COUNCIL OF THE EUROPEAN UNION

Brussels, 9 September 2013 (OR. en)

13449/13

Interinstitutional File: 2013/0306 (COD)

EF 166
ECOFIN 776
CODEC 1977

PROPOSAL

From:	European Commission
date of receipt:	5 September 2013
No. Cion doc.:	COM(2013) 615 final
Subject:	Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Money Market Funds

Delegations will find attached a proposal from the Commission, submitted under a covering letter from Mr Jordi AYET PUIGARNAU, Director, to Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union.

Encl.: COM(2013) 615 final

EUROPEAN
COMMISSION

Brussels, 4.9.2013
COM(2013) 615 final

2013/0306 (COD)

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on Money Market Funds

(Text with EEA relevance)

{SWD(2013) 315 final}
{SWD(2013) 316 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

Money Market Funds (MMFs) are an important source of short-term financing for financial institutions, corporates and governments. In Europe, around 22% of short-term debt securities issued either by governments or by the corporate sector are held by MMFs. MMFs hold 38% of short-term debt issued by the banking sector.

On the demand side, MMFs offer a short-term cash management tool that provides a high degree of liquidity, diversification, stability of value combined with a market-based yield. MMFs are mainly used by corporations seeking to invest their excess cash for a short time frame, for example until a major expenditure, such as the payroll, is due.

MMFs, therefore, represent a crucial link bringing together demand and offer for short-term money. With assets under management of around 1000 billion Euros, MMFs represent a category of funds that is distinct from all other mutual funds. 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 should been operating, since July 2013, under the rules of the Alternative Investment Fund Manager (AIFM) Directive 2011/61/EU. The average size of a MMF by far exceeds the average size of a UCITS fund. For example, an individual MMF can reach the size of €50 billion. MMFs are domiciled in a few Member states with FR, IE and LU representing more than 95% of the market. The market is nevertheless highly interconnected with other countries due to the high proportion of cross border investments and investors, and the cross border contagion links between the MMF and their sponsor, in the preponderance of cases domiciled in a country different from the domicile of the MMF.

Because of the systemic interconnectedness of MMFs with the banking sector on the one hand and with corporate and government finance, on the other hand, the operation of MMFs has been at the core of the international work on shadow banking. The Financial Stability Board (FSB) and other institutions, such as the International Organisation of Securities Commissions (IOSCO) and the European Systemic Risk Board (ESRB) have analysed the financial sector and concluded that certain activities and entities were of systemic importance but had not been addressed by regulators to a sufficient degree. In the asset management sector, MMFs were singled as systemically relevant. The European Parliament adopted a resolution on shadow banking in November 2012 where it invites the Commission to submit a proposal with particular focus on the MMF issue[1].

The ESRB provided a sound analysis of the systemic risks inherent in the operation of MMFs. In particular, its recommendations pertained to the stability and the liquidity of MMFs and also contain additional transparency and reporting rules. Those recommendations have been largely reflected in the Commission's proposal while taking into account also their possible negative impacts on the financing of the European economy.

MMFs represent a convenient tool for investors because they offer features analogous to bank deposits: instantaneous access to liquidity and relative stability of value. In light of these

[1] European Parliament resolution of 20 November 2012 on shadow banking (2012/2115(INI))

characteristics, investors view MMFs as a safe and more diversified alternative to bank deposits. But in reality the MMFs are classic investment funds with the inherent market risks attached to any fund investment. Therefore when the prices of the assets in which the MMFs are invested in start to decrease, especially during stressed market conditions, a MMF cannot always maintain the promise to redeem immediately and to preserve the value of the unit or share issued by the MMF to investors. Some fund sponsors (mostly banks) may be able to 'prop up' share values by granting sponsor support, while others (mostly asset managers) may not have the capital to do so. Due to the maturity mismatch between the daily liquidity that an MMF offers to investors and the liquidity of assets held in the MMF portfolio, immediate redemption might not always be possible. The promise of stable redemption prices is often underlined by an AAA rating. The downside is that investors, as soon as they perceive a risk that the MMFs may fail to live up the promise of liquidity and stable redemptions at any time, will redeem, possibly leading to a so-called investor "run".

Investor runs are characterized by massive and sudden redemption requests by a large group of investors aiming to avoid losses and be able to redeem at the highest possible price. Investor runs are systemically relevant as they force MMFs to sell their assets rapidly in order to meet outstanding redemption requests. The spiral of redemptions itself accelerates the decline in the fund's net asset value (NAV), thus exacerbating declines in the NAV and the fear that the money market as a whole is unstable. Because MMFs play a central role in the short term funding of entities like banks, corporations or governments, investor runs on MMFs may cause broader macroeconomic consequences. While banks account for the largest part (85%) of the 1000 billion EUR of financial instruments issued to MMFs, governments represent a share of around 10% whereas corporates account for roughly 5%. Governments and very large corporates use the money market as a means to obtain short term financing, alongside bank credit lines.

The problems linked to investor runs are of a systemic nature due to: (1) MMFs close links to the real economy (the role that MMFs play in satisfying the short-term financing needs of entities using the money market as a funding tool), (2) their link to sponsors. In addition, runs on MMFs also have an investor protection angle, since those that redeem late (usually private investors) are at an inherent disadvantage when compared to early redeemers.

The proposed Regulation addresses these problems. It introduces common standards to increase the liquidity of MMFs as well as to ensure the stability of their structure. Uniform rules will be introduced to ensure a minimum level of daily and weekly liquid assets. A standardized policy will be established to permit the fund manager to gain a better understanding of its investor base. Common rules are also introduced to guarantee that MMFs invest in high quality and well diversified assets of good credit quality. These measures shall ensure that the liquidity of the fund is adequate to face investors' redemption requests.

The stability of the MMF will be ensured through the creation of clear and harmonized valuation rules for the assets in which the MMFs invest in. These valuation rules will restore the evident truth that MMFs are normal mutual funds whose investment assets are subject to price fluctuations.

Certain MMFs will have the possibility to maintain the accounting methodology permitting a stable subscription and redemption price on condition that they build up appropriate cash reserves. This so-called "NAV buffer" shall serve to absorb the market movements inherent in the capital markets. This should also prevent that sponsors be unprepared should their MMFs require external support. The buffer will amount to 3% of the assets under management of the

MMF. According to the observed events of sponsor support during the crisis (123 instances on US MMFs), only 3 times the support was higher than 3%. When the Reserve Primary Fund defaulted in 2008, it lost 3% on 1.5% exposure to Lehman assets. The buffer will not provide a full guarantee to the holders of CNAV shares but the level strikes the balance between the need to have a robust and safe CNAV model and the financing capacities of the managers. The costs for the MMF will depend on the financing costs of each manager. These costs may vary between 3% and 10% annually. Applied to a buffer of 3%, this would result in an increase of the management fees of 0.09% to 0.30% annually. It is expected that a portion of this cost increase will be paid by the manager while the rest will be passed on to the investors. The fee increase will have an impact on the yield that investors can achieve in investing in MMFs but on the other hand they will benefit from a product with an additional layer of insulation against market movements in the underlying assets.

In addition to these provisions, a common rule on rating will ensure that fund managers and investors stop relying on external credit ratings that could be detrimental to the functioning of the money market when downgrades occur. These measures will be accompanied by increased transparency requirements to ensure that the investor correctly understands the risk and reward profile of its investment.

The proposed regulation will rely on the existing authorisation procedures for UCITS which are harmonised by the UCITS Directive. It will introduce a harmonised authorisation procedure for AIF MMFs, as the AIFM Directive leaves authorisation of AIFs at the discretion of Member States. The harmonised procedure for AIF MMFs will mirror the harmonised authorisation procedure foreseen for UCITS. Managers will continue to be regulated by either the UCITS or AIFM Directive but managers and funds falling under the scope of this Regulation will have to comply with this additional layer of specific MMF product rules.

These uniform rules intend to safeguard the integrity of the internal market and increase its robustness to minimise the effects of a new crisis. Investors will gain awareness over the risks attached to these regulated products and certainty about the homogenous investment proposition associated with money market funds in the Union. Managers will benefit from harmonized product rules all over Europe. Issuers of money market instruments will profit from a more stable environment that will preserve the role of MMFs as a financing tool.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENTS

2.1. Consultation with interested parties

As of the beginning of 2012 the Commission has engaged in extensive consultation with representatives from a wide range of organizations. The interaction has taken the form of bilateral and multilateral meetings, one public consultation on shadow banking, one public consultation on asset management issues including MMFs and a public conference on shadow banking. Through this process the Commission has obtained a wealth of information about the functioning of the MMF market and its various segments, as well as views on the issues to be solved and how to solve them.

2.1.1. Green paper on shadow banking

The responses to the Green Paper offered a broad picture of the European shadow banking sector. This allowed for the development of more targeted questions specific to the operation of MMFs in a public consultation on asset management that was launched in July 2012. A public conference in April 2012, attended by stakeholders from the EU and the US, also contained a section devoted to MMFs. Representatives from the regulatory and industry sides, forming the panel on MMFs, presented their views on the need to reform the EU MMF market.

2.1.2. Consultation on asset management

A MMF chapter has been introduced in a broader public consultation on various asset management issues published on 26 July 2012 (this consultation closed on 18 October 2012). The Commission services received 56 responses related to the MMF section.

2.2. Impact assessment

In line with its policy on "better regulation", the Commission conducted an impact assessment examining various policy alternatives. In order to ensure the liquidity and the stability of MMFs, a total of 16 options were analysed. All these options were analysed against the general objectives, namely to enhance the financial stability in the single market and to increase the protection of MMF investors, but also against the more specific objectives of this initiative: (i) to prevent the risk of contagion to the real economy, (ii) to prevent the risk of contagion to the sponsor and, (iii) to reduce the disadvantages for late redeemers, especially with respect to redemptions in stressed market conditions.

The impacts including the costs and benefits on the various stakeholders, investors, asset managers, issuers of short term debt, sponsors were analysed. Such analysis concluded in favour of the creation of a more robust framework for MMFs: increased liquidity levels and more stable structure. The impact of the preferred options is expected to benefit the MMFs and the money market in general by improving their resilience against stressed market conditions. This shall result in a more stable money market environment in Europe that will profit to investors, issuers of short term debt and banks sponsoring MMFs.

DG MARKT services met the Impact Assessment Board on 16 January 2013. The Board analysed this Impact Assessment and delivered its positive opinion on 18 January 2013. During the meeting the members of the Board provided DG MARKT services with comments to improve the content of the Impact Assessment that led to some changes to the final draft. The problem definition has been improved to provide greater detail on the MMF markets and its description was enriched with further examples in the Union illustrating, in particular, the cross-border dimension of the problems. The objectives and the options with the identified problems have been better linked and more quantifiable operational objectives have been used. The impacts on investors as well as the compliance costs that the envisaged measures would entail have been explained in more detail. The impacts on Member States and on international regulatory coherence have also been better described. Finally the stakeholder's views, in particular in the sections analysing and comparing the options, have been systematically introduced.

3. LEGAL ELEMENTS OF THE PROPOSAL

3.1. Legal basis and choice of the legal form

Article 114(1) TFEU provides the legal basis for a Regulation creating uniform provisions aimed at the functioning of the internal market. Prudential product rules establish the limits of the risks linked to MMFs. As such, they do not regulate access to asset management activities but govern the way such activities are carried out in order to ensure investor protection and financial stability. They underpin the correct and safe functioning of the internal market.

In pursuit of the objective of the internal market integrity the proposed legislative measure will create a regulatory framework for MMFs in view of ensuring an increased protection of investors in MMFs, as well as enhancing financial stability by preventing contagion risk. The proposed provisions will specifically target to ensure that the liquidity of the fund is adequate to face investor redemption requests and to render the structure of MMFs safe enough to withstand adverse market conditions. A Regulation is considered to be the most appropriate legal instrument to introduce uniform requirements that will deal, amongst others with the scope of eligible assets, with diversification rules, rules related to exposures to credit, interest rate and liquidity risks, as well as rules regarding the authorisation of the funds intending to engage in money market investment. These are essentially prudential product rules that aim to render the European MMFs more secure and efficient, mitigating hereto related systemic risk concerns.

The taking up of activities as fund manager is regulated either by the UCITS Directive or by the AIFM Directive. The activities of the managers will continue to be subject to AIFMD and UCITS Directive but the product rules contained under UCITS framework will be supplemented by the product rules contained in this new Regulation.

