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PRESS RELEASE

CESR sets out harmonised definition of European money market funds

CESR publishes today its guidelines on a common definition of European money market funds (Ref. CESR/10-049). The guidelines aim to improve investor protection by setting out criteria to be applied by any fund that wishes to market itself as a money market fund. The criteria reflect the fact that investors in money market funds expect the capital value of their investment to be maintained while retaining the ability to withdraw their capital on a daily basis. A common definition will also help provide a more detailed understanding of the distinction between funds which operate in a very restricted fashion and those which follow a more 'enhanced' approach.

Lamberto Cardia, Chair of the Italian Commissione Nazionale per la Società e la Borsa (CONSOB) and Chair of CESR's Investment Management Standing Committee, which prepared the advice, stated:

"The publication of these guidelines is a significant step in improving investor protection and will help stakeholders – competent authorities, management companies and investors – to draw a clearer distinction between funds according to their investment strategies.

It was clear from the difficulties that arose in the markets in 2007 and 2008, that the term 'money market fund' covered a very broad range of investment funds. This created risks for investors who may not have fully understood the types of asset in which these funds were able to invest. In particular, the strategies of some funds may not always have been consistent with the generally accepted concept of money market funds as being relatively liquid, short-term investments.

I am confident that CESR's guidelines will provide greater clarity and in so doing, better equip investors to be able to make informed investment decisions."

CESR's guidelines create two categories of money market fund

CESR's guidelines set out two categories of money market fund: Short-Term Money Market Funds and Money Market Funds. This approach recognises the distinction between short-term money market funds, which operate a very short weighted average maturity and weighted average life; and money market funds which operate with a longer weighted average maturity and weighted average life.

For both categories of fund, CESR expects that there should be specific disclosure to explain clearly the implications of investing in the type of money market fund involved. For Money Market Funds, for example, this means taking account of the longer weighted average maturity and weighted average life of such funds. For both types of money market fund, this should reflect any investment in new asset classes, financial instruments or investment strategies with unusual risk and reward profiles.

The guidelines will enter into force in line with the transposition deadline for the revised UCITS Directive (1 July 2011). However, money market funds that existed before that date will be granted an additional six months to comply with the guidelines as a whole.



Notes for editors:

1. Some money market funds experienced difficulties in 2007 due to their holdings of certain highly rated asset-backed securities which were downgraded by the relevant rating agencies and which showed a poor level of liquidity. In September 2008, significant levels of redemption activity were witnessed following the Lehman Brothers failure, the general unease in the money markets and the cash needs of investors. The poor level of liquidity demonstrated by a significant number of money market instruments added to the problems experienced by money market funds at that time. Moreover, deposit guarantee schemes put in place by certain governments made money market funds a less attractive alternative to bank deposits and this also resulted in increased redemptions. As a result of redemption requests, there was a significant shift of money market fund assets into overnight deposits and away from longer dated paper, which worsened the situation in the money markets themselves. The European industry requested assistance from national monetary authorities, the European Commission and the European Central Bank to increase liquidity in the money markets and help prevent a run on the funds.
2. In the light of the market events, CESR agreed in December 2008 that better coordination between its members on funds in general, and money market funds in particular, was needed, as well as a better understanding of the categorisation of money market funds given the lack of a harmonised definition.
3. CESR published a consultation paper setting out its proposed guidelines in October 2009 (Ref. CESR/09-850). 31 responses, from a range of stakeholders including trade associations, investment management companies and the European Central Bank, were received by the deadline of 31 December.
4. CESR is an independent Committee of European Securities Regulators. The role of the Committee is to:
 - Improve co-ordination among securities regulators;
 - Act as an advisory group to assist the European Commission, in particular in its preparation of draft implementing measures in the field of securities;
 - Work to ensure more consistent and timely day to day implementation of community legislation in the Member States.
 - The Committee was established under the terms of the European Commission's decision of 6 June 2001 (2001/1501/EC). It is one of the two committees envisaged in the Final Report of the Group of Wise Men on the regulation of European securities markets. Baron Alexandre Lamfalussy chaired this group. The report itself was endorsed by the European Council and the European Parliament. The relevant documents are available on the CESR website.
5. Each Member State of the European Union has one member in the Committee. The Members are nominated by the Member States and are the heads of the national public authorities competent in the field of securities. The European Commission has nominated as its representative the Director General of the DG MARKT. Furthermore, the securities authorities of Norway and Iceland are also represented at a senior level.

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