

We've got answers

European Money Market Fund regulation



Frequently Asked Questions

European Money Market Fund regulation

In January 2019 new rules governing European Money Market Funds will come into force. These rules will have implications for the structures and features of money market funds (MMFs). We at UBS Asset Management understand that the regulation can cause uncertainty. We have prepared this document to help you understand how the proposed changes impact your investments with us.

Q. What is this regulation?

The official title is Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds, published in the Official Journal of the European Union on 30 June 2017 and entered into force on 20 July 2017.

Q. Who does it apply to?

The change to regulation applies to all MMFs established or sold in the EU and applies directly in every member state, without needing to be brought into law locally.

Q. When do MMFs have to comply with the new regulation?

Existing funds are required to be compliant by 21 January 2019. Any funds launched after July 2018 were required to be compliant at launch.

Q. What does the regulation focus on?

The regulation focuses on three main areas:

- The creation of new sub-categories under Short Term MMFs.
- Increased liquidity and diversification requirements (applies to all types of MMFs).
- Implementation of potential redemption fees and gates when the liquidity level of the fund falls below certain minimum thresholds.

Q. What are the different categories of MMFs?

As defined by the European Securities and Markets Association (ESMA), MMFs are currently divided into two main categories:

Short Term MMFs:

These funds are required to adhere to more conservative investment rules than Standard MMFs. The new regulation introduces three sub categories of Short Term MMFs: Public Debt Constant NAV (CNAV), Low Volatility NAV (LVNAV) and Variable NAV (VNAV).

Standard MMFs:

Funds that fall into this category are subject to less restrictive investment rules (such as liquidity requirements) than Short Term MMFs. They must be variably priced and are, therefore, all categorized as Standard VNAV MMFs.

For the comparison of the previous and the full range of new MMF categories, please see the graphic below:

	Current	New
Short Term MMF	CNAV (Government, Prime)	Public Debt CNAV (Government)
		Low Volatility NAV (Prime)
	VNAV	VNAV
Standard MMF	VNAV	VNAV

Q. What are the specifics to the new fund categories?

New Money Market Fund categories			
Short Term Money Market Funds			Standard Money Market Funds
Public Debt Constant NAV (CNAV)	Low Volatility NAV (LVNAV)	Short Term Variable NAV (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 on a daily basis 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

Q. What are the new minimum liquidity and diversification requirements fund categories?

Liquidity and diversification requirements			
Short Term Money Market Funds			Standard Money Market Funds
Public Debt Constant NAV (CNAV)	Low Volatility NAV (LVNAV)	Short Term Variable NAV (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 (not applicable for Public Debt Constant NAV - CNAV).			
Reverse repo is limited to 15% per counterparty.			

Q. What are the provisions for fees and gates?

Fees and gates exist under current legislation, such as UCITS. Gates allow for a temporary suspension in the redemption of MMF units, when deemed to be in the shareholder's best interest by the fund's Board of Directors. The new regulations specify that under certain circumstances (defined below) gates can be used for a maximum of 15 working days within a 90-day period.

Under these defined circumstances, the Board of Directors may also institute fees of up to 2% on redemptions to protect the fund and its remaining investors from the abnormally high cost of obtaining liquidity in extreme market stress or illiquidity.

Proposed Fees and Gates			
Short Term Money Market Funds			Standard Money Market Funds
Public Debt Constant NAV (CNAV)	Low Volatility NAV (LVNAV)	Short Term Variable NAV (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, redemption gates, suspension of redemptions or take no action If weekly liquidity levels fall below 10%, then the board is obliged to implement fees and/or redemption gates 		<ul style="list-style-type: none"> No provisions¹ 	<ul style="list-style-type: none"> No provisions¹

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

Q. What is UBS Asset Management's post regulation fund offering?

UBS Asset Management EMEA fund offering			
Short Term Money Market Funds			Standard Money Market Funds
Public Debt Constant NAV (CNAV)	Low Volatility NAV (LVNAV)	Short Term Variable NAV (VNAV)	Variable NAV
<ul style="list-style-type: none"> • UBS (Irl) Select Money Market Fund – US Treasury 	<ul style="list-style-type: none"> • UBS (Irl) Select Money Market Fund – USD • UBS (Irl) Select Money Market Fund – GBP • UBS (Irl) Select Money Market Fund – EUR¹ 	<ul style="list-style-type: none"> • No UBS offering 	<ul style="list-style-type: none"> • UBS (Lux) Money Market Fund – USD • UBS (Lux) Money Market Fund – GBP • UBS (Lux) Money Market Fund – EUR • UBS (Lux) Money Market Fund – CHF • UBS (Lux) Money Market Fund – AUD

Q. What do the changes mean to investors?

If you are investing in:

UBS (Irl) Select Money Market Fund - US Treasury, the fund will continue to be priced using amortized cost accounting for the full portfolio and operate with a constant NAV. It will be categorised as a Public Debt Constant NAV (CNAV) fund.