3.2. Subsidiarity and proportionality

National regulatory approaches are inherently limited to the Member State in question. Regulating the product and liquidity profile of a MMF at national level only entails a risk of different products all being sold as MMFs. This would create investor confusion and would impede the emergence of a Union wide level playing field for those who offer MMFs to either professional or retail investors. Equally, different national approaches concerning the essential characteristics of a MMF would increase the risk of cross-border contagion, especially when issuers and the MMF are located in different Member States. As MMFs invest in a broad range of financial instruments across the EU, the failure of one MMF (due to insufficient regulation at national level) would have repercussions on Government and corporate financing across the EU.

In addition, as many operators that offer MMFs in Europe are domiciled in Member States other than those where the funds are marketed, the creation of a robust framework is essential to avoid cross-border contagion. Cross-border contagion should also be avoided between a MMF and its sponsor that is often located in a different Member State. This is especially acute when the sponsor is located in a Member State that may not have the budgetary resources to bail out a defaulting sponsor.

As regards proportionality, the proposal strikes the appropriate balance between the public interest at stake and the cost-efficiency of the measure. The requirements imposed on the different parties have been carefully calibrated. Whenever possible, requirements have been crafted as minimum standards (e.g., daily or weekly liquidity, issuer concentration limits) and regulatory requirements have been tailored so as not to unnecessarily disrupt existing business models (e.g., providing for appropriate transitional periods before the NAV of a MMF has to be floated or leaving operators the choice between stringent capital requirements and floating the NAV of their MMF). In particular, the need to balance investor protection, avoidance of cross-border contagion, efficiency of the markets, the financing of the European industry and costs for the industry have all been balanced in laying out these requirements.

3.3. Impact on fundamental rights issues

The proposal has relevance for the impact on two fundamental rights of the European Charter of Fundamental Rights, namely the freedom to conduct business (Article 16 and 22) and consumer protection (Article 38).

The general interest objective of the proposal, which justifies certain limitations of the above-mentioned fundamental rights, is the objective of ensuring market integrity and stability. The freedom to conduct business may be impacted by the necessity to follow the specific objectives of ensuring sufficient liquidity, preventing the risk of contagion and enhancing safeguarding of investors' interests. However, the proposal fully respects the essence of this fundamental freedom. The proposed new rules will overall reinforce the right to consumer protection (Art. 38), whilst respecting the fundamental rights and observing the principles recognised in the Charter of Fundamental Rights of the European Union as enshrined in the Treaty on the Functioning of the European Union.

3.4. Detailed explanations of the proposal

The proposal for a Regulation on Money Market Funds (MMF) is structured in nine chapters.

3.4.1. Chapter I –General provisions (Articles 1-6)

Chapter I deals with general rules, such as the subject matter and scope of the proposed rules, definitions, the authorisation of MMFs and the interplay of the proposed Regulation with existing rules contained in Directives 2009/65/EC (UCITS) and 2011/61/EU (AIFMD).

Article 1 specifies the subject matter and specifies the scope of the proposed Regulation as applying to all MMFs established, managed and/or marketed in the Union and specifies that the requirements contained in the Regulation are intended to be exhaustive, that is that they are conceived as leaving no scope for additional 'gold-plating' at national level. MMFs are either UCITS or AIFs that invest in short-term financial instruments and have specific objectives. Article 2 contains essential definitions necessary for the uniform application of the proposed Regulation. Article 3 requires that collective investment undertakings be authorised explicitly as MMF either as part of the harmonised authorisation procedure of UCITS or following the new harmonised procedure laid down in Article 4 for AIFs. Article 5 reserves the designation 'MMF' only to funds that comply with the Regulation. Article 6 describes the interaction between the existing UCITS and AIFMD rules and the new MMF Regulation, essentially specifying that compliance with the Regulation shall be incumbent on the manager of the MMF.

3.4.2. Chapter II – Obligations concerning the investment policies of MMFs (Articles 7-20)

Chapter II contains the rules on permissible investment policies to be pursued by an MMF, such as eligible assets, diversification, concentration and credit quality of investment assets.

Article 7 describes the relationship with the UCITS rules on investment policies and the proposed rules on investment policies of MMF, considering that the MMF constitutes a lex specialis in relation to the UCITS rules specifically enumerated in Article 7. Article 8 describes four categories of financial assets that an MMF can invest in: money market instruments, deposits with credit institutions, financial derivatives and reverse repurchase agreements. On the other hand, a MMF may not invest in any other assets, engage in short selling of money market instruments, gain exposure to equities or commodities, enter into securities lending or securities borrowing agreements, enter into repurchase agreements or borrow or lend cash, as these asset classes and practices would undermine the liquidity profile of an MMF. Articles 9 to 13 further describe the eligibility conditions for the four categories of assets that a MMF can invest in. In particular Article 13 contains rules aimed at ensuring that the collateral received in exchange of a reverse repurchase agreement is sufficiently liquid to permit its rapid sale when needed.

Article 14 contains detailed rules on the diversification of eligible investment assets that each MMF has to respect, such as upper limits on how much a single issuer can represent (as a percentage of the MMFs assets under management) and rules on maximum risk exposure that an MMF can have vis-à-vis a single counterparty. Article 15, on the other hand, addresses the maximum limits that an MMF (as investor) can hold in a single issuer (concentration limits). In order to reduce mechanistic reliance on external ratings, Articles 16 to 19 contain detailed rules on an internal assessment of the credit quality of MMF investment instruments. Article 20 describes the governance requirements governing the internal credit rating process, in particular the role of senior management.

3.4.3. Chapter III – Obligations concerning the risk management of MMFs (Articles 21-25)

Chapter III deals with risk management aspects, such as the maturity and the liquidity profile of MMFs' assets, soliciting of ratings, and so-called 'know-your-customer' policies and stress testing that an MMF is obliged to introduce.

The new rules on weighted average maturity (WAM) and weighted average life (WAL), combined with the requirements on holdings of daily and weekly maturing assets are essential planks in increasing the liquidity profile of an MMF and thus its ability to satisfy investor redemptions. Article 21 contains the important provision on the maturity profile that short-term MMF have to comply with. Article 22 contains corresponding rules for standard MMFs which invest in longer term instruments than a short-term MMF. Standard MMFs have different maturity limits, such as WAL and WAM, and can use a lower diversification limit for the investments in money market instruments issued by the same entity. These features are coherent with the objectives of standard MMFs to offer slightly higher returns than money market rates. The characteristics of this MMF category are also coherent with the fact that standard MMFs cannot be managed as a constant NAV MMF (Article 22(5)) and are therefore less prone to massive outflows.

Article 23 prevents an MMF from soliciting or financing an external credit rating and thus complements the rules on internal ratings contained in Articles 16 to 19. Article 24 introduces requirements on 'knowing-your-customer'. The aim of these rules is to allow MMFs to better anticipate redemption cycles. Article 25 contains rules on stress testing.

3.4.4. *Chapter IV – Valuation rules (Articles 26-28)*

Chapter IV deals with the valuation of an MMF's investment assets and the calculation of the MMF's net asset value per unit or share.

Articles 26 to 28 contain rules on how an MMF has to value its individual investment assets, calculate the net asset value (NAV) per unit or share of the MMF, as well as the frequency of both sets of valuations. While there is a general rule favouring mark-to-market valuation, MMFs may also use marking to model, where marking to market is not possible or market data are not of sufficient quality. Only CNAV MMFs may also value assets at amortised cost. The method chosen for calculating the NAV is particularly important when issuing and redeeming shares or units in a MMF (Article 26).

3.4.5. *Chapter V – Specific requirements for CNAV MMFs (Articles 29-34)*

Chapter V contains specific requirements for MMFs that value their assets at amortised cost or advertise a constant NAV per unit or share or round the constant NAV per unit or share to the nearest percentage point– so-called constant NAV or CNAV MMF.

Article 29 contains specific authorisation requirements that apply only to MMFs that use amortised cost to value their assets or advertise a constant NAV per unit or share or round the constant NAV per unit or share to the nearest percentage point. These CNAV MMFs must establish and maintain at all times a buffer amounting to at least 3% of the total value of their assets. Article 30 describes the constitution of the buffer (the "NAV buffer"), while Article 31 describes its operation. Most importantly, Article 31 contains the rule that the NAV buffer can only be used to compensate the difference between the constant NAV per unit or share and the 'real' value of a unit or share. In addition, Article 31 contains rules on when the NAV buffer must be debited and when it can be credited. Finally, Articles 32 to 34 contain the obligation to replenish the buffer and the consequences of a failure to replenish the NAV buffer.

3.4.6. *Chapter VI – External support (Articles 35-36)*

Chapter VI contains rules on external support. It lays down the rule that CNAV MMFs may receive external support only through the NAV buffer, whereas other MMFs are as a rule prohibited from receiving external support

Article 35 describes what needs to be understood by external support and contains a non-exhaustive enumeration of instances of external support. The aim of this Article is twofold: to ensure that all 'sponsor' support is granted to CNAV MMFs via the transparent mechanism provided for in Article 31 by having recourse to a pre-established NAV buffer or, if sponsor support is granted to other MMFs, that the competent authorities allow such support only if exceptional circumstances linked to the maintenance of financial stability justify the ad hoc grant of sponsor support (Article 36).

3.4.7. *Chapter VII – Transparency requirements (Articles 37-38)*

Chapter VII contains transparency rules when MMFs are advertised to investors and reporting requirements to competent authorities.

Article 37 contains special transparency requirements. Article 38 establishes reporting requirements on all MMFs that apply in addition to the requirements under Directives 2009/65 and 2011/61.

3.4.8. Chapter VIII – Supervision (Articles 39-42)

Chapter VIII contains the applicable rules on supervision of MMFs: Article 39 explains the respective roles of the competent authorities of the MMF and of the manager of the MMF. Article 40 states that the powers of competent authorities under the UCITS and AIFM Directives should be exercised also by reference to the proposed Regulation. Article 41 refers to ESMA's powers, whereas Article 42 provides for the cooperation between authorities.

3.4.9. Chapter IX – Final provisions (Articles 43-46)

Chapter IX contains rules on the treatment of existing UCITS and AIFs acting as MMFs to ensure their compliance with the new rules on MMFs and a review clause for the application of NAV buffers to certain CNAV MMFs In particular, Article 43 states how existing UCITS and AIFs that meet the criteria of the definition of a CNAV MMF should build progressively the NAV buffer. Article 45 states that the application of NAV buffers to CNAV MMF that concentrate their portfolios on debt issued or guaranteed by Member States should be reviewed by three years after the entry into force of this regulation.

4. BUDGETARY IMPLICATION

Work on the reform of MMFs has been closely coordinated with the European Securities Market Authority (ESMA). Commission experts in the area of fund management have been in regular contact with their counterparts at ESMA; both in the context on the operational working group on MMFs and in the Standing Committee on Investment Management Services established at ESMA.

Indeed, ESMA suspended on-going work on MMFs because the Commission announced its intention to propose legislation in the area, amongst other issues, enshrining certain principles contained in pre-existing CESR and ESMA guidelines on MMFs into the corpus of primary law. This suspension came against the background of ESMA having already started a work-stream on 'alternative rating methodologies'. This work-stream was instituted in order to substitute credit ratings issued on money market instruments by credit rating agencies. ESMA has suspended this work-stream in order to await the formal mandate that this work would receive by virtue of proposed legislation. In addition, as part of its efforts on establishing convergence in the field of MMFs, ESMA is already engaged in creating a database on supervisory practices and adherence to its existing guidelines.

Hence, ESMA is already well equipped to fulfil the mandate in the proposed Regulation; indeed all of this work had already commenced prior to the Commission's proposal on MMF.

In these circumstances, the Commission has not identified implications for the EU budget. In light of the above, no additional funding and no additional posts will be required for ESMA to perform the tasks that the proposed legislation will entrust to it: developing an alternative rating methodology and setting up a database of approved MMF. As explained above, these tasks are already part of well-established work-streams within ESMA.

Work on defining operational rules in the area of MMF furthermore already fall within the scope of existing responsibilities of ESMA: As part of its overall task of supervising and creating regulatory convergence in the field of UCITS funds, ESMA has already dedicated staff resources to developing policy and supervisory tools with respect to MMFs, a special category of funds that are regulated either as UCITS or as AIFs.

