the portfolio;
- Enhanced disclosures by, among other things, requiring the disclosure on a delayed basis of a MMF's 'shadow' net asset value or NAV, rather than the stable USD 1.00 NAV at which shareholder transactions occur;
- Permitted a MMF's board of directors to suspend redemptions if the fund is about to break the buck and decides to liquidate the fund. In the event of a threatened run on the fund, this would allow for an orderly liquidation of the portfolio; and
- Required MMFs each month to report on Form N-MFP to the SEC detailed portfolio schedules in a format that can be used to create an interactive database through which the SEC can better oversee the activities of MMFs.

The 2010 Reforms are now in force, and all MMFs are required to comply with them.

In July 2014, the SEC adopted further reforms (**2014 Reforms**) designed to address MMFs' susceptibility to heavy redemptions in times of stress, improve their ability to manage and mitigate potential contagion from such redemptions and increase the transparency of risks.[40] In particular, among other things, the 2014 Reforms:

- Require a floating NAV for institutional prime MMFs, allowing the daily share prices of these funds to fluctuate along with changes in the market-based value of fund assets;

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40 http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370542347679.

- Provide MMF boards with new tools — liquidity fees and redemption gates — to address runs. Under the 2014 Reforms, all MMFs will be able to impose a liquidity fee of up to 2% if a MMF's weekly liquid assets fall below 30% of its total assets and if the fund's board determines that imposing such a fee is in the MMF's best interests;

- Require non-government MMFs to impose a 1% fee on redemptions if the fund's weekly liquid assets fall below 10% of its total assets, unless the board determines that imposing such a fee would not be in the best interests of the fund. The board also may determine that a lower or higher fee (up to 2%) would be in the best interests of the fund;

- Permit all MMFs to temporarily suspend redemptions for up to 10 business days in a 90-day period if a MMF's weekly liquid assets fall below 30% of its total assets and if the fund's board determines that imposing a redemption gate is in the fund's best interests; and

- Enhance rule 2a-7's stress testing requirements to require that MMFs test their ability to minimize principal volatility in response to certain specified hypothetical events, as well as certain specified combinations of events, including a MMF's ability to maintain weekly liquid assets of at least 10%.

The 2014 Reforms were adopted in July 2014 and became effective on 14 October 2014. MMFs will have time to become fully compliant with certain aspects of the new requirements after they became effective. The compliance date for the amendments related to floating NAV and liquidity fees and gates, including any related amendments to disclosure, is 14 October 2016. The compliance date for amendments that are not specifically related to either floating NAV or liquidity fees and gates, including amendments to diversification, stress testing and disclosure that are not specifically related to either floating NAV or liquidity fees and gates is 14 April 2016. The compliance date for rule 30b1-8, Form N-CR and the related website disclosure was 14 July 2015.[41]

4.2.2. European Union

As discussed in the 2012 IOSCO Report, in May 2010, the Committee of European Securities Regulators (the European Securities Markets Authority's (**ESMA**) predecessor) published a set of guidelines establishing a common definition of European MMFs (**2010 CESR Guidelines**). The 2010 CESR Guidelines established a classification creating two types of MMFs: 'short-term money market funds' and 'money market funds' and imposed strict standards in terms of portfolio quality and maturity, risk management and disclosure. The 2010 CESR Guidelines were the first European attempt to harmonize MMF regulation in the aftermath of the financial crisis.

On 4 September 2013, the European Commission published a Proposal for a Regulation on Money Market Funds (**EC Proposal for Regulation**)[42] with a view to increasing MMFs

41 For all the 2014 Reforms, MMFs may comply earlier than the applicable compliance date.

42 http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52013PC0615.

robustness and making them more resilient to investor runs, thereby securing a product representing an essential source of short-term funding for a wide range of European financial institutions, issuers and public bodies.

The EC Proposal for Regulation was also the European response to the recommendations expressed by the G20, the FSB and IOSCO that securities regulators worldwide work to strengthen the regulatory framework applicable to money market funds.

The EC Proposal for Regulation proposed a comprehensive framework of rules applying to all types of money market funds whether stable NAV or VNAV and irrespective of the European directive they fall under (UCITS or AIFMD). The proposed rules build upon the 2010 CESR Guidelines.

The EC Proposal for Regulation spanned a broad array of topics ranging from the definition of a MMF, eligible assets, diversification and liquidity ratios, transparency and reporting requirements, stress testing, liquidity risk management policies, asset credit quality assessment etc. With regard to stable NAV MMFs specific risks, the Commission had proposed to require each of them to hold at all times a capital buffer amounting to 3% of its assets so as to mitigate the increased run risk these funds are exposed to.

At the time of preparing this Final Report, the EC Proposal for Regulation was still going through the European Union's legislative procedure. On 29 April 2015, following several months of intense debate, the European Parliament endorsed the report[43] prepared by its Committee on Economic and Monetary Affairs as its position for negotiations with EU member states and the European Commission (**European Parliament Proposal**).[44] This represents a key step in the European legislative process based on a co-decision mechanism between the European Parliament, the European Council and the Commission.

The Parliament's text suggested amendments to the EC Proposal for Regulation on a number of points. On the specific issue of the treatment of stable NAV MMFs, the Parliament's text chose not to retain the capital buffer initially put forward by the Commission. The text indicated a preference to limit the use of the stable NAV model either to funds that would be mainly invested in European public debt or to funds marketed to 'retail' investors only, with 'retail investors' defined narrowly to include charities, not for profit organizations, public administrations, public foundations while excluding individuals. The Parliament's text also proposed the creation of a new type of hybrid funds, the so-called Low-Volatility Net Asset Value MMFs (**LV NAV**) which could continue to to use amortized cost valuation techniquesin more limited circumstances.[45] The text foresees the extinction of such LV NAV

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43 https://polcms.secure.europarl.europa.eu//cmsdata/upload/da4a2fd7-610f-433c-86a2-59a6c7caa3d8/A8-0041_2015_EN.pdf.

44 http://www.europarl.europa.eu/news/en/news-room/content/20150424IPR45829/html/Making-money-market-funds-more-resilient-to-financial-crises.

45 The use of the amortized cost is authorized for assets with a residual maturity below 90 days. Furthermore, it should be noted that for valuation purposes, the NAV can rounded to two decimal places provided that the stable NAV per unit or share does not deviate from the shadow NAV by more than 20 basis points beyond which it should shift to four decimal places.

MMFs within five years of entry into force of the Regulation, unless decided otherwise by the European Commission. Other products would remain eligible to be offered throughout the EU. In order to strengthen the security of these three new products, the Parliament's text would allow them to use liquidity management tools such as liquidity fees or redemption gates in case the level of the fund's liquid assets falls under predefined thresholds.

The text adopted by the Parliament also proposes to strengthen the stress testing requirements and the transparency rules for all types of MMFs. The Commission's initial suggestion for funds to put in place liquidity buffers constituted of assets maturing within one or five days respectively was maintained although the text adopted by the Parliament suggests calibrating these buffers depending on the asset valuation method employed.

The next step is for the European Council to issue its proposal for the Regulation on MMFs and once this has occurred, the final legislative stage, trilogue negotiations with the European Commission, can commence. At the time of preparing this Final Report, no information was available on this next step.

For this Review, the Review Team has decided to report implementation progress of participating jurisdictions from the European Union against the September 2013 EC Proposal for Regulation. The Review Team expects that the proposed further Level 1 review (see Section 5 below) to be commenced in 2016 will provide an update on implementation progress once the European Union's reform process has concluded in a Final Regulation on MMFs.

4.2.3. China

In response to the recent market developments outlined in Section 4.1.4, in May 2015, the CSRC and the People's Bank of China (**PBoC**) issued two papers for public consultation: the 'Measures for Regulation and Administration of Money Market Funds' (**the Measures**) and a set of rules for implementing such measures, which builds upon the existing 'Tentative Provisions for Administration on Money Market Funds' issued in 2004 and supplement them on several topics given the recent sector's momentum. In particular, the Measures propose:

- Widening the scope of eligible assets by allowing MMFs to invest in certificates of deposit;
- Encouraging MMFs to enable listed trading or negotiated transfer;
- Strengthening the risk management framework through the introduction of a limit on the weighted average life (**WAL**) of the portfolio set to 240 days, and the reduction of the weighted average maturity (**WAM**) for any portfolio held by MMFs from 180 days to 120 days;
- Improving funds' liquidity management by introducing some ratios of daily- and weekly-maturing assets; allowing funds to extend their use of repos in case of larger-then-expected redemption pressures; or introducing a mandatory redemption fee in case the amount of the fund's liquid assets falls below a preset threshold;

- Introducing new rules on valuation practices by requiring that when the shadow NAV of the fund substantially deviates (>25bp) from the stable NAV, the fund manager should take prompt action to adjust the value of the portfolio within five trading days;
- Introducing new requirements to reduce fund's dependence on external credit ratings; to require them to conduct regular stress testing; on sales activity and disclosure to address the recent wave of money market funds marketed through online platforms.

Public consultation on the new rules concluded on 14 June 2015. The Measures were not considered in this Review.

4.3. Overview of Implementation Progress

This section provides an overview of implementation progress in participating jurisdictions. The implementation status of Adoption Measures is set out in **Table 1**. A detailed discussion is set out in Section 4.4. Examples of different approaches to particular Reform Areas and elements are summarised in boxes through the text. The inclusion of these examples should not be interpreted as a comment on the consistency of measures taken with the 2012 IOSCO Report.