UBS (Irl) Select Money Market Funds (USD, GBP and EUR¹), these funds will be categorised as Low Volatility NAV (LVNAV) funds. In a normal market environment, units will continue to price at 1 USD/GBP/EUR per unit so long as the shadow market NAV does not deviate by more than 20 basis points (bps). In the unlikely event that the shadow NAV does deviate by more than 20 bps the fund will convert to a Short Term VNAV fund.

UBS (Lux) Money Market Funds (USD, GBP, EUR, CHF and AUD), these funds will remain Variable NAV (VNAV) funds.

Q. Will investors have to move to a new fund once the new regulation is fully implemented?

No. Your investment will roll in to the new structure automatically with no impact to your unit holdings, value of your units or the way you currently trade the fund.

Q. When will UBS Asset Management comply with the regulation?

We intend to be compliant with the EMEA Money Market Fund regulation on/or about 14 January 2019 (subject to change).

Q. What types of funds are most impacted by the regulation changes?

The most significant change will be to the current Constant NAV (CNAV) fund type which will change to the Low Volatility NAV (LVNAV) fund type. The key changes include:

- The portfolio level mark-to-market valuation must not deviate from the Constant NAV valuation by more than 20 bps (referred to as the 20 bps collar). If the valuation exceeds the 20 bps collar, subscription and redemption units will be priced to four decimal places, a mark-to-market NAV.
- Portfolio holdings with a maturity of up to a maximum of 75 days may be valued using the amortised cost methodology. Holdings over 75 days must be valued mark-to-market (historically the full portfolio was valued using amortised cost methodology).
- If the mark-to-market valuation on any instrument in the portfolio deviates from its amortised cost valuation by more than 10 bps, that instrument must be placed marked-to-market.

The remainder of the portfolio instruments with a maturity of up to 75 days may continue to be valued using the amortised cost methodology and investors may continue to subscribe and redeem at the two decimal Constant NAV.

- The portfolio must hold at least 10% in daily and at least 30% in weekly liquid assets (under current requirement portfolio must hold at least 10% daily and 20% weekly in liquid assets).
- If the LVNAV suspends redemptions for more than 15 days in any 90 day period, the LVNAV must convert to a VNAV MMF.

Q. What is meant by the LVNAV fund “collar”?

The LVNAV fund “collar” forms part of the valuation mechanism for the fund. LVNAV funds allow investors to purchase and redeem shares at a constant NAV calculated to 2 decimal places (e.g. \$1.00) so long as shadow market value NAV does not deviate from more than 1.00 by more than 20 bps.

Q. What is the implication in a stressed market environment for LVNAV funds?

Our MMFs seek to provide safety, security and liquidity. We will continue to utilize a conservative risk management approach with the intent that funds remain within the 20 bps collar even through a stressed market environment. In the unlikely event that there is a concern that the funds will breach the collar of 20 bps (0.2%), the Board of Directors has the discretion to delay or suspend intraday payment cycles.

Q. What is the latest information in regard to the ability to continue using Reverse Distribution Mechanism (RDM)?

The regulatory authorities have been discussing the ability of money market funds to use the RDM in the new regulatory environment. RDM enables a fund to maintain a stable NAV when interest rates are negative. If rates are negative, the fund cancels a number of the Shareholder's units corresponding to the value of the negative income, and the value of those units are retained by the fund, offsetting the negative yield so the value per share remains stable (analogous to a negative dividend). This technique has been widely used by Euro MMFs, including ours, since Euro denominated MMF rates turned negative. UBS Asset Management continues to monitor regulatory developments. Should the regulatory authorities prohibit the use of RDM, we are prepared to offer a EUR solution that is compliant with the regulation. We will communicate required changes to our investors once they are determined.

¹ UBS Asset Management will advise on the final categorisation of the UBS (Irl) Select Money Market Fund – EUR as soon as possible. More information about this fund and the use of the Reverse Distribution Mechanism (RDM) is available further within this FAQ document.

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Joseph Abed

Managing Director
Global Head of Global Liquidity and Cash Management
joseph.abed@ubs.com
+1 (212) 882-5102

James Finch

Managing Director
Head of Global Liquidity and Cash Management, EMEA
james.finch@ubs.com
+44-20-7901 6343

Christoph Kruecken

Executive Director
Global Liquidity and Cash Management, DACH
christoph.kruecken@ubs.com
+41-44-234 8873

Tia McCarthy

Director
Global Liquidity and Cash Management, UK, Ireland and Asia
tia.mccarthy@ubs.com
+44-20-7901 5373

Bastian Muehlhaus

Director
Global Liquidity and Cash Management, Continental Europe ex-DACH
bastian.muehlhaus@ubs.com
+44-20-7901 5779

Zieshan Afzal

Associate Director
Global Liquidity and Cash Management, EMEA
zieshan.afzal@ubs.com
+44-20-7567 1447

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