In pursuance of these efforts CESR, the predecessor of ESMA has, in May 2010, issued extensive guidelines on MMF (CESR 10/049).

In 2012 ESMA conducted a resource-intensive peer review to assess how Member States applied the guidelines in practice (12 Member States applied the guidelines while eight had not transposed them into their regulatory practice).

In 2013, the MMF Guidelines were supplemented by detailed Q&A.

2013/0306 (COD)

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on Money Market Funds

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national Parliaments,

Having regard to the opinion of the European Economic and Social Committee[2],

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) Money market funds (MMF) provide short-term finance to financial institutions, corporates or governments. By providing finance to these entities, money market funds contribute to the financing of the European economy.

(2) On the demand side, MMFs are short-term cash management tools that provide a high degree of liquidity, diversification, stability of value of the principal invested combined with a market-based yield. MMFs are mainly used by corporations seeking to invest their excess cash for a short time frame. MMFs, therefore, represent a crucial link bringing together demand and offer of short-term money.

(3) Events that occurred during the financial crisis have shed light on several features of MMFs that make them vulnerable when there are difficulties in financial markets and therefore may spread or amplify risks through the financial system. When the prices of the assets in which the MMFs are invested in start to decrease, especially during stressed market situations, the MMF cannot always maintain the promise to redeem immediately and to preserve the principal value of a unit or share issued by the MMF to investors. This situation may trigger massive and sudden redemption requests, potentially causing broader macroeconomic consequences.

[2] OJ C , , p. .

(4) Large redemption requests force MMFs to sell some of their investment assets in a declining market, fuelling a liquidity crisis. In these circumstances, money market issuers can face severe funding difficulties if the market of commercial papers and other money market instruments dries up. Any contagion to the short term funding market could then also represent direct and major difficulties for the financing of the financial institutions, corporations and governments, thus the economy.

(5) Asset managers, helped by sponsors, may decide to provide discretionary support to maintain the liquidity and the stability of their MMFs. Sponsors are often forced to support their sponsored MMFs when losing value due to the reputational risk and fear that panic could spread into the sponsor other businesses. Depending on the size of the fund and the extent of redemption pressure, sponsor support may reach proportions that exceed their readily available reserves. Therefore, it is important to provide for a framework of uniform rules in order to prevent the failure of the sponsor and risk contagion to other entities that sponsor MMFs.

(6) In order to preserve the integrity and stability of the internal market by promoting more resilient MMFs and limiting contagion channels, it is necessary to lay down rules regarding the operation of MMFs, in particular on the composition of the portfolio of MMFs. Uniform rules across the Union are necessary to ensure that MMFs are able to immediately redeem investors, especially during stressed market situations. Uniform rules on the portfolio of a money market fund are also required to ensure that MMFs are able to face massive and sudden redemption requests by a large group of investors.

(7) Uniform rules on MMFs are also necessary to ensure smooth operation of the short term funding market for financial institutions, corporate issuers of short term debt and governments. They are also required to ensure equal treatment among MMF investors and to avoid that late redeemers have to support additional inconvenience when redemptions are temporarily suspended or when the MMF is liquidated.

(8) It is necessary to provide for the harmonisation of prudential requirements related to MMFs by setting out clear rules that impose direct obligations on MMFs and their managers throughout the Union. This would enhance stability of MMFs as a source of short-term finance for government and the corporate sector across the Union. It would also ensure that MMFs remain a reliable tool for the cash management needs of the Union's industry.

(9) The MMF Guidelines adopted by the Committee of European Securities Regulators (CESR) to create a minimum level playing field for MMFs in the Union were implemented one year after their entry into force only by 12 Member States thus demonstrating the persistence of divergent national rules. Different national approaches fail to address the vulnerabilities of the Union money markets, as evidenced during the financial crisis, and to mitigate the contagion risks thereby endangering the functioning and stability of the internal market. These common rules on MMFs should therefore provide for a high level of protection of investors and should prevent and mitigate any potential contagion risks resulting from possible runs by investors in MMFs.

(10) In the absence of a Regulation setting out rules on MMFs, diverging measures might continue to be adopted at national level, which would continue to cause significant distortions of competition resulting from important differences in essential investment

protection standards. Diverging requirements on portfolio composition, eligible assets, their maturity, liquidity and diversification, as well as on credit quality of issuers of money market instruments lead to different levels of investor protection because of the different levels of risk attached to the investment proposition associated with a money market fund. The failure to adopt strict common rules applicable to MMFs in the internal market prevents uniform investor protection and gives investors different incentives to redeem their investments and thereby trigger a run. It is therefore essential to avoid contagion into the short term funding market and to the sponsors of the MMF which would largely put at risk the stability of the Union's financial market by adopting a uniform set of rules.

(11) The new rules on MMFs are closely linked to Directive 2009/65/EC[3] and Directive 2011/61/EU[4] since they form the legal framework governing the establishment, management and marketing of MMFs in the Union.

(12) In the Union, collective investment undertakings may operate as undertakings for collective investment in transferable securities (UCITS) managed by UCITS managers or investment companies authorised under Directive 2009/65/EC or as alternative investment funds (AIFs) managed by alternative investment fund managers (AIFMs) authorised or registered under Directive 2011/61/EU. The new rules on MMFs supplement the provisions of those Directives. Hence the new uniform rules on MMFs should apply in addition to those laid down in Directives 2009/65/EC and 2011/61/EU. At the same time, a number of rules concerning the investment policies of UCITS laid down in Chapter VII of Directive 2009/65/EC should be explicitly dis-applied and specific product rules should be laid down in these new uniform provisions on MMFs.

(13) Harmonised rules should apply to collective investment undertakings whose characteristics correspond to those associated with a MMF. For UCITS and AIFs that invest in short term assets such as money market instruments or deposits, or enter reverse repurchase agreements, or certain derivative contracts with the only purpose of hedging risks inherent to other investments of the fund, and that have the objective of offering returns in line with money market rates or of preserving the value of the investment, compliance with the new rules on MMFs should be mandatory.

(14) The specificity of MMFs results from a combination of the assets in which they invest and the objectives they pursue. The objective to offer a return in line with money market rates and the objective to preserve the value of an investment are not mutually exclusive. A MMF may have either one of these objective or both objectives jointly.

(15) The objective of offering returns in line with money market rates should be understood in a broad sense. The anticipated return does not need to be perfectly aligned with EONIA, Libor, Euribor or any other relevant money market rate. An objective to outperform the money market rate by a slight margin should not be considered to take a UCITS or AIF outside the scope of the new uniform rules.

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3 Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 302, 17.11.2009, p. 32).

4 Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (OJ L 174, 1.7.2011, p. 1).

(16) The objective of preserving the value of the investment should not be understood as a capital guarantee promised by the fund. It should be understood as an aim that the UCITS or AIF seeks to pursue. A decrease in value of the investments should not imply that the collective investment undertaking has changed the objective to preserve the value of an investment.

(17) It is important that UCITS and AIFs that have the characteristics of MMFs be identified as MMFs and that their capacity to comply on an on-going basis with the new uniform rules on MMFs be explicitly verified. For this purpose competent authorities should authorise MMFs. For UCITS the authorisation as MMF should be part of the authorisation as UCITS in accordance with the harmonised procedures envisaged in Directive 2009/65/EC. For AIFs, as they are not subject to harmonised authorisation and supervision procedures under Directive 2011/61/EU, it is necessary to provide for common basic rules on authorisation that mirror the existing UCITS harmonised rules. Such procedures should ensure that an AIF authorised as a MMF has as manager an alternative investment fund manager (AIFM) authorised in accordance with Directive 2011/61/EU.

(18) In order to make sure that all collective investment undertakings displaying the characteristics of MMFs are subject to the new common rules on MMFs, it is necessary to prohibit the use of the designation 'MMF' or any other term that suggests that a collective investment undertaking shares the characteristics of MMFs unless this Regulation is complied with. To prevent circumvention of the MMF rules, competent authorities should monitor the market practices of collective investment undertakings established or marketed in their jurisdiction to verify that they do not misuse the MMF designation or suggest that they are a MMF without complying with the new regulatory framework.

(19) The new rules applicable to MMFs should build on the existing regulatory framework established through Directive 2009/65/EC and Directive 2011/61/EU and the acts adopted for their implementation. Therefore, the product rules concerning MMFs should apply in addition to the product rules laid down in the existing Union legislation unless they are explicitly dis-applied. Furthermore, the management and marketing rules laid down in the existing framework should apply to MMFs taking into account whether they are UCITS or AIFs. Equally, the rules on the cross-border provision of services and freedom of establishment laid down in Directives 2009/65/EC and 2011/61/EU should apply accordingly to the cross-border activities of MMFs.

(20) Given that UCITS and AIFs may take different legal forms that do not necessarily endow them with legal personality, the provisions requiring MMFs to take action should be understood to refer to the manager of the MMF in cases where the MMF is constituted as a UCITS or an AIF that is not in a position to act by itself because it has no legal personality of its own.

(21) Rules on the portfolio of MMFs would require a clear identification of the categories of assets that should be eligible for investment by MMFs and of the conditions under which they are eligible. To ensure the integrity of MMFs is also desirable to prohibit a MMF from engaging in certain financial transactions that would endanger its investment strategy and objectives.

(22) Money market instruments are transferable instruments normally dealt in on the money market, as treasury and local authority bills, certificates of deposits, commercial papers, bankers' acceptances or medium- or short-term notes. They should be eligible for investment by MMFs only insofar as they comply with maturity limits and are considered by the MMF to be of high credit quality.

(23) Asset Backed Commercial Papers (ABCPs) should be considered eligible money market instruments to the extent that they respect additional requirements. Due to the fact that during the crisis certain securitisations were particularly unstable, it is necessary to impose maturity limits and quality criteria on the underlying assets. Not all categories of underlying assets should be eligible because some were more confronted to instability than others. For this reason the underlying assets should be exclusively composed of short-term debt instruments that have been issued by corporates in the course of their business activity, such as trade receivables. Instruments such as auto loans and leases, equipment leases, consumer loans, residential mortgage loans, credit card receivables or any other type of instrument linked to the acquisition or financing of services or goods by consumers should not be eligible. ESMA should be entrusted with drafting regulatory technical standards to be submitted for endorsement by the Commission with regard to the conditions and circumstances under which the underlying exposure or pool of exposures is considered to exclusively consist of corporate debt and the conditions and numerical thresholds determining when corporate debt is of high credit quality and liquid.

(24) A MMF should be allowed to invest in deposits to the extent that it is able to withdraw the money at any time. The effective possibility of withdrawal would be impaired if the penalties associated with the early withdrawal are so high as to exceed the interest accrued prior to withdrawal. For this reason the MMF should take due care not to make deposits with a credit institution that requires above average penalties or to engage in too long deposits where this results in too high penalties.

(25) Financial derivative instruments eligible for investment by a MMF should only serve the purpose of hedging interest rate and currency risk and should only have as an underlying instrument interest rates, exchange currencies or indices representing these categories. Any use of derivatives for another purpose or on other underlying assets should be prohibited. Derivatives should only be used as a complement to the fund strategy but not as the main tool for achieving the fund's objectives. Should a MMF invest in assets labelled in another currency than the currency of the fund, it is expected that the MMF manager would hedge the entire currency risk exposure, including via derivatives.

(26) Reverse repurchase agreements could be used by MMFs as a means to invest excess cash on a very short-term basis, provided that the position is fully collateralized. In order to protect the interests of the investors it is necessary to ensure that the collateral provided in the framework of reverse repurchase agreements be of high quality. All other efficient portfolio management techniques, including securities lending and borrowing, should not be used by the MMF as they are likely to impinge on achieving the investment objectives of the MMF.

(27) In order to limit risk-taking by MMFs it is essential to reduce counterparty risk by subjecting the portfolio of MMFs to clear diversification requirements. To this effect it is also necessary that the reverse repurchase agreements be fully collateralized and

that, for limiting the operational risk, one reverse repurchase agreement counterparty cannot account for more than 20% of the MMF's assets. All over-the-counter (OTC) derivatives should be subject to Regulation (EU) No 648/2012[5].

(28) For prudential reasons and for avoiding the exercise of significant influence over the management of an issuing body by the MMF, it is necessary to avoid excessive concentration by a MMF in investments issued by the same issuing body.