Overall, the Review found that as at the Reporting Date, participating jurisdictions had made progress in introducing implementation measures across the 8 Reform Areas.

Implementation progress varied between jurisdictions and Reform Areas.

For the Largest Jurisdictions, only the U.S. had reported having final implementation measures in all Reform Areas, with China and the EU members still in the process of developing and finalising relevant reforms.

For jurisdictions with smaller MMF markets, implementation progress was less advanced, with only four other participating jurisdictions (Brazil, India, Italy and Thailand, the first 3 being FSB members) reported having final implementation measures in all Reform Areas.

The Review's main findings by Reform Areas are:

- On **Definition of MMFs (Reform Area (a))**, almost all participating jurisdictions (including each of the Largest Jurisdictions) reported having introduced an express definition under their CIS regulation.
- On **Limitations to asset types and risks (Reform Area (b))**, implementation was generally well progressed with a substantial majority of jurisdictions (including each of the Largest Jurisdictions) reporting implementation of all measures in this Reform Area. Further progress was needed in some jurisdictions on requirements about imposing credit limits and defining both limits on the average weighted term to maturity (**WAM**) and the weighted average life (**WAL**) of the portfolio of a MMF.
- On **Valuation (Reform Area (c)),** implementation is generally well progressed. However, a number of jurisdictions reported having no requirements for MMFs to

comply with the general principle of fair value and/or use the amortized cost method only in limited circumstances. Of the Largest Jurisdictions, China is currently in the process of introducing further reforms for their MMFs for this Reform Area.

- On **Liquidity management (Reform Area (d))**, implementation progress was less advanced and uneven, perhaps reflecting that pre-crisis, most jurisdictions did not have requirements in this area. Critically, implementation progress was least advanced for requirements on MMFs to establish sound policies and procedures to know their investors and requirements to hold a minimum amount of liquid assets, with a sizeable number of jurisdictions reporting they are still finalising reforms on these two aspects of this Reform Area. Of the Largest Jurisdictions, only the U.S. reported implementing all measures in this Reform Area.

- On **MMFs that offer a stable NAV (Reform Area (e))**, further work is needed. Twelve (12) jurisdictions reported continuing to permit stable NAV MMFs, including 4 of the 5 Largest Jurisdictions (China, Ireland, Luxembourg and the U.S.). Participating jurisdictions which continue to permit stable NAV MMFs have generally chosen to progress implementation measures that aim to reinforce a stable NAV MMF's resilience and ability to face significant redemptions.

- On **Use of ratings (Reform Area (f))**, there had been some progress in implementation, although a number of participating jurisdictions reported they continue to have requirements restricting their MMFs to invest in instruments with specified external credit ratings. Of the Largest Jurisdictions, measures are still being implemented in China.

- On **Disclosure to investors (Reform Area (g)**, implementation was generally well progressed on valuation practices and procedures to deal with significant market stress. Where stable NAV's are permitted, the absence of a capital guarantee and possibility of loss were generally reported as being required. Final implementation measures are reported to be in place in each of the Largest Jurisdictions.

- On **Repos (Reform Area (h))**, implementation was well progressed, with the few jurisdictions that have not progressed any reforms generally reporting the use of repos by MMFs in their jurisdiction as very low.

Table 1 — Implementation Status in Participating Jurisdictions

(* are FSB members)

	Market Size (as % of global markets) Q4 2014 unless otherwise indicated[46]	Definition of MMF (a)	Limitations to asset types and risks taken (b)	Valuation (c)	Liquidity Management (d)	MMFs that offer a stable NAV (e)	Use of ratings (f)	Disclosure to investors (g)	Repos (h)
Argentina*	0.09%[47]		♦		♦				
Australia*	0.39%				♦				
Brazil*	0.88%[48]								
Canada*	0.42%				♦				
China*	6.71%			♦					
Chinese Taipei	0.48%								
Colombia	No information provided.	△	♦ △		△			△	
France*	5.48%	△	△	△	♦△	△	△	△	△
Germany*	0.09%[49]	△	△	△	♦△	△	△	△	△
Greece	0.02%	△	△	△	♦△	△	△	△	△
Hong Kong*	0.05%				♦				
India*	0.56%								
Indonesia*	0.04%		♦		♦				
Ireland	9.38%[50]	△	△	△	♦△	△	△	△	△
Italy*	0.21%	△	△	△	△	△	△	△	△
Japan*	2.18%[51]								
Korea*	1.52%				♦			♦	

46 Source: ICI Supplement, World Wide Managed Funds, Market Data Q4, 2014, published 2 April 2015. Data not available in that supplement was provided directly by participating authorities. 'No information provided' means market size was not reported in the ICI supplement and authorities in the jurisdiction did not provide information.

47 As at February 2015.

48 As at May 2015.

49 As at January 2015.

50 As at 30 April 2015.

51 This covers the AUM of money management funds and money reserve funds.

	Market Size (as % of global markets) Q4 2014 unless otherwise indicated[46]	Definition of MMF (a)	Limitations to asset types and risks taken (b)	Valuation (c)	Liquidity Management (d)	MMFs that offer a stable NAV (e)	Use of ratings (f)	Disclosure to investors (g)	Repos (h)
Luxembourg	5.02%	△	△	△	♦△	△	△	△	△
Mexico*	0.98%	△		△	♦△	△	△	♦	△
Netherlands*	No information provided.	△	△	△	♦△	△	△	♦△	
Russia*	No information provided.		♦		♦			♦	
Saudi Arabia*	0.36%	△	♦△	△	♦△		△	△	
Singapore*	0.03%				♦				
Slovakia	0.002%	△	△	△	♦△	△	△	♦△	
South Africa*	0.41%								
Spain*	0.18%	△	△	△	△	△	△	♦△	△
Switzerland*	0.74%				♦			♦	△
Thailand	No information provided.								
Turkey*	0.12%				♦				
UK*	0.31%	△	△	△	♦△	△	△	△	△
U.S.*	61.46%	△	△	△	△	△	△	△	△

Final implementation measures in force;

Final implementation measures published;

Draft implementation measures published;

Draft implementation measures not published;

For Reform Area (e) only: No implementation measures needed (as MMFs offering a stable NAV are not permitted in this jurisdiction).

△ = Further reforms are underway in relation to the Reform Area.

♦ = The rating reported is for the element of a Reform Area which is least progressed. One or more element of a Reform Area is further progressed than the reported rating.

4.4. Implementation Progress by Reform Area

This section provides a detailed description of implementation progress by Reform Area.

4.4.1. Reform Area (a) — Definition of MMF

The 2012 IOSCO Report observed that because MMFs present several features which make them unique in the CIS universe, the term 'money market funds' should be expressly defined under applicable CIS regulation. As a result, Recommendation 1 from the 2012 IOSCO Report provides that 'money market funds should be explicitly defined in CIS regulation'.

Participating jurisdictions reported their implementation progress on the following question:

- Is there an express definition of 'money market funds' in applicable (**CIS**) regulation in your jurisdiction?

Almost all (29 out of 31)[52] participating jurisdictions (of which 22 were FSB members) indicated their jurisdiction had an express definition of 'money market funds' under their CIS regulation. Broadly speaking, responses indicate jurisdictions that have an express definition of 'money market funds' in their CIS regulation followed one of two approaches: (1) defining the term by exclusive reference to a permitted investment asset class; or (2) defining the term with reference to specified investment objective(s) (e.g. maintaining/preserving the capital of the fund, to provide returns in line with money market rates), with or without reference to a permitted investment asset class.

The Largest Jurisdictions all reported having final implementation measures in force for this Reform Area.

Examples

- An example of a definition by reference to permitted investment class is Mexico, where a 'money market fund' is defined as 'debt funds whose objective is to investment in short-term debt securities denominated in local currency, with a high level of liquidity and credit worthiness': Annex 1, General provisions applicable to mutual funds and their service providers.
- An example of a definition by reference to specified investment objectives is Article 1(1) of the EC Proposal for a Regulation, where the general definition of 'money market funds' is funds which 'invest in short term assets and have as distinct or cumulative objectives offering returns in line with money market rates or preserving the value of the investment'.

Two jurisdictions (Argentina and Australia, all FSB members) indicated not having an express definition of 'money market funds' in applicable CIS regulation. Argentina CNV reported that mutual funds are one of the two types of collective investment vehicles expressly defined under Argentine CIS regulation, with additional criteria specified to determine if a mutual fund is a MMF.[53] ASIC reported that 'money market fund' is not a

[52] Brazil, Canada, China, Chinese Taipei, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Russia, Saudi Arabia, Singapore, Slovakia, South Africa, Spain, Switzerland, Thailand, Turkey, UK, U.S.

[53] According to Argentina CNV, for a mutual fund to qualify as a money market fund, it must have at least 75% of its asset invested in fixed income assets (i.e. fixed term transactions and additionally

defined term under the Australian regulatory regime, with MMFs being regulated in the same way as other managed investment schemes. ASIC also noted it is working with the Financial Service Council (**FSC**) of Australia in developing a set of industry standards which will include an express definition with reference to investment objectives of capital preservation and yield generation.

4.4.2. Reform Area (b) — Limitations to Asset Types and Risks Taken by MMFs

The 2012 IOSCO Report noted the purpose of its recommendations was to reinforce the safety of MMFs and reduce their potential to create or amplify systemic risks. To further this purpose, Recommendation 2 provides '[s]pecific limitations should apply to the types of assets in which MMFs may invest and the risks they may take.'

