

European Money Fund Reform

Global Liquidity and Cash Management | October 2017

At a glance

The legislative text on new regulations relating to European Money Market Funds (MMFs) was finally published in the Official Journal on 30 June 2017, and came into force on 21 July 2017.

The regulation focuses on three main areas:

- The creation of new MMF categories: Public Debt Constant NAV (CNAV) and Low Volatility NAV (LVNAV)
- Increased liquidity and diversification requirements across all types of MMFs
- Defined levels at which a Fund's Board of Directors can impose fees and gates to Public Debt CNAV and LVNAV funds

Any new MMFs launched after the 21 July 2017 are required to be compliant with the new regulations within a year. Existing MMFs (including the UBS MMFs) have been granted an 18-month transition period and are required to be compliant by no later than 21 January 2019.

Timeline/implementation period



Source: IMMFA

Current European Money Market landscape

In 2010 the European Securities and Markets Association (ESMA), defined two classifications for European MMFs: 1) Short-Term MMFs and 2) MMFs. Any fund in Europe which falls outside these two sub-categories could no longer call itself a MMF.

Summary of current MMF categories

Two types of Money Market Fund categories		
Short-Term Money Market Funds		Money Market Funds
Short-Term Constant NAV (ST CNAV)	Short-Term Variable NAV (ST VNAV)	Variable NAV (VNAV)

Both MMF categories have a primary focus on maintenance of principal and were designed to deliver broad diversification across sectors, issuers and maturities. The two categories allow for differentiation in duration and credit quality.

Whilst the new regulation will bring about changes to the MMF landscape, it is important to note that some of the proposed reforms are already being adhered to by UBS MMFs under the existing European Securities and Market Association (ESMA) guidelines and/or the Institutional Money Market Funds Association (IMMFA) Code of Practice.

The new European Money Market landscape

European MMF Reform has retained the two broad MMF categories, Short-Term MMFs and MMFs, it has however also created new sub-categories which have been outlined in the summary below.

Summary of **post-reform** MMF categories with agreed specifics

New Money Market Fund categories			
Short-Term Money Market Funds			Money Market Funds
Public Debt Constant NAV (CNAV)	Low Volatility NAV (LVNAV)	Short-Term Variable NAV (ST VNAV)	Variable NAV (VNAV)
<ul style="list-style-type: none"> Funds that invest $\geq 99.5\%$ of assets in Government or Government-guaranteed securities Funds are permitted to publish a CNAV 397 days maximum asset maturity 60 days WAM / 120 days WAL 	<ul style="list-style-type: none"> Funds can publish a CNAV provided the NAV calculation does not deviate from 1.00 by more than 20 basis points 397 days maximum asset maturity 60 days WAM / 120 days WAL 	<ul style="list-style-type: none"> 397 days maximum asset maturity 60 days WAM / 120 days WAL 	<ul style="list-style-type: none"> 2 years maximum asset maturity with 397 days maximum to next interest rate reset date 6 months WAM / 12 months WAL

Liquidity requirements

Liquidity and diversification requirements			
Short-Term Money Market Funds			Money Market Funds
Public Debt Constant NAV (CNAV)	Low Volatility NAV (LVNAV)	Short-Term Variable NAV (ST VNAV)	Variable NAV (VNAV)
<ul style="list-style-type: none"> Minimum daily and weekly liquidity requirements of 10% and 30% respectively No more than 10% in deposits or 5% in money market instruments issued by the same institution Government securities that can be redeemed or settled within 1 day and with a maturity of <190 days can be included in weekly liquidity calculations, up to a maximum of 17.5% 		<ul style="list-style-type: none"> Minimum daily and weekly liquidity requirements of 7.5% and 15% respectively No more than 10% in money market instruments issued by the same institution Shares in other MMFs can be included in weekly liquidity calculations, up to a maximum of 7.5% 	
Total exposure to ABCP is limited to 15% of the fund.			
Reverse repo is limited to 15% per counterparty.			

Fees and Gates

Proposed Fees and Gates			
Short-Term Money Market Funds			Money Market Funds
Public Debt Constant NAV (CNAV)	Low Volatility NAV (LVNAV)	Short-Term Variable NAV (ST VNAV)	Variable NAV (VNAV)
<ul style="list-style-type: none"> If weekly liquidity levels fall below 30% and if daily net redemptions exceed 10%, then the board has the discretion to introduce liquidity fees to ensure that remaining investors are not disadvantaged If weekly liquidity levels fall below 10%, then the board is obliged to implement fees or redemption gates 		<ul style="list-style-type: none"> No provisions¹ 	

¹ Excluding those provisions for all UCITS funds under Article 84 of UCITS V.

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Over the coming months, UBS Asset Management will be communicating any required adjustments to the UBS Money Market Funds. In the interim, please reach out to your UBS Asset Management advisor or one of the UBS Global Liquidity Management team members for further information.

¹ As of 30 June 2017.

For more information, please visit www.ubs.com/am-uk-institutional or contact UBS Asset Management:

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