(29) The MMF should have a responsibility to invest in high quality eligible assets. Therefore, a MMF should have a prudent and rigorous internal assessment procedure for determining the credit quality of the money market instruments in which it intends to invest. In accordance with Union legislation limiting over-reliance on credit ratings, it is important that MMFs avoid any mechanistic reliance on ratings issued by rating agencies when assessing the quality of eligible assets. For this purpose the MMF should establish an internal rating system based on a harmonised rating scale and an internal assessment procedure.

(30) For the purpose of avoiding that MMF managers use different assessment criteria for evaluating the credit risk of a money market instrument and thus attribute different risk characteristics to the same instrument, it is essential that managers rely on the same criteria. To this effect the rating criteria should be precisely defined and harmonized. Examples of internal rating criteria are quantitative measures on the issuer of the instrument, such as financial ratios, balance sheet dynamics, profitability guidelines, which are evaluated and compared to those of industry peers and groups; qualitative measures on the issuer of the instrument, such as management effectiveness, corporate strategy, which are analysed with a view to determining that the issuer's overall strategy does not impede on its future credit quality. The highest internal ratings should reflect the fact that the creditworthiness of the issuer of the instruments is maintained at all times at the highest possible levels.

(31) In order to develop a transparent and coherent internal rating system, the manager should document the procedures used for the internal assessment. This should ensure that the procedure follows a clear set of rules that can be monitored and that the methodologies employed are communicated upon request to the interested stakeholders.

(32) To reduce MMF portfolio risk it is important to set maturity limitations, providing for a maximum allowable weighted average maturity (WAM) and weighted average life (WAL).

(33) WAM is used to measure the sensitivity of a MMF to changing money market interest rates. When determining the WAM, managers should take into account the impact of financial derivative instruments, deposits and reverse repurchase agreements and reflect their effect on the interest rate risk of the MMF. When a MMF enters into a swap transaction in order to gain exposure to a fixed rate instrument instead of a floating rate this should be taken into account for determining the WAM.

[5] Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201, 27.7.2012, p. 1).

(34) WAL is used to measure the credit risk, as the longer the reimbursement of principal is postponed, the higher is the credit risk. WAL is also used to limit the liquidity risk. Contrary to the calculation of the WAM, the calculation of the WAL for floating rate securities and structured financial instruments does not permit the use of interest rate reset dates and instead only uses a financial instrument's stated final maturity. The maturity used for calculating the WAL is the residual maturity until legal redemption, since this is the only date at which the management company can be assured that the instrument will have been reimbursed. Features of an instrument, such as the possibility to redeem at specific dates, the so-called put options, cannot be taken into account for calculating the WAL.

(35) In order to strengthen MMFs' ability to face redemptions and prevent MMFs assets from being liquidated at heavily discounted prices, MMFs should hold on an on-going basis a minimum amount of liquid assets that mature daily or weekly. To calculate the proportion of daily and weekly maturing assets, the legal redemption date of the asset should be used. The possibility for the manager to terminate a contract on a short term basis can be taken into consideration. For instance, if a reverse repurchase agreement can be terminated with a one day prior notice, it should count as a daily maturing asset. If the manager has the possibility to withdraw money from a deposit account with a one day prior notice, it can count as a daily maturing asset.

(36) Given that MMFs may invest in assets with different maturity ranges, investors should be able to distinguish between different categories of MMF. Therefore, MMFs should be classified as either short-term MMF or as standard MMF. Short-term MMFs have the objective of offering money market rate returns while ensuring the highest possible level of safety for the investors. With short WAM and WAL, the duration risk and credit risk of short-term MMFs are kept at low levels.

(37) Standard MMFs have the objective of offering returns slightly higher than money market returns, and therefore they invest in assets that have an extended maturity. Moreover, to achieve this outperformance, this category of MMFs should be permitted to employ extended limits for the portfolio risk such as weighted average maturity and weighted average life.

(38) Under the rules laid down in Article 84 of Directive 2009/65/EC, the managers of UCITS MMFs have the possibility to temporarily suspend redemptions in exceptional cases where circumstances so require. Under the rules laid down in Article 16 of Directive 2011/61/EU and in Article 47 of the Commission Delegated Regulation (EU) No 231/2013[6], the managers of AIF MMFs may use special arrangements in order to cope with a supervening illiquidity of the funds' assets.

(39) It is important that the risk management of MMFs not be biased by short-term decisions influenced by the possible rating of the MMF. Therefore, it is necessary to prohibit a MMF or its manager from requesting that the MMF is rated by a credit rating agency in order to avoid that this external rating is used for marketing purposes. The MMF or its manager should also refrain from using alternative methods for obtaining a rating of the MMF. Should the MMF be awarded an external rating, either

[6] Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (OJ L 83, 22.3.2013, p. 1).

on the own initiative of the credit rating agency or following request by a third party that is independent of the MMF or the manager and does not act on behalf of any of them, the MMF manager should refrain from relying on criteria that would be attached to that external rating. For ensuring appropriate liquidity management it is necessary that the MMFs establish sound policies and procedures to know their investors. The policies that the manager has to put in place should help understanding the MMF's investor base, to the extent that large redemptions could be anticipated. In order to avoid that the MMF faces sudden massive redemptions, particular attention should be paid to large investors representing a substantial portion of the MMF's assets, as with one investor representing more than the proportion of daily maturing assets. In this case the MMF should increase its proportion of daily maturing assets to the proportion of that investor. The manager should whenever possible look at the identity of the investors, even if they are represented by nominee accounts, portals or any other indirect buyer.

(40) As part of a prudent risk management, MMFs should periodically conduct stress testing. The managers of MMFs are expected to act in order to strengthen the MMF's robustness whenever the results of stress testing point to vulnerabilities.

(41) In order to reflect the actual value of assets, the use of marking to market should be the preferred method for valuing the assets of MMFs. A manager should not be allowed to use the marking to model valuation method when marking to market provides a reliable value of the asset, as the mark to model method is prone to provide less accurate valuation. Assets such as treasury and local authority bills, medium- or short-term notes are generally the ones that are expected to have a reliable marking to market. For valuing commercial papers or certificates of deposit, the manager should check if accurate pricing is provided by a secondary market. The buy-back price offered by the issuer should also be considered to represent a good estimate of the value of the commercial paper. In all other cases the manager should estimate the value, for example using market data such as yields on comparable issues and comparable issuers.

(42) Constant Net Asset Value MMFs (CNAV MMFs) have the objective of preserving the capital of the investment while ensuring a high degree of liquidity. The majority of CNAV MMFs have a net asset value (NAV) per unit or share set, for example, at 1 €, $ or £ when they distribute the income to the investors. The others accumulate income in the NAV of the fund while maintaining the intrinsic value of the asset at a constant value.

(43) To allow for the specificities of CNAV MMFs it is necessary that CNAV MMFs be permitted to use also the amortised cost accounting method for the purpose of determining the constant net asset value (NAV) per unit or share. This notwithstanding, for the purpose of ensuring at all times the monitoring of the difference between the constant NAV per unit or share and the NAV per unit or share, a CNAV MMF should also calculate the value of its assets on the basis of the marking to market or marking to model methods.

(44) As a MMF should publish a NAV that reflects all movements in the value of its assets, the published NAV should be rounded at maximum to the nearest basis point or its equivalent. As a consequence, when the NAV is published in a specific currency, for example €1, the incremental change in value should be done every €0.0001. In the

case of a NAV at €100, the incremental change in value should be done every €0.01. Only if the MMF is a CNAV MMF, the MMF can publish a price that does not follow entirely the movements in the value of its assets. In this case the NAV can be rounded to the nearest cent for a NAV at €1 (every €0.01 move).

(45) In order to be able to absorb day-to-day fluctuations in the value of a CNAV MMF's assets and allow it to offer a constant NAV per unit or share, the CNAV MMF should have at all times a NAV buffer amounting to at least 3% of its assets. The NAV buffer should serve as an absorbing mechanism for maintaining the constant NAV. All differences between the constant NAV per unit or share and the NAV per unit or share should be neutralized by using the NAV buffer. During stressed market situations, when the differences can rapidly increase, a procedure should ensure that the whole chain of management is involved. This escalation procedure should permit the senior management to take rapid remedy actions.

(46) As a CNAV MMF that does not maintain the NAV buffer at the required level is not capable of sustaining a constant NAV per unit or share, it should be required to fluctuate the NAV and cease to be a CNAV MMF. Therefore, where despite the use of the escalation procedure the amount of the NAV buffer remains for one month below the required 3% by 10 basis points, the CNAV MMF should automatically convert into a MMF that is not allowed to use amortised cost accounting or rounding to the nearest percentage point. If before the end of the one month allowed for the replenishment a competent authority has justifiable reasons demonstrating the incapacity of the CNAV MMF to replenish the buffer, it should have the power to convert the CNAV MMF into a MMF other than a CNAV MMF. The NAV buffer is the only vehicle through which external support to a CNAV MMF can be provided.

(47) External support provided to a MMF other than a CNAV MMF with the intention of ensuring either liquidity or stability of the MMF or de facto having such effects increases the contagion risk between the MMF sector and the rest of the financial sector. Third parties providing such support have an interest in doing so, either because they have an economic interest in the management company managing the MMF or because they want to avoid any reputational damage should their name be associated with the failure of a MMF. Because these third parties do not commit explicitly to providing or guaranteeing the support, there is uncertainty whether such support will be granted when the MMF needs it. In these circumstances, the discretionary nature of sponsor support contributes to uncertainty among market participants about who will bear losses of the MMF when they do occur. This uncertainty likely makes MMFs even more vulnerable to runs during periods of financial instability, when broader financial risks are most pronounced and when concerns arise about the health of the sponsors and their ability to provide support to affiliated MMFs. For these reasons, MMFs should not rely on external support in order to maintain their liquidity and the stability of their NAV per unit or share unless the competent authority of the MMF has specifically allowed the external support in order to maintain stability of financial markets.

(48) Investors should be clearly informed, before they invest in a MMF, if the MMF is of a short-term nature or of a standard nature and if the MMF is of a CNAV type or not. In order to avoid misplaced expectations from the investor it must also be clearly stated in any marketing document that MMFs are not a guaranteed investment vehicle.

CNAV MMFs should clearly explain to investors the buffer mechanism they are applying to maintain the constant NAV per unit or share.

(49) To ensure that competent authorities are able to detect, monitor and respond to risks in the MMF market, MMFs should report to their competent authorities a detailed list of information, in addition to reporting already required under Directives 2009/65/EC or 2011/61/EU. Competent authorities should collect these data in a consistent way throughout the Union in order to obtain a substantive knowledge of the main evolutions of the MMF market. To facilitate a collective analysis of potential impacts of the MMF market in the Union, such data should be transmitted to the European Securities and Markets Authority (ESMA) who should create a central database for MMFs.

(50) The competent authority of the MMF should verify whether a MMF is able to comply with this Regulation on an on-going basis. As the competent authorities are already provided with extensive powers under Directives 2009/65/EC and 2011/61/EU, it is necessary that such powers be extended in order to be exercised by reference to the new common rules on MMFs. The competent authorities for the UCITS or AIF should also verify compliance of all collective investment undertakings that display the characteristics of MMFs that are in existence at the time this Regulation enters into force.

(51) The Commission should adopt the delegated acts in the area of the internal assessment procedure pursuant to Article 290 of the Treaty on the Functioning of the European Union. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level.

(52) The Commission should also be empowered to adopt implementing technical standards by means of implementing acts pursuant to Article 291 of the Treaty on the Functioning of the European Union and in accordance with Article 15 of Regulation (EU) No 1095/2010[7]. ESMA should be entrusted with drafting implementing technical standards for submission to the Commission with regard to a reporting template containing information on MMFs for competent authorities.

(53) ESMA should be able to exercise all the powers conferred under Directives 2009/65/EC and 2011/61/EU with respect to this Regulation. It is also entrusted with developing draft regulatory and implementing technical standards.