Participating jurisdictions reported their implementation progress on the following three questions:

- Are there requirements on the types of assets MMFs may invest in and risks MMFs may take (i.e. high quality money market instruments and other low duration fixed income instruments)?
- Are there requirements defining the limits on the average weighted term to maturity (**WAM**) or the weighted average life (**WAL**) of the portfolio of a MMF?
- Are there requirements requiring MMFs to impose limits regarding credit risk (e.g. restricting the range of eligible assets to those with high credit quality)?

A brief summary of the Review Team's findings on the participating jurisdictions' responses to these three questions is provided below. Overall for this Reform Area, and as set out in Table 1 above, 25 participating jurisdictions (of which 19 are FSB members) reported having implementation measures in force for all the key elements for this Reform Area.[54] The Largest Jurisdictions all reported having introduced requirements for all the matters covered by this Reform Area.

(i) Requirements on the Types of Assets and Risks for MMFs

Almost all jurisdictions (30 out of 31, of which 23 are FSB members)[55] reported having in force requirements on the types of assets MMFs can invest in, and risks they may take. Typically, applicable requirements restricted MMFs to investing in bank deposits and short term debt instruments.

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government bonds and instruments of the Central Bank of Argentina, as well as other types of fixed-income assets).

54 Brazil, Canada, China, Chinese Taipei, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Singapore, Slovakia, South Africa, Spain, Switzerland, Thailand, Turkey, UK, U.S.

55 Argentina, Brazil, Canada, China, Chinese Taipei, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Russia, Saudi Arabia, Singapore, Slovakia, South Africa, Spain, Switzerland, Thailand, Turkey, UK, U.S.

The Largest Jurisdictions all reported having final implementation measures in force. There are also continuing reforms in France, Ireland and Luxembourg (through the EC Proposal for Regulation) and China on requirements on this issue.

One jurisdiction (Australia, a FSB member) reported not having progressed the introduction of any such regulatory requirements. ASIC reported that in Australia, MMFs are regulated in the same manner as other management investment schemes, with the relevant legislative regime (*Corporations Act 2001* (Cth)) not imposing any particular investment criteria for MMFs. ASIC reported it is working with the FSC of Australia in developing a set of industry standards governing a majority of MMF's participants including restrictions on MMFs to invest in high-quality, predominantly low-duration money market instruments only.

(ii) Requirements Defining the Limits on WAM or WAL

A substantial majority of participating jurisdictions (27 out of 31, of which 20 are FSB members)[56] reported having in force requirements defining the limits on WAM or WAL of a MMF's portfolio. Of these jurisdictions, 17 participating jurisdictions (12 of which were FSB members) reported having requirements defining the limits for **both** WAM and WAL,[57] while 10 participating jurisdictions (predominately, but not exclusively, from the Asia-Pacific region) reported having requirements defining the limits on **either** WAM or WAL.[58]

The Largest Jurisdictions all reported having final implementation measures in force. There are also continuing reforms in France, Ireland and Luxembourg (through the EC Proposal for Regulation) and China on requirements on this issue.

Four jurisdictions[59] reported not having, nor progressing the introduction of, requirements defining the limits on WAM or WAL. For Australia, ASIC reported it is working with the FSC of Australia in developing a set of industry standards governing a majority of MMF's participants defining limits for either WAM and/or WAL.

(iii) Requirements on MMFs to Impose Credit Risk Limits

A substantial majority of participating jurisdictions (26 out of 31, of which 20 are FSB jurisdictions)[60] reported having in force requirements on MMFs to impose limits regarding credit risk. A common form of requirement on credit risk limits is to require portfolio assets to be of high quality, having regard to a range of factors, including the credit quality of the investment instrument (with or without reference to external credit ratings). Another

56 Argentina, Brazil, Canada, China, Chinese Taipei, Colombia, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Singapore, Slovakia, South Africa, Spain, Switzerland, Thailand, Turkey, UK, U.S.

57 Brazil, Canada, Colombia, France, Germany, Greece, India, Ireland, Italy, Luxembourg, Netherlands, Slovakia, South Africa, Spain, Switzerland, UK, U.S.

58 Argentina, China, Chinese Taipei, Hong Kong, Japan, Korea, Mexico, Singapore, Thailand, Turkey.

59 Australia, Indonesia, Russia, Saudi Arabia.

60 Brazil, Canada, China, Chinese Taipei, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Russia, Singapore, Slovakia, South Africa, Spain, Switzerland, Thailand, Turkey, UK, U.S.

common form of requirement is to expressly provide that the permitted assets for a MMF had to be within a specified band of external credit ratings, at the higher end of credit rating grades.

The Largest Jurisdictions all reported having final implementation measures in force. There are also continuing reforms in France, Ireland and Luxembourg (through the EC Proposal for Regulation) and China on requirements on this issue.

Five jurisdictions[61] (of which 4 are FSB members) reported not having introduced, nor progressing the introduction of, requirements on MMFs to impose credit risk limits. ASIC noted it is working with the FSC of Australia in developing a set of industry standards, which will include requirements imposing limits regarding credit risk.

4.4.3. Reform Area (c) — Valuation

The 2012 IOSCO Report made a number of recommendations regarding valuation issues for MMFs. Recommendation 4 provides 'Money market funds should comply with the general principle of fair value when valuing the securities held in their portfolios. Amortized cost method should only be used in limited circumstances.' Recommendation 5 provides that 'MMF valuation practices should be reviewed by a third party as part of their periodic reviews of the funds accounts.'

Participating jurisdictions reported their implementation progress on the following two questions:

- Are there requirements requiring MMFs to comply with the general principle of fair value when valuing the securities held in their portfolios on an up to date basis?
- Are there requirements on MMFs to use the amortized cost method only in limited circumstances?

A brief summary of the Review Team's findings on the participating jurisdictions' responses to these two questions is provided below. Overall for this Reform Area, and as set out in Table 1 above, 24 participating jurisdictions (of which 18 are FSB members) reported having implementation measures in force for all the assessed key elements for this Reform Area.[62]

For the Largest Jurisdictions, 4 (U.S., France, Ireland and Luxembourg) reported having implemented requirements in this area. The current requirements in France, Ireland and Luxembourg are domestic in nature, with the EC Proposal for Regulation providing EU wide MMF specific requirements for this Reform Area. For China, reforms are being progressed under the proposals subject to a recent public consultation, although they remain to be completed.

61 Argentina, Australia, Colombia, Indonesia, Saudi Arabia.

62 Argentina, Brazil, Canada, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Luxembourg, Mexico, Netherlands, Russia, Singapore, Slovakia, Spain, Switzerland, Thailand, Turkey, UK, U.S.

(i) Requirements on MMFs to Comply with the General Principle of Fair Value

A substantial majority of participating jurisdictions reported they had either introduced requirements for MMFs to comply with the general principle of fair value when valuing the securities (24 out of 31 participating jurisdictions, of which 18 are FSB members)[63] or are progressing the introduction of such requirements (Saudi Arabia).

For the Largest Jurisdictions, 4 (U.S., France, Ireland and Luxembourg) reported having introduced requirements on MMFs to comply with the general principle of fair value. The current requirements in France, Ireland and Luxembourg are domestic requirements, with the EC Proposal for Regulation containing requirements for MMFs to conduct mark to market valuation on a daily basis where possible. In China, there are no current requirements for MMFs to generally use mark to market valuation.

<u>Example</u>

- In India, in order to ensure fair treatment to all investors, including existing investors as well as investors seeking to purchase or redeem units, all MMFs have to follow the overarching and overriding principles of fair valuation. Under applicable principles, valuation shall be reflective of the realizable value of the securities/assets and shall be done in good faith and in true and fair manner through appropriate valuation policies and procedures. Adopting principle of fair valuation ensures that assets are valued daily at their realizable price in the market and this takes away the first mover advantage from knowledgeable investors i.e. the incentive to redeem prior to other investors.

Six jurisdictions (of which, 5 are FSB members)[64] reported not having, nor progressing, the introduction of, requirements for MMFs to comply with the general principle of fair value. This is because they either have no express regulatory requirements on this issue but have high usage of fair value principle as prevailing market practice (for example, Australia) or there is a general position to use amortized cost method to value portfolio assets (for example, Chinese Taipei and Korea).

(ii) Requirements to Use the Amortized Cost Method Only in Limited Circumstances

A substantial majority of participating jurisdictions (24 out of 31, of which 18 are FSB members)[65] reported having either introduced, or are progressing the introduction of, requirements to use the amortized cost method only in limited circumstances.[66] Of these 9

63 Argentina, Brazil, Canada, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Luxembourg, Mexico, Netherlands, Russia, Singapore, Slovakia, Spain, Switzerland, Thailand, Turkey, UK, U.S.

64 Australia, China, Chinese Taipei, Japan, Korea, South Africa.

65 Argentina, Brazil, Canada, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Luxembourg, Mexico, Netherlands, Russia, Singapore, Slovakia, Spain, Switzerland, Thailand, Turkey, UK, U.S.

66 For this Review, Canada has been reported as a jurisdiction which has requirements to use the amortized cost method only in limited circumstances on the sole basis that the relevant Canadian rules require MMFs to use 'fair value' and do not contemplate the use of amortized cost method.