(54) It is essential to carry out a review of this Regulation in order to assess the appropriateness of exempting certain CNAV MMFs that concentrate their investment portfolios on debt issued by the Member States from the requirement to establish a capital buffer that amounts to at least 3 % of the total value of the CNAV MMF's assets. Therefore, during the three years after the entry into force of this Regulation, the Commission should analyse the experience acquired in applying this Regulation and the impacts on the different economic aspects attached to the MMFs. The debt issued or guaranteed by the Member States represents a distinct category of investment displaying specific credit and liquidity traits. In addition, sovereign debt plays a vital

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[7] Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

role in financing the Member States. The Commission should evaluate the evolution of the market for sovereign debt issued or guaranteed by the Member States and the possibility to create a special framework for MMF that concentrate their investment policy on that type of debt.

(55) The new uniform rules on MMFs should comply with the provisions of Directive 95/46/EC[8] and with Regulation (EC) No 45/2001[9].

(56) Since the objectives of this Regulation, namely to ensure uniform prudential requirements that apply to MMFs throughout the Union, while taking full account of the need to balance safety and reliability of MMFs with the efficient operation of the money markets and the cost for its various stakeholders, cannot be sufficiently achieved by the Member States and can therefore, by reason of its scale and effects, be better achieved at Union level, the Union may adopt measures in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on the European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve those objectives.

(57) The new uniform rules on MMFs respect the fundamental rights and observe the principles recognised in particular by the Charter of Fundamental Rights of the European Union and notably consumer protection, the freedom to conduct a business and the protection of personal data. The new uniform rules on MMFs should be applied in accordance with those rights and principles,

HAVE ADOPTED THIS REGULATION:

Chapter I
General provisions

Article 1
Subject matter and scope

1. This Regulation lays down rules concerning the financial instruments eligible for investment by a money market fund (MMF), its portfolio and valuation, and the reporting requirements in relation to a MMF established, managed or marketed in the Union.

This Regulation applies to collective investment undertakings that require authorisation as UCITS under Directive 2009/65/EC or are AIFs under Directive 2011/61/EU, 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.

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8 Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (OJ L 281, 23.11.1995, p. 31).

9 Regulation (EC) No 45/2001 of the European Parliament and of the Council of 18 December 2000 on the protection of individuals with regard to the processing of personal data by the Community institutions and bodies and of the free movement of such data (OJ L 8, 12.1.2001, p. 1).

2. Member States shall not add any additional requirements in the field covered by this Regulation.

Article 2
Definitions

For the purposes of this Regulation the following definitions apply:

(1) “short term assets” means financial assets with a residual maturity not exceeding two years;

(2) “money market instruments” means money market instruments as defined in Article 2(1)(o) of Directive 2009/65/EC;

(3) “transferable securities” means transferable securities as defined in Article 2(1)(n) of Directive 2009/65/EC;

(4) “repurchase agreement” means any agreement in which one party transfers securities or any rights related to that title to a counterparty, subject to a commitment to repurchase them at a specified price on a future date specified or to be specified;

(5) “reverse repurchase agreement” means any agreement in which one party receives securities, or any rights related to a title or security from a counterparty subject to a commitment to sell them back at a specified price on a future date specified or to be specified;

(6) “securities lending” and “securities borrowing” mean any transaction in which an institution or its counterparty transfers securities subject to a commitment that the borrower will return equivalent securities at some future date or when requested to do so by the transferor, that transaction being securities lending for the institution transferring the securities and being securities borrowing for the institution to which they are transferred;

(7) “securitisation” means securitisation as defined in Article 4(1)(61) of Regulation 575/2013 [10] ;

(8) "corporate debt" means debt instruments issued by an undertakings which is effectively engaged in producing or trading in goods or non-financial services;

(9) “marking to market” means the valuation of positions at readily available close out prices that are sourced independently, including exchange prices, screen prices, or quotes from several independent reputable brokers;

(10) “marking to model” means any valuation which has to be benchmarked, extrapolated or otherwise calculated from one or more market input;

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[10] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176, 27.06.2013, p. 1-337

(11) “amortised cost method” means a valuation method which takes the acquisition cost of an asset and adjusts this value for amortisation of premiums (or discounts) until maturity;

(12) “constant Net Assets Value Money Market Fund” (CNAV MMF) means a money market fund that maintains an unchanging value NAV per unit or share; where income in the fund is accrued daily or can either be paid out to the investor, and where assets are generally valued according to the amortised cost method or the NAV is rounded to the nearest percentage point or its equivalent in currency term;

(13) “Short-term MMF” means a money market fund that invests in eligible money market instruments referred to in Article 9(1);

(14) “Standard MMF” means a money market fund that invests in eligible money market instruments referred to in Article 9(1) and (2);

(15) “credit institutions” means credit institution as defined in Article 4(1)(1) of Regulation 575/2013;

(16) “competent authority of the MMF” means :

(a) for UCITS the competent authority of the UCITS home Member State designated in accordance with Article 97 of Directive 2009/65/EC

(b) for EU AIF the competent authority of the home Member State of the AIF as defined in Article 4(1)(p) of Directive 2011/61/EU;

(c) for non-EU AIF:

(i) the competent authority of the Member State where the non-EU AIF is marketed in the Union without a passport;

(ii) the competent authority of the EU AIFM managing the non-EU AIF, where the non-EU AIF is marketed in the Union with a passport or is not marketed in the Union;

(iii) the competent authority of the Member State of reference if the non-EU AIF is not managed by an EU AIFM and is marketed in the Union with a passport;

(17) “MMF home Member State” means the Member State where the MMF is authorised;

(18) “weighted average maturity (WAM)” means the average length of time to the legal maturity or, if shorter, to the next interest rate reset to a money market rate, of all the underlying assets in the fund reflecting the relative holdings in each asset;

(19) “weighted average life (WAL)” means the average length of time to the legal maturity of all the underlying assets in the fund reflecting the relative holdings in each asset;

(20) “legal maturity” means the date when the principal of a security is to be repaid in full and which is not subject to any optionality;

(21) “residual maturity” means the length of time to the legal maturity;

(22) “short selling” means the uncovered sale of money market instruments.

Article 3
Authorisation of MMFs

1. No collective investment undertaking shall be established, marketed or managed in the Union as MMF unless it has been authorised in accordance with this Regulation.

Such authorisation shall be valid for all Member States.

2. A collective investment undertaking that requires authorisation as a UCITS under Directive 2009/65/EC shall be authorised as a MMF as part of the authorisation procedure pursuant to Directive 2009/65/EC.

3. A collective investment undertaking that is an AIF shall be authorised as a MMF pursuant to the authorisation procedure laid down in Article 4.

4. No collective investment undertaking shall be authorised as a MMF unless the competent authority of the MMF is satisfied that the MMF will be able to meet all the requirements of this Regulation.

5. For the purposes of authorisation, the MMF shall submit to its competent authority the following documents:

(a) the fund rules or instruments of incorporation;

(b) identification of the manager;

(c) identification of the depositary;

(d) a description of, or any information on the MMF available to investors;

(e) a description of, or any information on, the arrangements and procedures needed to comply with the requirements referred to in Chapters II to VII;

(f) any other information or document requested by the competent authority of the MMF to verify compliance with the requirements of this Regulation.

6. The competent authorities shall, on a quarterly basis, inform ESMA of authorisations granted or withdrawn pursuant to this Regulation.

7. ESMA shall keep a central public register identifying each MMF authorised under this Regulation, its typology, its manager and the competent authority of the MMF. The register shall be made available in electronic format.

Article 4
Procedure for authorising AIF MMFs

1. An AIF shall be authorised as a MMF only if its competent authority has approved the application of an AIFM authorised under Directive 2011/61/EU to manage the AIF, the fund rules and the choice of the depositary.

2. When submitting the application for managing the AIF the authorised AIFM shall provide the competent authority of the MMF with:

   (a) the written agreement with the depositary;

   (b) information on delegation arrangements regarding portfolio and risk management and administration with regard to the AIF;

   (c) information about the investment strategies, the risk profile and other characteristics of AIFs that the AIFM is authorised to manage.

   The competent authority of the MMF may ask the competent authority of the AIFM for clarification and information as regards the documentation referred to in the previous subparagraph or an attestation as to whether MMFs fall within the scope of the AIFM's management authorisation. The competent authority of the AIFM shall respond within 10 working days of the request by the MMF competent authority.

3. Any subsequent modifications of the documentation referred to in paragraph 2 shall be immediately notified by the AIFM to the competent authority of the MMF.

4. The competent authority of the MMF may refuse the application of the AIFM only if:

   (a) the AIFM does not comply with this Regulation;

   (b) the AIFM does not comply with Directive 2011/61/EU;

   (c) the AIFM is not authorised by its competent authority to manage MMFs;

   (d) the AIFM has not provided the documentation referred to in paragraph 2.

   Before refusing an application the competent authority of the MMF shall consult the competent authority of the AIFM.

5. Authorisation of the AIF as a MMF shall not be subject either to a requirement that the AIF be managed by an AIFM authorised in the AIF home Member State or that the AIFM pursue or delegate any activities in the AIF home Member State.

6. The AIFM shall be informed within two months of the submission of a complete application, whether or not authorisation of the AIF as MMF has been granted.

7. The competent authority of the MMF shall not grant authorisation if the AIF is legally prevented from marketing its units or shares in its home Member State.

Article 5
Use of designation as MMF

1. A UCITS or AIF shall use the designation 'money market fund' or 'MMF' in relation to itself or the units or shares it issues only where the UCITS or AIF has been authorised in accordance with this Regulation.

   A UCITS or AIF shall use a designation that suggests a money market fund or use terms such as “cash”, “liquid”, “money”, “ready assets”, “deposit-like” or similar words only where they have been authorised in accordance with this Regulation.

2. The use of the designation 'money market fund', “MMF” or of a designation that suggests a MMF or the use of terms referred to in paragraph 1 shall comprise its use in any external or internal documents, reports, statements, advertisements, communications, letters or any other material addressed to or intended for distribution to prospective investors, unit-holders, shareholders or competent authorities in written, oral, electronic or any other form.

Article 6
Applicable rules

1. A MMF shall comply at all times with the provisions of this Regulation.

2. A MMF which is a UCITS and its manager shall comply at all times with the requirements of Directive 2009/65/EC, unless otherwise specified in this Regulation.

3. A MMF which is an AIF and its manager shall comply at all times with the requirements of Directive 2011/61/EU, unless otherwise specified in this Regulation.

4. The manager of the MMF shall be responsible for ensuring compliance with this Regulation. The manager shall be liable for any loss or damage resulting from non-compliance with this Regulation.

5. This Regulation shall not prevent MMFs from applying investment limits that are stricter than those required by this Regulation.

Chapter II
Obligations concerning the investment policies of MMFs

SECTION I
GENERAL RULES AND ELIGIBLE ASSETS

Article 7
General principles

1. Where a MMF comprises more than one investment compartment, each compartment shall be regarded as a separate MMF for the purposes of Chapters II to VII.

2. MMFs authorised as UCITS shall not be subject to the obligations concerning investment policies of UCITS laid down in Articles 49, 50, 50a, 51(2), and 52 to 57 of Directive 2009/65/EC, unless explicitly specified otherwise in this Regulation.

Article 8
Eligible assets

1. A MMF shall invest only in one or more of the following categories of financial assets and only under the conditions specified in this Regulation:

(a) money market instruments;

(b) deposits with credit institutions;

(c) financial derivative instruments;

(d) reverse repurchase agreements;

2. A MMF shall not undertake any of the following activities:

(a) investing in assets other than those referred to in paragraph 1;

(b) short-selling money market instruments;

(c) taking direct or indirect exposure to equity or commodities, including via derivatives, certificates representing them, indices based on them or any other mean or instrument that would give an exposure to them;

(d) entering into securities lending agreements or securities borrowing agreements, and repurchase agreements, or any other agreement that would encumber the assets of the MMF;

(e) borrowing and lending cash.

Article 9
Eligible money market instruments

1. A money market instrument shall be eligible for investment by a MMF provided that it fulfils all of the following requirements:

(a) it falls within one of the categories of money market instruments referred to in Article 50(1)(a), (b), (c) or (h) of Directive 2009/65/EC.

(b) it displays one of the following alternative characteristics:

(i) it has a legal maturity at issuance of 397 days or less;

(ii) it has a residual maturity of 397 days or less.

(c) the issuer of the money market instrument has been awarded one of the two highest internal rating grades according to the rules laid down in Articles 16 to 19 of this Regulation.

(d) Where it takes exposure to a securitisation, it shall be subject to the additional requirements laid down in Article 10.

2. Standard MMFs shall be allowed to invest in a money market instrument that undergoes regular yield adjustments in line with money market conditions every 397 days or on a more frequent basis while not having a residual maturity exceeding 2 years.

3. Paragraph 1(c) shall not apply to money market instruments issued or guaranteed by a central authority or central bank of a Member State, the European Central Bank, the Union, the European stability mechanism or the European Investment Bank.

Article 10
Eligible securitisations

1. A securitisation shall be considered as eligible provided that all of the following conditions are met:

(a) the underlying exposure or pool of exposures consists exclusively of corporate debt;

(b) the underlying corporate debt is of high credit quality and liquid;

(c) the underlying corporate debt has a legal maturity at issuance of 397 days or less; or has a residual maturity of 397 days or less.

2. For the purpose of a consistent application of paragraph 1, ESMA shall develop draft regulatory technical standards specifying:

(a) the conditions and circumstances under which the underlying exposure or pool of exposures is considered to exclusively consist of corporate debt;

(b) conditions and numerical thresholds determining when corporate debt is of high credit quality and liquid.

ESMA shall submit the draft regulatory technical standards referred to in the first subparagraph to the Commission by […].

Power is delegated to the Commission to adopt the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1095/2010.

Article 11
Eligible deposits with credit institutions

A deposit with a credit institution shall be eligible for investment by a MMF provided that all of the following conditions are fulfilled:

(a) the deposit is repayable on demand or may be withdrawn at any time;

(b) the deposit matures in no more than 12 months;

(c) the credit institution has its registered office in a Member State or, where the credit institution has its registered office in a third country it is subject to prudential rules considered equivalent to those laid down in Union law in accordance with the procedure laid down in Article 107(4) of Regulation (EU) No 575/2013.

Article 12
Eligible financial derivative instruments

A financial derivative instrument shall be eligible for investment by a MMF if it is dealt in on a regulated market referred to in Article 50(1)(a), (b) or (c) of Directive 2009/65/EC or over-the-counter (OTC) , provided that all of the following conditions are in any case fulfilled:

(a) the underlying of the derivative instrument consists of interest rates, foreign exchange rates, currencies or indices representing one of these categories;

(b) the derivative instrument serves only the purpose of hedging the duration and exchange risks inherent to other investments of the MMF;

(c) the counterparties to OTC derivative transactions are institutions subject to prudential regulation and supervision and belonging to the categories approved by the competent authorities of the MMF's home Member State;

(d) the OTC derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the MMF's initiative.

Article 13
Eligible reverse repurchase agreements

1. A reverse repurchase agreement shall be eligible to be entered into by a MMF provided that all of the following conditions are fulfilled:

   (a) the MMF has the right to terminate the agreement at any time upon a notice of maximum two working days;

   (b) the market value of the assets received as part of the reverse repurchase agreement is at all times at least equal to the value of the cash given out.

2. The assets received by the MMF as part of a reverse repurchase agreement shall be money market instruments compliant with Article 9.

3. Securitisations as defined in Article 10 shall not be received by the MMF as part of a reverse repurchase agreement. The assets received by the MMF as part of a reverse repurchase agreement shall not be sold, reinvested, pledged or otherwise transferred.

4. The assets received by the MMF as part of a reverse repurchase agreement shall be included for the purpose of calculating the limits on diversification and concentration laid down in this Regulation.

5. By way of derogation from paragraph 2, a MMF may receive as part of a reverse repurchase agreement liquid transferable securities or money market instruments other than those compliant with Article 9 provided that those assets comply with one of the following conditions:

(a) they are of high credit quality and they are issued or guaranteed by a central authority or central bank of a Member State, the European Central Bank, the Union, the European stability mechanism, the European Investment Bank;

(b) they are issued or guaranteed by a central authority or central bank of a third country, provided that the third country issuer of the asset is awarded one of the two highest internal rating grades according to the rules laid down in Articles 16 to 19.

The assets received as part of a reverse repurchase agreement according to the first subparagraph shall be disclosed to the MMF investors.

The assets received as part of a reverse repurchase agreement according to the first subparagraph shall be subject to the rules laid down in Article 14 paragraph 6.

6. The Commission shall be empowered to adopt delegated acts in accordance with Article 44 specifying quantitative and qualitative liquidity requirements applicable to assets referred to in paragraph 5 and quantitative and qualitative credit quality requirements applicable to assets referred to in paragraph 5(a).

For this purpose the Commission shall take into account the report referred to in Article [509(3)] of Regulation (EU) No 575/2013.

The Commission shall adopt the delegated act referred to in the first subparagraph no later than 31 December 2014.

SECTION II
PROVISIONS ON INVESTMENT POLICIES

Article 14
Diversification

1. A MMF shall invest no more than 5% of its assets in any of the following:

(a) money market instruments issued by the same body;

(b) deposits made with the same credit institution;

2. The aggregate of all exposures to securitisations shall not exceed 10% of the assets of a MMF.

3. The aggregate risk exposure to the same counterparty of the MMF stemming from OTC derivative transactions shall not exceed 5% of its assets.

4. The aggregate amount of cash provided to the same counterparty of a MMF in reverse repurchase agreements shall not exceed 20% of its assets.

5. Notwithstanding the individual limits laid down in paragraphs 1 and 3, a MMF shall not combine, where this would lead to investment of more than 10% of its assets in a single body, any of the following:

   (a) investments in money market instruments issued by that body;

   (b) deposits made with that body;

   (c) OTC financial derivative instruments giving counterparty risk exposure to that body.

6. By way of derogation from paragraph 1(a), a competent authority may authorise a MMF to invest in accordance with the principle of risk-spreading up to 100% of its assets in different money market instruments issued or guaranteed by a central, regional or local authority or central bank of a Member State, the European Central Bank, the Union, the European stability mechanism or the European Investment Bank, a central authority or central bank of a third country, or by a public international body to which one or more Member States belong.

   The first subparagraph shall only apply where all of the following requirements are met:

   (a) the MMF holds money market instruments from at least six different issues by the respective issuer;

   (b) the MMF limits the investment in money market instruments from the same issue to maximum 30% of its assets;

   (c) the MMF makes express mention in the fund rules or instruments of incorporation of the central, regional or local authority or central bank of a Member State, the European Central Bank, the Union, the European stability mechanism or the European Investment Bank, a central authority or central bank of a third country, or the public international body to which one or more Member States belong issuing or guaranteeing money market instruments in which it intends to invest more than 5% of its assets;

   (d) the MMF includes a prominent statement in its prospectus and marketing communications drawing attention to the use of this derogation and indicating the central, regional or local authority or central bank of a Member State, the European Central Bank, the Union, the European stability mechanism, the European Investment Bank, a central authority or central bank of a third country, or the public international body to which one or more Member States belong issuing or guaranteeing money market instruments in which it intends to invest more than 5% of its assets.

7. Companies which are included in the same group for the purposes of consolidated accounts, as regulated by Council Directive 83/349/EEC[11] or in accordance with recognised international accounting rules, shall be regarded as a single body for the purpose of calculating the limits referred to in paragraphs 1 to 5.

Article 15
Concentration

1. A MMF may not hold more than 10% of the money market instruments issued by a single body.

2. The limit laid down in paragraph 1 shall not apply in respect of holdings of money market instruments issued or guaranteed by a central, regional or local authority or central bank of a Member State, the European Central Bank, the Union, the European stability mechanism or the European Investment Bank, a central authority or central bank of a third country, or the public international body to which one or more Member States belongs.

SECTION III
CREDIT QUALITY OF MONEY MARKET INSTRUMENTS

Article 16
Internal assessment procedure

1. A manager of a MMF shall establish, implement and consistently apply a prudent and rigorous internal assessment procedure for determining the credit quality of money market instruments, taking into account the issuer of the instrument and the characteristics of the instrument itself.

2. The internal assessment procedure shall be based on an internal rating system and on prudent, rigorous, systematic and continuous assignment methodologies. The assignment methodologies shall be subject to validation by the manager based on historical experience and empirical evidence, including back testing.

3. The internal assessment procedure shall comply with the following requirements:

(a) a manager of a MMF shall ensure that the information used when assigning an internal credit rating is of sufficient quality, up-to-date and from reliable sources. That manager shall implement and maintain an effective process to obtain and update relevant information on issuer characteristics;

(b) a manager of a MMF shall adopt and implement adequate measures to ensure that the assignment of its internal ratings is based on a thorough analysis of all the information that is available and pertinent, and includes all relevant driving factors that influence the creditworthiness of the issuer;

11 Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts; OJ L 193, 18.7.1983, p. 1–17

(c) a manager of a MMF shall monitor its assignments of internal ratings on an ongoing basis and review all assignments of internal rating at least annually. That manager shall review the assignment every time there is a material change that could have an impact on an internal credit rating. The manager shall establish internal arrangements to monitor the impact on its internal credit ratings of changes in macroeconomic, financial market or issuer specific conditions;

(d) where a credit rating agency registered with the European Securities and Market Authority (ESMA) assigns a credit rating to an issuer of money market instruments, the downgrade below the two highest short term credit ratings used by that agency shall be considered to be material change for the purposes of point (c) and require the manager to undertake a new assignment procedure;

(e) assignment methodologies shall be reviewed at least annually to determine whether they remain appropriate for the current portfolio and external conditions;

(f) when methodologies, models or key rating assumptions used in the internal assessment procedures are changed, the manager of a MMF shall review all affected internal credit ratings as soon as possible and no later than one month after the change;

(g) assignments of internal ratings and their periodic reviews by the manager of a MMF shall not be performed by persons performing or responsible for the portfolio management of the MMF.

Article 17
Internal rating system

1. Each issuer of a money market instrument in which a MMF intends to invest shall be assigned an internal rating pursuant to the internal assessment procedure.

2. The structure of the internal rating system shall comply with all of the following requirements:

(a) the internal rating system shall be based on a single rating scale which exclusively reflects quantification of the credit risk of the issuer. The rating scale shall have six grades for non-defaulted issuers and one for defaulted issuers;

(b) there shall be a clear relationship between issuer grades reflecting the credit risk of an issuer and the rating criteria used to distinguish that level of credit risk;

(c) the internal rating system shall take into account the short-term nature of money market instruments.

3. The rating criteria referred to in paragraph 2(b) shall fulfil all of the following requirements:

(a) comprise at least quantitative and qualitative indicators on the issuer of the instrument, and the macro-economic and financial market situation;

(b) refer to the common numerical and qualitative reference values used to assess the quantitative and qualitative indicators;

(c) be adequate for the particular type of issuer. At least the following types of issuers shall be distinguished: sovereign, regional or local public authority, financial corporations, and non-financial corporations.

(d) In case of exposure to securitisations, take into account the credit risk of the issuer, the structure of the securitisation and the credit risk of the underlying assets.

Article 18
Documentation

1. A manager of a MMF shall document its internal assessment procedure and the internal rating system. Documentation shall include:

(a) the design and operational details of its internal assessment procedures and internal rating systems in a manner that allows competent authorities to understand the assignment to specific grades and to evaluate the appropriateness of an assignment to a grade;

(b) the rationale for and the analysis supporting the manager's choice of the rating criteria and of its frequency of review. This analysis shall include the parameters, the model and the limits of the model used to choose the rating criteria;

(c) all major changes in the internal assessment procedure, including identification of the triggers of changes;

(d) the organisation of the internal assessment procedure, including the rating assignment process and the internal control structure;

(e) complete internal rating histories on issuers and recognised guarantors;

(f) the dates of assignment of internal ratings;

(g) the key data and methodology used to derive the internal rating, including key rating assumptions;

(h) the person or persons responsible for the internal rating assignment.

2. The internal assessment procedure shall be detailed in the fund rules or rules of incorporation of the MMF and all documents referred to in paragraph 1 shall be made available upon request by the competent authorities of the MMF and the competent authorities of the manager of the MMF.

Article 19
Delegated acts

The Commission shall be empowered to adopt delegated acts in accordance with Article 44 specifying the following points:

(a) the conditions under which the assignment methodologies are deemed to be prudent, rigorous, systematic and continuous and the conditions of the validation, referred to in Article 16(2);

(b) the definitions of each grade with respect to the quantification of the credit risk of an issuer referred to in Article 17(2)(a), and the criteria to determine the quantification of the credit risk referred to in Article 17(2)(b);

(c) the precise reference values for each qualitative indicator and the numerical reference values for each quantitative indicator. These reference values of the indicators shall be specified for each rating grade taking into account the criteria in Article 17(3);

(d) the meaning of material change as referred to in Article 16(3)(c).