(of which 6 are FSB members)[67] prohibit outright the use of the amortized cost method by MMFs. The Review Team would note that for this Review, which is a Level 1 exercise, it has only considered whether a jurisdiction has reported requirements imposing any condition(s) on the use of this valuation methodology in its rules text; it is for a future Level 2-style review to determine whether any reported imposed conditions are consistent with the 'limited circumstances' delineated in IOSCO Policy Recommendation 4.

For the Largest Jurisdictions, 4 (U.S., France, Ireland and Luxembourg) reported having introduced (domestic) requirements on MMFs to use the amortized cost method only in limited circumstances. The EC Proposal for Regulation contains a requirement that MMFs would only be permitted to use the amortized cost accounting method if they established a 3% 'NAV' buffer. In China currently, the use of amortized cost accounting is the general position (with accompanying safeguards) and the proposals under the recent public consultation (conducted after the Reporting Date) would introduce new rules on valuation practices in this context (see Section 4.2.3).

Seven jurisdictions[68] (of which, 6 are FSB members) reported not having, nor having progressed the introduction of, requirements on MMFs to use the amortized cost method only in limited circumstances. Six of these jurisdictions reported under the previous question, of not having introduced, or progressed the introduction of, requirements for MMFs to comply with the general principle of fair value. ASIC reported it is a common industry practice for MMFs to adopt a mark to market valuation methodology and the use of amortized cost methodology is very limited, in terms of both number and value of funds in Australia. For Saudi Arabia, the Review Team considered that the valuation provisions under Article 68 and Annex 6 of the current draft *Investment Funds Regulation*s could not constitute being requirements to use the amortized cost method only in limited circumstances, even for a Level 1 review.

4.4.4. Reform Area (d) — Liquidity Management

The 2012 IOSCO Report made a number of recommendations on liquidity management for MMFs in both normal times and in stressed market conditions and when facing unusual redemption pressures. This was because before the crisis, most jurisdictions did not have requirements in this area. Recommendation 6 provides that 'Money market funds should establish sound policies and procedures to know their investors'. Recommendation 7 provides that 'Money market funds should hold a minimum amount of liquid assets to strengthen their ability to face redemptions and prevent fire sales.' Recommendation 8 provides that 'Money market funds should periodically conduct appropriate stress testing.' Recommendation 9 provides that 'Money market funds should have tools in place to deal with exceptional market conditions and substantial redemption pressures.'

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67 Brazil, Colombia, Germany, Greece, Indonesia, Mexico, Singapore, Slovakia, Spain. Also, the Bank of Russia reported they are currently in the process of drafting a regulatory act which would require assets and liabilities to be determined on a fair value basis consistent with IFRS 13 (Fair Value Measurement) and therefore prohibit the amortized cost method.

68 Australia, China, Chinese Taipei, Japan, Korea, Saudi Arabia, South Africa.

Participating jurisdictions reported their implementation progress on the following four questions:

- Are there requirements on MMFs to establish sound policies and procedures to know their investors?
- Are there requirements on MMFs to hold a minimum amount of liquid assets (to strengthen their ability to face redemptions and prevent fire sales)?
- Are there requirements on MMFs to periodically conduct appropriate stress testing?
- Are there requirements on MMFs to have in place tools/measures to deal with exceptional market conditions and substantial redemption pressures?

A brief summary of the Review Team's findings on the participating jurisdictions' responses to these four questions is provided below. Overall for this Reform Area, and as set out in Table 1 above, 8 participating jurisdictions (of which 6 are FSB members) reported having implementation measures in force for all the assessed key elements for this Reform Area.[69] This generally indicates further progress is needed for the matters covered by this important Reform Area.

For the Largest Jurisdictions, reported implementation progress was similarly mixed. Progress was reported as most advanced on introducing requirements for MMFs to establish sound policies and procedures to know their investors (with the Largest Jurisdictions all reporting having introduced requirements). Critically, implementation progress on requirements for MMFs to hold a minimum amount of liquid assets was reported as least progressed, with reforms still ongoing for the EU members (France, Ireland and Luxembourg, as the EU MMF Regulation remains to be finalized) and in China, where the public consultation period on additional reforms (which cover such requirements) recently closed. Implementation progress was ongoing for requirements on MMFs to periodically conduct stress testing and have in place tools/measures to deal with exceptional market conditions — again, mainly because the EU MMF Regulation remains to be finalized.

(i) Requirements to Establish Sound Policies and Procedures to Know their Investors

A majority of participating jurisdictions reported either having introduced requirements on MMFs to establish sound procedures and policies to monitor its investors aimed at identifying patterns in investors' cash needs (14 out of 31, of which 11 are FSB members)[70] or had progressed the introduction of such requirements (8 out of 31 participating jurisdictions, of which 4 are FSB members).[71] This latter set consisted of 8 EU member participating jurisdictions (as the EC Proposal for a Regulation has such a requirement under Article 24(1)).

69 Brazil, Chinese Taipei, India, Italy, South Africa, Spain, Thailand, U.S.

70 Brazil, Canada, China, Chinese Taipei, Colombia, Hong Kong, India, Indonesia, Italy, Saudi Arabia, South Africa, Spain, Thailand, U.S.

71 France, Germany, Greece, Ireland, Luxembourg, Netherlands, Slovakia, UK.

The Largest Jurisdictions all reported having final implementation measures in force (U.S. and China) or having published draft implementation measures (France, Ireland and Luxembourg, through the EC Proposal for Regulation).

Nine jurisdictions[72] (all FSB members) reported not having introduced, nor having progressed the introduction of, such requirements as of the Reporting Date. In Mexico, a MMF is responsible for establishing the criteria for the type of investors that are eligible to acquire an interest, with the distributor of MMF products having an obligation to determine if potential investors fit that profile — and as part of that process, the distributor of MMF products is obliged to request all information needed to assess the typology of potential investors, including their wealth, financial experience, knowledge and investment objectives. Swiss FINMA noted relevant policies and procedures form part of best industry practice.

(ii) Requirements to Hold a Minimum Amount of Liquid Assets

A majority of participating jurisdictions reported either having introduced requirements on MMFs to hold a minimum amount of liquid assets (15 out of 31, of which 13 are FSB members)[73] or having progressed the introduction of such requirements (10 out of 31 participating jurisdictions, of which 5 are FSB members).[74]

For the Largest Jurisdictions, 2 reported having introduced such a requirement (U.S. and China) and 3 reported having progressed the introduction of such a requirement (France, Ireland and Luxembourg, through the EC Proposal for Regulation).

Examples

- In Canada, MMFs are required to hold 5% of assets in cash (or readily convertible to cash within one day) and 15% of liquid assets convertible within one week.
- Under the September 2013 EC Proposal for a Regulation, both 'short term' and 'standard' MMFs are required to hold at least 10% of assets compromised of daily maturing assets and 20% of assets compromised of weekly maturing assets. Under the European Parliament Proposal, MMFs using the amortized cost accounting technique would be subject to stricter liquidity requirements.
- In Korea, MMFs are required to hold 10% of its assets in daily maturing assets and 30% of its assets comprised of weekly maturing assets.
- In the U.S., a MMF cannot invest more than 5% of its total assets in 'illiquid securities.' In addition, MMFs are generally required to hold at least 10% of their portfolio in assets that can provide daily liquidity, and at least 30% of their portfolio in assets that can provide weekly liquidity.

72 Argentina, Australia, Japan, Korea, Mexico, Russia, Singapore, Switzerland, Turkey.

73 Argentina, Brazil, Canada, China, Chinese Taipei, India, Indonesia, Korea, Mexico, Russia, Singapore, South Africa, Spain, Thailand, U.S.

74 Colombia, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Slovakia, UK.

There was also a range of definitions of 'liquid assets' across the participating jurisdictions. Some jurisdictions based their definitions on the types of assets (examples include cash, term deposits, bank bills and government securities) and/or the maturity profile of the assets.

Six jurisdictions (all FSB members)[75] reported not having, nor having progressed the introduction of, such requirements as at the Reporting Date. Several of these jurisdictions indicated there were general requirements on MMFs to, broadly described, have liquidity management policies and procedures to ensure liquidity to meet reasonably anticipated redemption requests (e.g. Australia, Saudi Arabia, Switzerland), in lieu of specific requirements to hold a minimum level of liquid assets.

(iii) Requirements to Periodically Conduct Appropriate Stress Testing

A majority of participating jurisdictions reported either having introduced requirements on MMFs to periodically conduct appropriate stress testing (20 out of 31, of which 13 are FSB members)[76] or having progressed the introduction of such requirements (2 out of 31 participating jurisdictions, both FSB members).[77] Generally speaking, it is possible to identify two broad approaches taken by jurisdictions — either there are requirements for MMFs to conduct stress tests at intervals as determined to be appropriate by the MMF itself (e.g. Brazil) or there are express requirements on the frequency of stress tests (e.g. Chinese Taipei, EC Proposal for Regulation, Mexico, South Africa). A commonly observed required frequency is for stress tests to be conducted on a quarterly basis.

The Largest Jurisdictions all reported having final implementation measures in force, with 4 (China, France, Ireland and Luxembourg) reporting progressing additional reforms. As noted in Section 4.2.3, from May to June 2015, CSRC conducted a public consultation on a comprehensive set of reforms for their MMF sector, which includes reform proposals for stress testing mechanisms. With regard to France, Ireland and Luxembourg, the EC Proposal for Regulation contemplates an EU wide MMF specific requirement on stress testing. As described at Section 4.2.1 above, the 2010 Reforms in the U.S. imposed requirements on MMFs to conduct certain stress tests, with the 2014 Reforms introducing 'enhanced' stress testing requirements.