Article 20
Governance of the credit quality assessment

1. The internal assessment procedures shall be approved by the senior management, the governing body, and, where it exists, the supervisory function of the manager of the MMF.

These parties shall have a good understanding of the internal assessment procedures, the internal rating systems and the assignment methodologies of the manager and detailed comprehension of the associated reports.

2. Internal ratings-based analysis of the MMF's credit risk profile shall be an essential part of the reporting to the parties referred to in paragraph 1. Reporting shall include at least the risk profile by grade, migration across grades, estimation of the relevant parameters per grade, and comparison of realised default rates. Reporting frequencies shall depend on the significance and type of information and shall be at least annual.

3. Senior management shall ensure, on an on-going basis that the internal assessment procedure is operating properly.

Senior management shall be regularly informed about the performance of the internal assessment process, the areas where deficiencies were identified, and the status of efforts and actions taken to improve previously identified deficiencies.

Chapter III
Obligations concerning the risk management of MMFs

Article 21
Portfolio rules for short-term MMFs

A short-term MMF shall comply at all times with all of the following portfolio requirements:

(a) its portfolio shall have a weighted average maturity (WAM) of no more than 60 days;

(b) its portfolio shall have a weighted average life (WAL) of no more than 120 days;

(c) at least 10% of its assets shall be comprised of daily maturing assets. A short-term MMF shall not acquire any asset other than a daily maturing asset when such acquisition would result in the short-term MMF investing less than 10% of its portfolio in daily maturing assets;

(d) at least 20% of its assets shall be comprised of weekly maturing assets. A short-term MMF shall not acquire any asset other than a weekly maturing asset when such acquisition would result in the short-term MMF investing less than 20% of its portfolio in weekly maturing assets.

Article 22
Portfolio rules for standard MMFs

1. A standard MMF shall comply at all times with all of the following requirements:

   (a) its portfolio shall have at all times a WAM of no more than 6 months;

   (b) its portfolio shall have at all times a WAL of no more than 12 month;

   (c) at least 10% of its assets shall be comprised of daily maturing assets. A standard MMF shall not acquire any asset other than a daily maturing asset when such acquisition would result in the standard MMF investing less than 10% of its portfolio in daily maturing assets;

   (d) at least 20% of its assets shall be comprised of weekly maturing assets. A standard MMF shall not acquire any asset other than a weekly maturing asset when such acquisition would result in the standard MMF investing less than 20% of its portfolio in weekly maturing assets..

2. A standard MMF may invest up to 10% of its assets in money market instruments issued by a single body.

3. Notwithstanding the individual limit laid down in paragraph 2, a standard MMF may combine, where this would lead to investment of up to 15% of its assets in a single body, any of the following:

(a) investments in money market instruments issued by that body;

(b) deposits made with that body;

(c) OTC financial derivative instruments giving counterparty risk exposure to that body.

4. All portfolio assets that a standard MMF invests in according to paragraphs 2 and 3 shall be disclosed to MMF investors.

5. A standard MMF shall not take the form of a CNAV MMF.

Article 23
MMF credit ratings

The MMF or the manager of the MMF shall not solicit or finance a credit rating agency for rating the MMF.

Article 24
'Know your customer' policy

1. The manager of the MMF shall establish, implement and apply procedures and exercise all due diligence to identify the number of investors in a MMF, their needs and behaviour, the amount of their holdings with a view to correctly anticipate the effect of concurrent redemptions by several investors. To this effect the manager of the MMF shall consider at least the following factors:

(a) identifiable patterns in investor cash needs;

(b) the sophistication of the different investors;

(c) the risk aversion of the different investors;

(d) the degree of correlation or close links between different investors in the MMF.

2. The manager of the MMF shall ensure that:

(a) the value of the units or shares held by a single investor does not exceed at any time the value of daily maturing assets;

(b) redemption by an investor does not materially impact the liquidity profile of the MMF.

Article 25
Stress testing

1. For each MMF there shall be in place sound stress testing processes that allow identifying possible events or future changes in economic conditions that could have unfavourable effects on the MMF. The manager of a MMF shall regularly conduct stress testing and develop action plans for different possible scenarios.

The stress tests shall be based on objective criteria and consider the effects of severe plausible scenarios. The stress test scenarios shall at least take into consideration reference parameters , including the following factors:

(a) hypothetical changes in the level of liquidity of the assets held in the portfolio of the MMF;

(b) hypothetical changes in the level of credit risk of the assets held in the portfolio of the MMF, including credit events and rating events;

(c) hypothetical movements of the interest rates;

(d) hypothetical levels of redemption.

2. In addition, in the case of CNAV MMFs, the stress tests shall estimate for different scenarios the difference between the constant NAV per unit or share and the NAV per unit or share, including the impact of the difference on the NAV buffer.

3. Where the stress test reveals any vulnerability of the MMF, the manager of the MMF shall take action to strengthen the robustness of the MMF, including actions that reinforce the liquidity or the quality of the assets of the MMF.

4. Stress tests shall be conducted at a frequency determined by the board of directors of the manager of the MMF, after considering what an appropriate and reasonable interval in light of the market conditions is and after considering any envisaged changes in the portfolio of the MMF. Such frequency shall be at least yearly.

5. An extensive report with the results of the stress testing shall be submitted for examination to the board of directors of the MMF's manager. The board of directors shall amend the proposed action plan if necessary and approve the final action plan.

The report outlining the results of the stress testing and the action plan shall be drawn in written format and shall be maintained for a period of at least five years.

6. The report with the results of the stress testing shall be submitted to the competent authorities of the manager and of the MMF. The competent authorities shall send the report to ESMA.

7. ESMA shall issue guidelines with a view to establishing common reference parameters of the stress test scenarios to be included in the stress tests taking into account the factors specified in paragraph 1. The guidelines shall be updated at least every year taking into account the latest market developments.

Chapter IV
Valuation rules

Article 26
Valuation of MMF's assets

1. The assets of a MMF shall be valued at least on a daily basis.

2. The assets of a MMF shall be valued by using marking to market whenever possible.

3. When marking to market the assets shall be valued at the more prudent side of bid and offer unless the institution can close out at mid-market.

When marking to market only quality market data shall be used. The quality of the market data shall be assessed on the basis of all of the following factors:

(a) the number and quality of the counterparties;

(b) the volume and turnover in the market of that asset;

(c) the issue size and the portion of the issue that the MMF plans to buy or sell.

4. Where marking to market is not possible or market data are not of sufficient quality, an asset of a MMF shall be valued conservatively by using marking to model.

The model shall accurately estimate the intrinsic value of the asset, based on the following up to date key factors:

(a) the volume and turnover in the market of that asset;

(b) the issue size and the portion of the issue that the MMF plans to buy or sell;

(c) market risk, interest rate risk, credit risk attached to the asset.

When marking to model, no valuation models based on amortised cost shall be used.

5. In addition to the marking to market method referred to in paragraphs 2 and 3 and marking to model method referred to in paragraph 4, the assets of a CNAV MMF may also be valued by using the amortised cost method.

Article 27
Calculation of NAV per unit or share

1. The ‘Net Asset Value (NAV) per unit or share’ shall be calculated as the difference between the sum of all assets of a MMF and the sum of all liabilities of the MMF valued in accordance with the mark to market and mark to model methods, divided by the number of outstanding units or shares of the MMF.

The NAV per unit or share shall be calculated for each MMF, irrespective of whether it is a CNAV MMF or not.

2. The NAV per unit or share shall be rounded to the nearest basis point or its equivalent when the NAV is published in a currency unit.

3. The NAV per unit or share of a MMF shall be calculated at least daily.

4. The ‘constant NAV per unit or share’ shall be calculated as the difference between the sum of all assets of a CNAV MMF and the sum of all liabilities of a CNAV MMF valued in accordance with the amortised cost method, divided by the number of outstanding units or shares of the CNAV MMF.

5. The constant NAV per unit or share of a CNAV MMF may be rounded to the nearest percentage point or its equivalent when the NAV is published in a currency unit.

6. The difference between the constant NAV per unit or share and NAV per unit or share of a CNAV MMF shall be continuously monitored.

Article 28
Issue and redemption price

1. The units or shares of a MMF shall be issued or redeemed at a price that is equal to the MMF's NAV per unit or share.

2. By way of derogation from paragraph 1, the units or shares of a CNAV MMF shall be issued or redeemed at a price that is equal to the MMF's constant NAV per unit or share.

Chapter V
Specific requirements for CNAV MMFs

Article 29
Additional requirements for CNAV MMFs

1. A MMF shall not use the amortised cost method for valuation, or advertise a constant NAV per unit or share, or round the constant NAV per unit or share to the nearest percentage point or its equivalent when the NAV is published in a currency unit unless it has been explicitly authorised as a CNAV MMF.

2. A CNAV MMF shall satisfy all the following additional requirements:

   (a) it has established a NAV buffer in accordance with the requirements in Article 30;

   (b) the competent authority of the CNAV MMF is satisfied with a detailed plan by the CNAV MMF specifying the modalities of the use of the buffer in accordance with Article 31;

   (c) the competent authority of the CNAV MMF is satisfied with the CNAV MMF's arrangements to replenish the buffer and with the financial strength of the entity expected to fund the replenishment;

   (d) the rules or instruments of incorporation of the CNAV MMF provide clear procedures for the conversion of the CNAV MMF into a MMF that is not allowed to use the amortised cost accounting or the rounding methods;

   (e) the CNAV MMF and its manager have clear and transparent governance structures that unambiguously identify and assign responsibilities for the different governance levels;

(f) the CNAV MMF has established clear and effective communication tools towards investors that ensure prompt information in relation to any use or replenishment of the NAV buffer and the conversion of the CNAV MMF;

(g) the rules or instruments of incorporation of the CNAV MMF state clearly that the CNAV MMF cannot receive external support other than through the NAV buffer.

Article 30
NAV buffer

1. Each CNAV MMF shall establish and maintain a NAV buffer amounting at all times to at least 3% of the total value of the CNAV MMF's assets. The total value of the CNAV MMF's assets shall be calculated as the sum of the values of each asset of the MMF determined in accordance with Article 26(3) or (4).

   The NAV buffer shall be used exclusively to cover differences between the CNAV MMF's constant NAV per unit or share and the CNAV MMF's NAV per unit or share as laid down in Article 31.

2. The amounts in the NAV buffer shall not be included in the calculation of the NAV or constant NAV of the CNAV MMF.

3. The NAV buffer shall be composed only of cash.

4. The NAV buffer shall be held in a protected reserve account opened with a credit institution that fulfils the requirements in Article 11(c), in the name and on behalf of the MMF.

   The reserve account shall be segregated from any other account of the MMF, from the accounts of the manager of the MMF, from the accounts of the other clients of the credit institution, and from the accounts of any other entity financing the NAV buffer.

   The reserve account or any amounts in the reserve account shall not be subject to any pledge, lien or collateral arrangement. In the event of the insolvency of the manager of the MMF or of the credit institution where the account is opened or of any entity that financed the NAV buffer, the reserve account shall not be available for distribution among or realisation for the benefit of creditors of the insolvent entity.

5. The reserve account shall be used solely for the benefit of the MMF. A transfer of funds from the reserve account shall only be made under the conditions laid down in Article 31(2)(b) and Article 31(3)(a).

6. The depositary of the CNAV MMF shall verify that any transfer from the reserve account is in accordance with the provisions of this Chapter.

7. The CNAV MMF shall establish in writing clear and detailed arrangements with the entity expected to fund the replenishment of the NAV buffer. The arrangements shall contain an explicit commitment to fund the replenishment and require the entity to fund the replenishment using its own financial resources.

The arrangements for the replenishment and the identity of the entity expected to fund the replenishment shall be disclosed in the fund rules or instruments of incorporation of the CNAV MMF.

Article 31
Use of the NAV buffer

1. The NAV buffer shall only be used in case of subscriptions and redemptions to equalise the difference between the constant NAV per unit or share and the NAV per unit or share.

2. For the purposes of paragraph 1, in case of subscriptions:

(a) where the constant NAV at which a unit or share is subscribed is higher than the NAV per unit or share, the positive difference shall be credited to the reserve account;

(b) where the constant NAV at which a unit or share is subscribed is lower than the NAV, the negative difference shall be debited from the reserve account.