Nine jurisdictions (all FSB members)[78] reported not having, nor having progressed the introduction of, such requirements as at the Reporting Date. Of these jurisdictions, the Capital Markets Board of Turkey reported that MMFs may conduct stress tests, although there is no clear regulatory requirement to do so.

(iv) Requirements to Have Tools/Measures to Deal with Exceptional Market Conditions and Substantial Redemption Pressures

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[75] Australia, Hong Kong, Japan, Saudi Arabia, Switzerland, Turkey.

[76] Australia, Brazil, China, Chinese Taipei, Colombia, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Luxembourg, Mexico, Slovakia, South Africa, Spain, Switzerland, Thailand, U.S.

[77] Netherlands, UK.

[78] Argentina, Canada, Indonesia, Japan, Korea, Russia, Saudi Arabia, Singapore, Turkey.

Almost all jurisdictions (28 out of 31, of which 21 are FSB members)[79] reported having introduced requirements on MMFs to have tools and measures to deal with exceptional market conditions and substantial redemption pressures.

The Largest Jurisdictions all reported having final implementation measures in force. For France, Ireland and Luxembourg, there are already locally transposed requirements for UCITS and/or AIF funds (which would include those types of MMFs) to temporarily suspend redemptions where circumstances require. The EC Proposal for Regulation would introduce EU wide MMF specific requirements on this issue, with a proposed requirement for stable NAV MMFs to establish and maintain a 'NAV buffer' of at least 3% of the total value of its assets, and other MMFs permitted to receive external support under specified conditions. Additionally, the CSRC's May 2015 public consultation includes reform proposals on mandatory redemption fees (under certain conditions) and permitting related parties to provide liquidity in extreme circumstances. A description of relevant U.S. reforms is provided below.

The most common form of requirement is to permit MMFs to suspend redemptions in such circumstances, with some jurisdictions (such as Canada) requiring prior regulatory approval. Other observed forms of requirement include enabling an MMF to attain the resources to meet redemption requests, either through permitting MMFs to engage in short-term borrowing (e.g. Chinese Taipei, India, Korea) or permitting affiliated transactions to occur (e.g. Thailand and the U.S.).

Example

- In the U.S., the following requirements can be observed:
  - All MMFs will be able to impose a liquidity fee (up to 2%) or temporarily suspend redemptions for up to 10 business days in a 90 day period, if the MMF's weekly liquid assets fall below 30% of its total assets and the MMF's board determines that such action is in the best interest of the MMF;
  - Additionally, non-government MMFs are required to impose a liquidity fee of 1% on all redemptions if the fund's weekly liquid assets fall below 10% of its total assets unless a MMF’s board determines that imposing such a fee would not be in the MMF’s best interests (the board may also determine that a lower or higher fee — up to 2% — would be in the best interests of the MMF;
  - Under Rule 17a-9 of the *Investment Company Act of 1940*, an MMF sponsor has the ability to support the MMF's operations through affiliate purchases of the MMF's securities — and following the 2014 Reforms, additional disclosure requirements apply;
  - Rule 22e-3 under the *Investment Company Act of 1940* already permits a MMF

[79] Argentina, Australia, Brazil, Canada, China, Chinese Taipei, Colombia, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Korea, Luxembourg, Mexico, Netherlands, Saudi Arabia, Singapore, Slovakia, South Africa, Spain, Switzerland, Thailand, Turkey, UK, U.S.

to suspend redemptions in order to facilitate an orderly liquidation of the fund;

- Registered investment companies (which include MMFs) may, although are not required, to satisfy redemption requests through in-kind redemptions in certain circumstances; and

- The 2014 amendments also will permit a MMF to permanently suspend redemptions and liquidate the fund on the occurrence of certain qualifying conditions. The relevant conditions are, among other things: if at the end of a business day, the MMF has invested less than 10% of its total assets in weekly liquid assets, or, for stable NAV MMFs, the fund's NAV, as rounded to the nearest 1%, has deviated from the stable price established by the board of directors, or if the board determines that such a deviation is likely to happen. Also, prior to the suspension of redemptions, the MMF must notify the U.S. SEC of its decision to suspend redemptions and liquidate the fund.

Three jurisdictions (all FSB members)[80] reported not having, nor having progressed the introduction of, such requirements as at the Reporting Date.

4.4.5. Reform Area (e) — MMFs that Offer a Stable NAV

The stable NAV feature of MMFs was a key issue considered in the 2012 IOSCO Report when determining how to mitigate the systemic risks associated with MMFs and in particular, their vulnerability to investor runs. Recommendation 10 provides 'MMFs that offer a stable NAV should be subject to measures designed to reduce the specific risks associated with their stable NAV feature and to internalize the costs arising from these risks. Regulators should require, where workable, a conversion to floating / variable NAV. Alternatively, safeguards should be introduced to reinforce stable NAV MMFs' resilience and ability to face significant redemptions.'

Participating jurisdictions reported their implementation progress on the following three questions:

- Are MMFs with a stable NAV permitted in your jurisdiction?
- If MMFs with a stable NAV are permitted, is there a requirement for MMFs to convert from a stable NAV to a variable NAV?
- If there is no requirement for such conversion, are there requirements to reinforce stable NAV MMFs' resilience and ability to face significant redemptions (i.e. aimed at reducing run risk and the first mover advantage)?

A brief summary of the Review Team's findings on the participating jurisdictions' responses to these three questions is provided below.

80 Indonesia, Japan, Russia.

Overall, 12 participating jurisdictions (including 4 of the Largest Jurisdictions (the U.S., Ireland, Luxembourg and China)) permit stable NAV MMFs. In these 12 jurisdictions, progress in addressing issues and risks associated with stable NAV funds has been made, with the aim of these measures generally being to reinforce a stable NAV MMF's resilience and their ability to face significant redemptions. In the U.S., however, the approach has been to also require a specified segment of their market to float.

For each of the Largest Jurisdictions permitting stable NAV MMFs (the U.S., Ireland, Luxembourg and China), further implementation measures are needed either to convert from a stable NAV to a VNAV system (where only the U.S. has introduced requirements in October 2014, with a 2 year compliance period and the EU MMF Regulation remains to be finalized) or to reinforce stable NAV MMF's resilience and ability to face significant redemptions (where again, the EU MMF Regulation remains to be finalized and China recently concluded in June 2015 a public consultation on additional reforms).

(i) Are stable NAV MMFs permitted?

A majority of participating jurisdictions (19 out of 31, of which 15 are FSB members)[81] reported not permitting MMFs with a stable NAV. Yet a significant number of participating jurisdictions (12 out of 31, of which 9 are FSB members)[82] reported permitting MMFs with a stable NAV.

For the Largest Jurisdictions, 4 (U.S., Ireland, Luxembourg and China) reported permitting stable NAV MMFs in their jurisdictions. There are no stable NAV MMFs in France.[83] For this Review, Canada has been reported as a jurisdiction which permits stable NAV MMFs even though relevant Canadian rules require MMFs to use fair value and do not contemplate or reference the use of a stable NAV system, because, as a matter of market practice, there

81 Argentina, Brazil, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Italy, Mexico, Russia, Saudi Arabia, Singapore, Slovakia, Spain, Switzerland, Thailand, Turkey.

82 Australia, Canada, China, Chinese Taipei, Ireland, Japan, Korea, Luxembourg, Netherlands, South Africa, UK, U.S.

83 French accounting rules defined by the French Accounting Authority (ANC) permit the use of the amortized cost valuation technique by way of derogation under strict conditions, i.e. only for instruments that are not sensitive to evolving market conditions and whose residual maturity is inferior to 90 days. As regard to the treatment of cash equivalency, the French Association of Asset Management (AFG), the Association of Institutional Investors (AF2I) and the Association of Corporate Treasurers (AFTE) indicated in a joint position of 2006 that stable NAV MMFs should not be automatically considered as cash equivalents in accordance with the IAS 7 since their net asset value did not reflect the market value of the underlying assets included in their portfolios. IAS 7 states that an investment can qualify as cash equivalent if it is (i) short-term, (ii) highly liquid, (iii) readily convertible to a known amount of cash, and (iv) subject to an insignificant risk of changes in value. Therefore, to qualify as a 'cash equivalent' in France, stable NAV funds are required to (i) evidence that they are subject to a low risk of change in value and benefit from an explicit capital guarantee from a credit institution or another body subject to prudential supervision, and mentioned in the prospectus of the fund; and (ii) demonstrate on a case-by-case basis that they comply with at least three of the four criteria set out by the IAS 7. These provisions on the use of the amortized cost valuation technique and the cash equivalency, by exerting significant constraints both on the demand and the supply of such products, have refrained the development of stable NAV funds in France.

are MMFs which seek to maintain a stable NAV and they constitute 96% of the Canadian market.

Notably, and as detailed under Section 4.2.2, under the European Parliament Proposal, three new types of stable NAV MMFs are proposed: (1) 'public debt stable NAV' MMFs; (2) 'retail stable NAV' MMFs and (3) 'low volatility net asset value' MMFs.

(ii) If stable NAV MMFs are permitted, is there a requirement to convert to a variable NAV?