3. For the purposes of paragraph 1, in case of redemptions:

(a) where the constant NAV at which a unit or share is redeemed is higher than the NAV per unit or share, the negative difference shall be debited from the reserve account;

(b) where the constant NAV at which a unit or share is redeemed is lower than the NAV per unit or share, the positive difference shall be credited to the reserve account.

Article 32
Escalation procedure

1. A CNAV MMF shall establish and implement an escalation procedure that ensures that the negative difference between the constant NAV per unit or share and the NAV per unit or share is considered by persons competent to act for the fund in a timely manner.

2. The escalation procedure shall require that:

(a) where the negative difference reaches 10 basis points or its equivalent when the NAV is published in a currency unit, the senior management of the manager of the CNAV MMF be informed;

(b) where the negative difference reaches 15 basis points or its equivalent when the NAV is published in a currency unit, the board of directors of the manager of the CNAV MMF, the competent authorities of the CNAV MMF and ESMA be informed;

(c) the competent persons assess the cause of the negative difference and take appropriate action to reduce the negative effects.

Article 33
Replenishment of the NAV buffer

1. Whenever the amount of the NAV buffer falls below 3% it shall be replenished.

2. When the NAV buffer has not been replenished and for one month the amount of the NAV buffer stays below the 3% referred to in Article 30(1) by 10 basis points the MMF shall automatically cease to be a CNAV MMF and be prohibited from using the amortised cost or rounding methods.

   The CNAV MMF shall inform immediately each investor thereof in writing and in a clear and comprehensible way.

Article 34
Powers of the competent authority concerning the NAV buffer

1. The competent authority of the CNAV MMF shall be immediately notified of any decrease below 3% in the amount of the NAV buffer.

2. The competent authority of the CNAV MMF and ESMA shall be immediately notified when the amount of the NAV buffer decreases by 10 basis points below the 3% referred to in Article 30(1).

3. Following the notification referred to in paragraph 1, the competent authority shall closely monitor the CNAV MMF.

4. Following the notification in paragraph 2, the competent authority shall control that the NAV buffer has been replenished or the MMF has ceased to hold itself as a CNAV MMF and informed accordingly its investors.

Chapter VI
External support

Article 35
External support

1. A CNAV MMF may not receive external support other than in the form and under the conditions laid down in Articles 30 to 34.

2. MMFs other than CNAV MMFs shall not be allowed to receive external support, except under the conditions laid down in Article 36.

3. External support shall mean a direct or indirect support offered by a third party that is intended for or in effect would result in guaranteeing the liquidity of the MMF or stabilising the NAV per unit or share of the MMF.

   External support shall include:

   (a) cash injections from a third party;

(b) purchase by a third party of assets of the MMF at an inflated price;

(c) purchase by a third party of units or shares of the MMF in order to provide liquidity to the fund;

(d) issuance by a third party of any kind of explicit or implicit guarantee, warranty or letter of support for the benefit of the MMF;

(e) any action by a third party the direct or indirect objective of which is to maintain the liquidity profile and the NAV per unit or share of the MMF.

Article 36
Exceptional circumstances

1. In exceptional circumstances justified by systemic implications or adverse market conditions the competent authority may allow a MMF other than a CNAV MMF to receive external support referred to in Article 35 that is intended for or in effect would result in guaranteeing the liquidity of the MMF or stabilising the NAV per unit or share of the MMF provided that all of the following conditions are fulfilled:

   (a) the MMF duly justifies the necessity of external support and demonstrates through conclusive evidence the urgent need for external support;

   (b) the external support is limited in terms of the amount provided and the period of time when it is made available;

   (c) the competent authority is satisfied that the provider of the external support is financially sound and has sufficient financial resources to withstand without any adverse effects possible losses resulting from the external support granted.

2. For the purposes of paragraph 1(c), in case the provider of the external support is an entity subject to prudential supervision the agreement of the supervisory authority of that entity shall be sought in view of ensuring that the support to be granted by the entity is subject to adequate own funds provided by that entity and is in line with the risk management system of that entity.

3. Where the conditions referred to in paragraph 1 for receiving external support are fulfilled the MMF shall immediately inform each investor thereof in writing and in a clear and comprehensible way.

Chapter VII
Transparency requirements

Article 37
Transparency

1. A MMF shall indicate clearly whether it is a short-term or a standard MMF in any external or internal document, report, statement, advertisement, letter or any other written evidence issued by it or its manager, addressed to or intended for distribution

to prospective investors, unit-holders, shareholders or competent authorities of the MMF or its manager.

A CNAV MMF shall indicate clearly that it is a CNAV MMF in any external or internal document, report, statement, advertisement, letter or any other written evidence issued by it or its manager, addressed to or intended for distribution to prospective investors, unit-holders, shareholders or competent authorities of the MMF or its manager.

2. Any document of the MMF used for marketing purposes shall clearly include all of the following statements:

(a) that the MMF is not a guaranteed investment;

(b) that the MMF does not rely on external support for guaranteeing the liquidity of the MMF or stabilising the NAV per unit or share;

(c) that the risk of loss of the principal has to be borne by the investor.

3. Any communication by the MMF or its manager to the investors or potential investors shall in no way suggest that an investment in the units or shares of the MMF is guaranteed.

4. Investors in a MMF shall be clearly informed of the method or methods used by the MMF to value the assets of the MMF and calculate the NAV.

5. In addition to the information to be provided in accordance with paragraphs 1 to 4, a CNAV MMF shall explain clearly to investors and potential investors the use of the amortised cost method and/or of rounding. A CNAV MMF shall indicate the amount of its NAV buffer, the procedure to equalise the constant NAV per unit or share and the NAV per unit or share and shall state clearly the role of the buffer and the risks related to it. The CNAV MMF shall clearly indicate the modalities of replenishing the NAV buffer and the entity expected to fund the replenishment. It shall make available to investors all information concerning compliance with the conditions set out in Article 29(2)(a) to (g).

Article 38
Reporting to competent authorities

1. For each MMF managed, the manager of the MMF shall report information to the competent authority of the MMF, at least on a quarterly basis. The manager shall upon request provide the information also to the competent authority of the manager if different from the competent authority of the MMF.

2. The information reported pursuant to paragraph 1 shall comprise the following points:

(a) the type and characteristics of the MMF;

(b) portfolio indicators such as the total value of assets, NAV, WAM, WAL, maturity breakdown, liquidity and yield;

(c) the size and the evolution of the NAV buffer;

(d) the results of stress tests;

(e) information on the assets held in the portfolio of the MMF:

(i) the characteristics of each asset, such as name, country, issuer category, risk or maturity, and internal ratings assigned;

(ii) the type of asset, including details of the counterpart in case of derivatives or reverse repurchase agreements;

(f) information on the liabilities of the MMF that includes the following points:

(i) the country where the investor is established;

(ii) the investor category;

(iii) subscription and redemption activity.

If necessary and duly justified, competent authorities may solicit additional information.

3. ESMA shall develop draft implementing technical standards to establish a reporting template that shall contain all the information listed in paragraph 2.

Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1095/2010.

4. Competent authorities shall transmit to ESMA all information received pursuant to this Article, and any other notification or information exchanged with the MMF or its manager by virtue of this Regulation. Such information shall be transmitted to ESMA no later than 30 days after the end of the reporting quarter.

ESMA shall collect the information to create a central database of all MMFs established, managed or marketed in the Union. The European Central Bank shall have right to access this database for statistical purposes only.

Chapter VIII
Supervision

Article 39
Supervision by the competent authorities

1. The competent authorities shall supervise compliance with this Regulation on an on-going basis.

2. The competent authority of the MMF shall be responsible for supervising compliance with the rules laid down in Chapters II to VII.

3. The competent authority of the MMF shall be responsible for supervising compliance with the obligations set out in the fund rules or in the instruments of incorporation, and the obligations set out in the prospectus, which shall be consistent with this Regulation.

4. The competent authority of the manager shall be responsible for supervising the adequacy of the arrangements and organisation of the manager so that the manager of the MMF is in a position to comply with the obligations and rules which relate to the constitution and functioning of all the MMFs it manages.

5. Competent authorities shall monitor UCITS or AIFs established or marketed in their territories to verify that they do not use the MMF designation or suggest that they are a MMF unless they comply with this Regulation.

Article 40
Powers of competent authorities

1. Competent authorities shall have all supervisory and investigatory powers that are necessary for the exercise of their functions pursuant to this Regulation.

2. The powers conferred on competent authorities in accordance with Directive 2009/65/EC and Directive 2011/61/EU shall be exercised also with respect to this Regulation.

Article 41
Powers and competences of ESMA

1. ESMA shall have the powers necessary to carry out the tasks attributed to it by this Regulation.

2. ESMA's powers in accordance with Directive 2009/65/EC and Directive 2011/61/EU shall be exercised also with respect to this Regulation and in compliance with Regulation (EC) No 45/2001.

3. For the purpose of Regulation (EU) No 1095/2010, this Regulation shall be included under any further legally binding Union act which confers tasks on the Authority referred to in Article 1(2) of Regulation (EU) 1095/2010.

Article 42
Cooperation between authorities

1. The competent authority of the MMF and the competent authority of the manager, if different shall cooperate with each other and exchange information for the purpose of carrying out their duties under this Regulation.

2. Competent authorities and ESMA shall cooperate with each other for the purpose of carrying out their respective duties under this Regulation in accordance with Regulation (EU) No 1095/2010.

3. Competent authorities and ESMA shall exchange all information and documentation necessary to carry out their respective duties under this Regulation in accordance with Regulation (EU) No 1095/2010, in particular to identify and remedy breaches of this Regulation**.**

Chapter IX
Final provisions

Article 43
Treatment of existing UCITS and AIFs

1. Within the six months following the date of entry into force of this Regulation, an existing UCITS or AIF that invests in short term assets and has as distinct or cumulative objectives offering returns in line with money market rates or preserving the value of the investment shall submit an application to its competent authority together with all documents and evidence necessary to demonstrate the compliance with this Regulation.

2. No later than two months after receiving the application the competent authority shall assess whether the UCITS or AIF is compliant with this Regulation in accordance with Articles 3 and 4. The competent authority shall issue a decision and notify it immediately to the UCITS or AIF.

3. By way of derogation from the first sentence of Article 30(1), an existing UCITS or AIF that meets the criteria for the definition of a CNAV MMF set out in Article 2(10) shall establish a NAV buffer of at least

   (a) 1% of the total value of the CNAV MMF's assets, within one year from the entry into force of this Regulation;

   (b) 2% of the total value of the CNAV MMF's assets, within two years from the entry into force of this Regulation;

   (c) 3% of the total value of the CNAV MMF's assets, within three years from the date of entry into force of this Regulation

4. For the purposes of paragraph 3 of this Article, the reference to 3% in Articles 33 and 34 shall be interpreted as referring to the amounts of the NAV buffer mentioned in points (a), (b) and (c) of paragraph 3 respectively.

Article 44
Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.

2. The power to adopt delegated acts referred to in Articles 13 and 19 shall be conferred on the Commission for an indeterminate period of time from the date of entry into force of this Regulation.

3. The delegation of power referred to in Articles 13 and 19 may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

4. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.

5. The delegated acts adopted pursuant to Articles 13 and 19 shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

Article 45
Review

By *three years after the entry into force of this Regulation*, the Commission shall review the adequacy of this Regulation from a prudential and economic point of view. In particular the review shall consider the operation of the CNAV buffer and the operation of the CNAV buffer to those CNAV MMFs that, in future, might concentrate their portfolios on debt issued or guaranteed by the Member States. The review shall:

(a) analyse the experience acquired in applying this Regulation, the impact on investors, MMFs and the managers of MMFs in the Union;

(b) assess the role that MMFs play in purchasing debt issued or guaranteed by the Member States;

(c) take into account the specific characteristics of the debt issued or guaranteed by the Member States and the role this debt plays in financing the Member States;

(d) take into account the report referred to in Article 509(3) of Regulation (EU) No 575/2013;

(e) take into account the regulatory developments at international level.

The results of the review shall be communicated to the European Parliament and the Council accompanied, where necessary, by appropriate proposals for amendments.

Article 46
Entry into force

This Regulation shall enter into force on the twentieth day following its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament *The President*	*For the Council* *The President*