A majority of the participating jurisdictions that permit stable NAV MMFs (7 out of 12 relevant participating jurisdictions, of which 6 are FSB members)[84] reported not having, nor having progressed, any requirements for MMFs to convert from a stable NAV to a variable NAV. ASIC reported that while there are no regulatory requirements in its CIS regulations for MMFs to convert from a stable NAV to a variable NAV, it is working with the FSC of Australia in encouraging MMFs with a stable NAV (a very small number of funds in Australia) to move into a variable NAV structure through the introduction of a set of industry standards.

Five jurisdictions reported having progressed the introduction of requirements for MMFs to convert from a stable NAV to a variable NAV.[85]

Of the 4 Largest Jurisdictions that permit stable NAV MMFs (U.S., Ireland, Luxembourg and China), 3 (U.S., Ireland and Luxembourg) reported having progressed the introduction of requirements for MMFs to convert from a stable NAV to a variable NAV. The U.S. was the one jurisdiction that reported having implemented requirements (under its 2014 Reforms) for stable NAV MMFs to convert to a VNAV system in certain circumstances. As briefly described at Section 4.2.1 above, the compliance date for these amendments relating to VNAV is 14 October 2016. Under the 2014 Reforms, 'institutional prime' MMFs are now required to operate as VNAV funds (i.e. convert from stable NAV MMFs). Under the U.S.' 2014 Reforms, 'government' and 'retail' MMFs may continue to offer a stable NAV. Ireland and Luxembourg (along with the only other two participating jurisdictions from the EU that permit stable NAV MMFs, the Netherlands and the UK) have also progressed the introduction of such requirements as under the EC Proposal for Regulation, stable NAV MMFs will be required to convert to a VNAV system unless they establish a 3% 'NAV buffer'.

(iii) If there is no requirement for conversion, are there requirements to reinforce stable NAV MMF's resilience?

A substantial majority of relevant participating jurisdictions (taken broadly to be those jurisdictions that permit stable NAV MMFs, whether or not they had conversion requirements) reported either having introduced requirements to reinforce stable NAV MMF's resilience and ability to face significant redemptions (4 out of 12, all FSB members)[86]

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[84] Australia, Canada, China, Chinese Taipei, Japan, Korea, South Africa.

[85] Ireland, Luxembourg, Netherlands, UK, U.S.

[86] China, Korea, South Africa, U.S.

or had progressed the introduction of such requirements (5 out of 12, of which, 3 are FSB members).[87]

The 4 Largest Jurisdictions that permit stable NAV MMFs (U.S., Ireland, Luxembourg and China) reported either having introduced requirements to reinforce stable NAV MMF's resilience and ability to face significant redemptions (China and the U.S.) or are progressing the introduction of such requirements (Ireland and Luxembourg, through the EC Proposal for Regulation). Examples of requirements from these jurisdictions are outlined below.

Examples

- Some examples of observed requirements aimed at reinforcing stable NAV MMFs' resilience and ability to face significant redemptions as reported by participating jurisdictions include:
  - Establishment of a 3% NAV buffer (under the EC Proposal for Regulation);
  - Liquidity/redemption fees (e.g. in China and in the EU, under the European Parliament Proposal);
  - Redemption gates (e.g. in Korea and in the EU, under the European Parliament Proposal); and
  - Side pocketing (e.g. in South Africa).
- See also Section 4.2.1 for details on relevant requirements in the U.S. following its 2014 Reforms.

Three jurisdictions (Australia, Canada and Chinese Taipei) reported not having, nor having progressed the introduction of such requirements. ASIC did not cite any relevant requirements in their response. The Canadian authorities (Quebec AMF and OSC) reported they did not have any additional measures designed to reduce the specific risks associated with a stable NAV feature. Chinese Taipei indicated that although the use of amortized cost accounting is not legally prohibited, the use of amortized cost accounting is not the reason for MMFs in their jurisdiction from showing a stable NAV feature (instead, this is due to the nature of assets held by MMFs).

4.4.6. Reform Area (f) — Use of Ratings

The 2012 IOSCO Report made a number of recommendations aimed at reducing the use of external credit ratings by MMFs and strengthening the responsibility of managers and investors of MMFs to undertake credit risk assessments.

Participating jurisdictions reported their implementation progress on the following question:

- Are there requirements to strengthen the obligation of responsible entities regarding internal credit risk assessment practices and avoid any mechanistic reliance on external ratings?

[87] Ireland, Japan, Luxembourg, Netherlands, UK.

A substantial majority of participating jurisdictions (22 out of 31, of which 16 are FSB members)[88] reported they had requirements to strengthen the obligations of responsible entities regarding internal credit risk assessment practices and avoid any mechanistic reliance on external ratings. The predominant approach taken by these jurisdictions is to permit MMFs to take into account relevant external ratings as only one relevant factor in their internal credit risk assessment procedures.

For the Largest Jurisdictions, progress is well advanced, with 4 jurisdictions (U.S., France, Ireland and Luxembourg) reported having final implementation measures in force. For France, Ireland and Luxembourg, there are locally transposed requirements under the 2010 CESR Guidelines (as supplemented by the ESMA Q&A on a common definition of MMFs (ESMA 2012/113)) and the May 2013 legislative package on credit rating agencies (comprised of the Directive 2013/14/EU and the Regulation No 462/2013). The EC Proposal for Regulation would require MMF managers to develop an internal rating system, with external ratings only taken into account as a trigger for undertaking a new internal assessment — i.e. when an external credit rating agency downgrades an issuer below a certain level, an MMF manager would need to check whether its own internal rating is still up to date.

The U.S. indicated there are re-proposed amendments to rule 2a-7 under the *Investment Company Act* that would remove the current requirement that portfolio securities be rated first or second tier and instead continue to require that the MMF's board of directors determine that each portfolio security presents minimal credit risks.[89]

China reported not having published draft implementation measures, as on the Reporting Date, the cited current requirements expressly require MMFs to only invest in instruments with specified external credit ratings. However, between May and June 2015 (i.e. after the Reporting Date for this Review), the CSRC conducted a public consultation on the draft *Measures for Supervision and Administration of Money Market Funds*, which contain, inter alia, requirements aimed at reducing reliance on external ratings.[90]

Example

- An example of the predominant approach is the current position under EU jurisdictions from the CESR Guidelines where the management company of MMFs must make a determination that the money market instruments invested in by a MMF must be of 'high quality', taking into account a range of factors, including the credit quality of the

88 Brazil, Canada, Chinese Taipei, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Korea, Luxembourg, Mexico, Netherlands, Singapore, Slovakia, South Africa, Spain, Thailand, Turkey, UK, U.S.

89 Rule 2a-7 currently requires the MMF board to determine that each portfolio security presents minimal credit risks, which determination must be based on factors in addition to any credit rating assigned to the security. The re-proposal would require a determination that the security's issuer has an exceptionally strong capacity to meet its short-term financial obligations.

90 Proposed requirements include requiring fund management companies to: (a) establish appropriate internal credit rating mechanisms for debt securities investing; (b) form their own judgment and credit risk identification using internal ratings; and (c) use external and internal ratings appropriately. The CSRC reported that work on this reform measure commenced in July 2014.

instrument, the nature of the asset class represented by the instrument, the operational and counterparty risk within a structured financial instrument and the liquidity profile. Although the CESR Guidelines originally considered a money market instrument not to be of 'high quality' unless it attained one of the two highest available short-term credit ratings from an external rating agency, subsequent reforms have made it clear that the management company must conduct its own credit assessment using an internal rating process without sole reliance on external credit ratings. Under an August 2014 ESMA Opinion, upon a downgrade below the two highest short term credit ratings by any agency registered and supervised by ESMA that has rated the instrument, the management company should undertake a new assessment of the credit quality of the money market instrument to ensure it continues to be of 'high quality'.

A number of jurisdictions (9 out of 31 participating jurisdictions, of which 8 are FSB members)[91] reported they had no requirements to strengthen the obligations of responsible entities regarding internal credit risk assessment practices and avoid any mechanistic reliance on external ratings. Of these jurisdictions, a number (5 participating jurisdictions, 3 of which are FSB members)[92] reported expressly requiring MMFs to only invest in instruments with specified external credit ratings (typically the highest or second highest rating grades). ASIC noted that it is working with the FSC of Australia in developing a set of industry standards governing a majority of MMF's participants, requiring MMFs to only invest in instruments awarded with specified external credit ratings in addition to carrying out its own internal credit assessment using an internal rating process without sole reliance on external credit ratings.

Example

- An example of a requirement for MMFs to only invest in instruments with specified external credit ratings can be found in the current requirements in China (although since May 2015, reforms are being progressed):
    - The credit ratings of ABSs in an MMF's portfolio should not be lower than AAA, or its equivalent, as assigned by domestic credit rating agencies. MMFs are prohibited from investing in enterprise bonds with a credit rating lower than AAA. If credit ratings of the ABSs are lowered and fail to continue to meet investment criteria for MMFs, MMFs should sell all the ABSs within three months after the credit rating reports are released.
    - The credit ratings of short-term financing bills in an MMF's portfolio should not be inferior to the following criteria:
        - A-1 grade or a short-term credit rating equivalent to A-1 assigned by domestic credit rating agencies;
        - For short-term financing bills exempted from credit ratings, credit ratings and tracking ratings of their issuers should meet one of the following conditions in the last three years:

91 Argentina, Australia, China, Colombia, Indonesia, Japan, Russia, Saudi Arabia, Switzerland.

92 China, Chinese Taipei, Colombia, Russia, Switzerland.

- AAA grade or a long-term credit rating equivalent to AAA assigned by domestic credit rating agencies;
- A credit rating one notch lower than the sovereign credit rating of the China assigned by an international credit rating agency (for instance, if the sovereign credit rating of China is A-, then the credit rating one notch lower than A- is BBB+).

o If the credit ratings of short-term financing bills are lowered when held by MMFs and fail to continue to meet the investment criteria, MMFs should sell all such commercial papers within 20 trading days after the day the credit rating reports were released.

4.4.7. Reform Area (g) — Disclosure to Investors

The 2012 IOSCO Report made a number of recommendations on disclosure to investors of information on the risks involved in investing in MMFs. Specifically, Recommendation 13 provides that 'MMF documentation should include a specific disclosure drawing investors' attention to the absence of a capital guarantee and the possibility of principal loss.' Recommendation 14 provides that 'MMFs' disclosure to investors should include all necessary information regarding the funds 'practices in relation to valuation and the applicable procedures in times of stress.'

Participating jurisdictions reported their implementation progress on the following four questions:

- Are there requirements about product disclosure to investors?
- Is there a requirement for MMF documentation to include a specific disclosure drawing investors' attention to the absence of a capital guarantee and the possibility of principal loss?
- Is there a requirement for MMFs to disclose to investors all necessary information regarding the MMF's valuation practices?
- Is there a requirement for MMFs to disclose to investors all necessary information regarding the MMF's procedures in times of significant market stress or heavy redemption pressures?

A brief summary of the Review Team's findings on the participating jurisdictions' responses to these four questions is provided below. Overall for this Reform Area, and as set out in Table 1 above, 22 participating jurisdictions (of which 17 are FSB members) reported having implementation measures in force for all the assessed key elements for this Reform Area.[93] The Largest Jurisdictions all reported having introduced requirements for all the matters covered by this Reform Area.

(i) General Product Disclosure Requirements

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93 Argentina, Australia, Brazil, Canada, China, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Luxembourg, Saudi Arabia, Singapore, South Africa, Thailand, UK, U.S.

All 31 participating jurisdictions reported general product disclosure requirements were in force. There were slightly more jurisdictions that applied general CIS disclosure requirements to MMFs[94] than participating jurisdictions that had specific disclosure requirements for MMFs.[95] The Largest Jurisdictions all reported having in place MMF specific disclosure requirements.

(ii) Requirements to Disclose Absence of Capital Guarantee and the Possibility of Principal Loss

Almost all participating jurisdictions (30 out of 31, of which 23 are FSB members)[96] reported having a requirement for MMF documentation to include a specific disclosure drawing investors' attention to the absence of a capital guarantee and the possibility of principal loss.

All 12 participating jurisdictions that permit stable NAV MMFs reported having implemented a requirement for this specific disclosure.[97]

The Largest Jurisdictions all reported having introduced requirements to include a specific disclosure drawing investors' attention to the absence of a capital guarantee and the possibility of principal loss.

Examples

- An example of such a disclosure requirement is from China (where stable NAV MMFs are permitted). The following disclosure is required to be included in a MMF prospectus and promotional material: 'Investment in MMFs is not equivalent to deposits at banks or quasi-bank financial institutions. Fund management companies do not guarantee profitability or minimum return of the funds.'
- Similarly in India, in the Scheme Information Document for MMF/ Liquid schemes, it is explicitly required to be mentioned that the returns in the scheme are not guaranteed and value of an investor's investments in the scheme are subject to market risks. Further, it is mandated that all advertisements of MMF / Liquid schemes shall be accompanied by following disclaimer: ‘Mutual Fund investments are subject to market risks, read all scheme related documents carefully'.

Switzerland reported not having, nor having progressed the introduction of, such a disclosure requirement. Swiss FINMA noted that in their jurisdiction, MMFs are distributed like other funds and are not substitutes for bank deposits.

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94 Argentina, Australia, Brazil, Chinese Taipei, Colombia, Germany, Greece (current regime), Hong Kong, India, Indonesia, Japan, Korea, Russia, Saudi Arabia, Spain, Switzerland, Turkey, Thailand.

95 Canada (with both CIS disclosure requirements and MMF specific disclosure requirements), China, France, Ireland, Italy, Luxembourg, Mexico, Netherlands, Singapore (with an MMF specific appendix in their CIS Code), Slovakia, South Africa (although both CIS and MMF disclosure requirements apply to MMFs), UK, U.S.

96 Argentina, Australia, Brazil, Canada, China, Chinese Taipei, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Russia, Saudi Arabia, Singapore, Slovakia, South Africa, Spain, Thailand, Turkey, UK, U.S.

97 Australia, Canada, China, Chinese Taipei, Ireland, Japan, Korea, Luxembourg, Netherlands, South Africa, UK, U.S.

(iii) Requirements to Disclose Valuation Practices

A substantial majority of jurisdictions reported either having already introduced requirements for MMFs to disclose to investors all necessary information regarding the MMF's valuation practices (28 out of 31 jurisdictions, of which 21 are FSB members)[98] or having progressed the introduction of such requirements through the publishing a draft implementation measure (2 out of 31 jurisdictions, all are FSB members).[99] Of these jurisdictions, common required methods of disclosure include setting out information on valuation practices in offering documents (such as the prospectus or terms and conditions for a MMF), regulatory reporting documents, product disclosure documents and/or the website of the MMF or its responsible entity.

The Largest Jurisdictions all reported having introduced requirements to disclose valuation practices.

One jurisdiction (Mexico) reported not having, nor having progressed the introduction of, requirements to disclose valuation practices. In Mexico, this is because the valuation of a MMF's portfolio assets is conducted by third party entities known as 'price vendors', with the valuation methodology used by price vendors not being required to be disclosed to the public. However, Mexico CNBV has in place rules governing the valuation practices by price vendors and Mexico CNBV reports that the valuation methodologies used by price vendors are generally known in the marketplace.

(iv) Requirements to Disclose MMF's Procedures in Times of Significant Market Stress or Heavy Redemption Pressures

A substantial majority of participating jurisdictions either reported having introduced requirements for MMFs to disclose to investors all necessary information regarding its procedures in times of significant market stress or heavy redemption pressures (25 out of 31 participating jurisdictions, of which 19 are FSB members)[100] or having progressed the introduction of such requirements (4 participating jurisdictions, of which 3 are FSB members).[101] Almost all (11 out of 12) participating jurisdictions that permit stable NAV MMFs reported having either implemented a requirement for this specific disclosure,[102] or progressed the introduction of such a disclosure requirement.[103] Common required methods of disclosure include through setting out relevant information in offering documents (such as

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98 Argentina, Australia, Brazil, Canada, China, Chinese Taipei, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Korea, Luxembourg, Russia, Saudi Arabia, Singapore, Slovakia, South Africa, Switzerland, Thailand, Turkey, UK, U.S.

99 Netherlands, Spain.

100 Argentina, Australia, Brazil, Canada, China, Chinese Taipei, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Luxembourg, Mexico, Saudi Arabia, Singapore, South Africa, Switzerland, Thailand, Turkey, U.S.

101 Netherlands, Slovakia, Spain, UK (all through the EC Proposal for Regulation).

102 Australia, Canada, China, Chinese Taipei, Ireland, Japan, Luxembourg, South Africa, U.S.

103 Netherlands and the UK.

the prospectus or terms and conditions for a MMF), regulatory reporting documents and product disclosure documents.

The Largest Jurisdictions all reported having introduced requirements to disclose such procedures.

Two jurisdictions (Korea and Russia) reported not having, nor having progressed the introduction of, requirements on MMFs to disclose their procedures in stress situations. For Korea (which permits stable NAV MMFs), Korea FSS/FSC reported while there is a requirement for MMFs to prepare procedures for significant market stress or heavy redemption pressures, there is no accompanying disclosure requirement.

4.4.8. Reform Area (h) — Repos

The 2012 IOSCO Report noted that because of the important (lending) role of MMFs in repo markets, regulators should consider the risks deriving from MMFs' practices from such activities. Accordingly, Recommendation 15 from the 2012 IOSCO Report provides that 'when necessary, regulators should develop guidelines strengthening the framework applicable to the use of repos by money market funds, taking into account the outcome of current work on repo markets'.

Participating jurisdictions reported their implementation progress on the following question:

- Are there guidelines on the use of repos and other similar techniques by MMFs?

Almost all participating jurisdictions reported either having introduced guidelines on the use of repos and other similar techniques by MMFs (27 out of 31 participating jurisdictions, of which 21 are FSB members)[104] or having progressed the introduction of such guidelines (2 out of 31 participating jurisdictions, of which 1 is a FSB member).[105] Of these jurisdictions, 1 jurisdiction (Argentina) reported prohibiting MMFs from engaging in repurchase agreement transactions.

The Largest Jurisdictions all reported having final implementation measures in force. France, Ireland and Luxembourg reported that MMFs set up as UCITS funds are subject to the requirements laid down in the ESMA Guidelines,[106] with France and Ireland reporting additional domestic requirements on the use of repos by MMFs which are AIF funds.

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[104] Argentina, Brazil, Canada, China, Chinese Taipei, Colombia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Russia, Singapore, South Africa, Spain, Switzerland, Thailand, Turkey, UK, U.S. It should be noted that some EU jurisdictions currently have local requirements on the use of repo transactions for UCITS funds and/or AIF funds, with the EC Proposal for Regulation providing for a MMF specific framework at the European Union level.

[105] Netherlands and Slovakia. The existing ESMA Guidelines on the use of repos apply only to UCITS funds only, with the EC Proposal for Regulation providing for a MMF specific framework at the European Union level.

[106] ESMA Guidelines on Repo Arrangements for UCITS Funds, December 2012 (available at http://www.esma.europa.eu/system/files/2012-722.pdf) provides some rules for UCITS funds entering into a repurchase agreement, the overarching principle being that a UCITS should only enter into such agreements if they are able to recall at any time any assets or the full amount of cash.

Luxembourg reported that their domestic regulation, CSSF Circular 08/356, contains relevant requirements applying to all MMFs, whether UCITS or non-UCITS. The EC Proposal for Regulation would introduce an EU wide MMF specific regime on the use of (reverse) repo transactions.

<u>Example</u>

- An example of such requirements can be found in India, where under *SEBI Circular No. CIR/IMD/DF/19/2011*, the following (non-exhaustive) requirements on the use of repos:
  - Repo transactions are permitted for government and corporate debt securities, as well as CBLOs;
  - The gross exposure to repo transactions in corporate debts shall not exceed 10% of the net assets of the fund;
  - Repo transactions only permitted in AA and above rated corporate debt securities;
  - The cumulative gross exposure through repo transactions in corporate debt securities, along with equity, debt and derivatives should not exceed 100% of the net assets of the fund; and
  - Borrowing through repo transactions only permitted if the tenor of the transaction does not exceed 6 months.

Two jurisdictions (Australia and Saudi Arabia, all FSB members) reported not having introduced nor progressed the introduction of, guidelines on the use of repos and other similar techniques by MMFs. Both Australia and Saudi Arabia noted that the use of these transactions by MMFs in their markets is 'very low', with a majority of their MMFs having no exposure.

4.5. Issues Faced in Planning and/or Implementation

The questionnaire included a question for participating jurisdictions to describe any issues encountered in implementing or planning reforms.

A substantial majority of participating jurisdictions (23 out of 31)[107] did not provide a response to this question or cite any issues faced. All ten participating jurisdictions that are EU member states noted that as the EC Proposal for Regulation is still being negotiated in the European Parliament and the Council of the European Union at the time their updated responses were provided to the Review Team (in late February 2015), implementation problems had not been encountered. In the European Union, the negotiations on the EC Proposal for Regulation (as briefly described in Section 4.2.2 above) demonstrate the difficulty in reaching an agreement on how to deal with stable NAV MMFs.

[107] Argentina, Australia, Brazil, China, Chinese Taipei, France, Germany, Greece, Hong Kong, Ireland, India, Italy, Luxembourg, Mexico, Netherlands, Russia, Singapore, Slovakia, Spain, Switzerland, Thailand, Turkey, UK.

The description of issues faced provided by the remaining participating jurisdictions (8 out of 31)[108] can be broadly summarised under the following three categories.

First, three participating jurisdictions specifically commented on the appropriateness for their jurisdiction of moving to the use of VNAV MMFs. Korea FSS noted there was no 'urgent need' to move to a VNAV system as stable NAV MMFs in Korea posed no 'particular problems with the stability and soundness' of MMFs in Korea. Japan FSA noted the need for stable NAV to be maintained in practice in order to preserve certain product functionality (i.e. timely cashing capability) due to the particular uses of MMFs by retail investors in Japan as securities transaction settlement accounts (for MRFs) and credit card settlement accounts (for MRFs and money management funds). South Africa FSB noted the 'strong' local industry resistance to such a proposal (although further noting that recent events affecting MMFs in South Africa, as outlined in Section 4.1.5, may 'create a basis for the debate to be taken further').

Second, three jurisdictions (the U.S., Canada and Indonesia) commented on their jurisdiction's experiences in developing recent regulatory reforms. The U.S. SEC also commented on their arrangements to monitor the MMF industry's implementation of the 2014 reforms, including the formation of a specialised working group. Canada (the OSC and Quebec AMF) explained why they considered their post crisis reforms to be appropriate for the size, features and systemic relevance of MMFs in Canada. Indonesia OJK made the observation that for their jurisdiction, coordination with the monetary authority (Bank Indonesia) was important in developing and implementing MMF regulatory reforms, as well as learning from other jurisdictions' experience in developing regulatory reforms.

Third, two jurisdictions provided factual updates on the progress of the introduction of new implementation measures in their jurisdictions — the Capital Markets Authority of Saudi Arabia in relation to the introduction of its new *Investment Fund Regulations* and Colombia SFC on the introduction of regulatory reforms on liquidity risk management and control for MMFs.

5. Further Monitoring

IOSCO has considered what further monitoring work should be undertaken after this Review. Its thinking has been driven by balancing the resource implications of further monitoring reviews against the value and benefits of such reviews.

IOSCO proposes the following:

1. **A further Adoption Monitoring Review — or 'Level 1-style' review — is undertaken starting in 2016** (**Second Review**). This will be an opportunity to report progress jurisdictions have made in their MMF reforms since the 2014/2015 Review. The Second Review will be limited to requiring those 15 jurisdictions that the Review Team has identified as having a 'significant MMF industry' as set out in Annexure A in which final

[108] Canada, Saudi Arabia, Colombia, South Africa, U.S., Indonesia, Korea and Japan.

implementation measures are still to come into force in one or more Reform Areas. It will report on the status of implementation of those remaining measures.

The Second Review will provide G20 Leaders with a timely update about progress in implementing reforms and continue momentum. The Second Review will also underscore the importance of ensuring momentum in delivering proposed reforms and addressing gaps identified in this Review is maintained.

The need for further Adoption Monitoring Reviews should be determined in light of the outcomes of the proposed Second Review.

2. **No recommendations are made in this Report about Implementation Monitoring — or 'Level 2-style' — Reviews. Separate recommendations will be made by the Assessment Committee to the Board at an appropriate time after completion of the further Adoption Monitoring Reviews.**

Annexure A

Jurisdictions Participating in the Review

Authorities from the following categories of jurisdictions were invited to participate in the Review:

(1) All IOSCO member from FSB jurisdictions (expected to participate);

(2) IOSCO members from non-FSB jurisdictions with significant MMF industry (expected to participate);

(3) Other IOSCO members.

Jurisdictions with significant MMF industry

The Review Team used public data (as of 31 March 2014) to rank the largest MMF markets worldwide, by reference to AUM. Based on those figures, the 10 largest markets would account for 94.8% of the worldwide MMF AUM. Adding the next five markets would increase coverage to 97.1% of the worldwide MMF AUM.

This public data was adjusted with relevant data input from IOSCO members to produce a revised list.[109] On the revised list, the 10 largest markets accounted for 93.8% of the worldwide MMF AUM. Adding the next five markets would increase coverage to 96.9% of the worldwide MMF AUM.

The identity of the top 15 largest markets (of which, 12 are FSB jurisdictions) remained the same under the revised list as obtained using the public data, with the only change being the relative ranking of some jurisdictions.

The Review Team considered the following 15 jurisdictions to have a 'significant MMF industry' as per the Assessment Methodology (in order of significance):

1. United States of America (Securities and Exchange Commission);
2. France (Autorité des marchés financiers);
3. Ireland (Central Bank of Ireland)*;
4. Luxembourg (Commission de Surveillance du Secteur Financier)*;
5. China (China Securities Regulatory Commission);
6. Japan (Financial Services Agency);
7. Republic of Korea (Financial Services Commission/Financial Supervisory Service);
8. Mexico (Comisión Nacional Bancaria y de Valores);
9. Brazil (Comissão de Valores Mobiliários);

109 The source of public data used is ICI Worldwide Mutual Fund Market Data, First Quarter 2014. Where available, this data was compared to data provided by IOSCO C5 members and, where material discrepancies appeared, the public data was replaced by those reported by IOSCO members.

10. Switzerland (Swiss Financial Market Supervisory Authority);
11. India (Securities and Exchange Board of India);
12. Chinese Taipei (Financial Supervisory Commission)*;
13. Canada (Ontario Securities Commission and Quebec Autorité des marchés financiers);
14. South Africa (Financial Services Board); and
15. Australia (Australian Securities and Investments Commission).

Other IOSCO members from FSB jurisdictions

To ensure coverage of all FSB jurisdictions, the following additional 12 jurisdictions were expected to participate in the Review:

16. Argentina (Comisión Nacional de Valores);
17. Germany (Federal Financial Supervisory Authority);
18. Hong Kong SAR (Securities and Futures Commission);
19. Indonesia (Indonesia Financial Services Authority (OJK));
20. Italy (Commissione Nazionale per le Società e la Borsa);
21. The Netherlands (Netherlands Authority for the Financial Markets);
22. Russia (The Bank of Russia);
23. Saudi Arabia (Capital Markets Authority);
24. Singapore (Monetary Authority of Singapore);
25. Spain (Comisión Nacional del Mercado de Valores);
26. Turkey (Capital Markets Board); and
27. UK (Financial Conduct Authority).

Other IOSCO Members

The following additional jurisdictions also participated in this Review:

28. Colombia (Superintendencia Financiera de Colombia)*;
29. Greece (Hellenic Capital Market Commission)*;
30. Slovakia (The National Bank of Slovakia)*; and
31. Thailand (Securities and Exchange Commission)*.

* Non-FSB members.