

PRESS RELEASE

ESMA proposes reforms to improve resilience of Money Market Funds

The European Securities and Markets Authority (ESMA), the EU’s securities markets regulator, is issuing an Opinion containing proposed reforms to the regulatory framework for EU Money Market Funds (MMFs) under the Money Market Funds Regulation (MMFR). The proposals will improve the resilience of MMFs by addressing in particular liquidity issues and the threshold effects for constant net asset value (CNAV) MMFs.

These proposed reforms result from the lessons learnt from the significant liquidity difficulties faced by MMFs during the initial outbreak of the COVID-19 pandemic in March 2020. At the time investor redemption rates rose on the liability side with a corresponding deterioration in the liquidity of money market instruments on the asset side.

Verena Ross, Chair, said:

“ESMA is today proposing a number of changes to the MMF regulation intended to make MMFs more resilient. These reforms will help to improve the overall stability of financial markets, by reducing the risk of liquidity stress.

In March 2020 MMFs faced difficulties brought on by increases in redemption demands while the assets they held became more difficult to sell. Our proposals today, which are consistent with those of the ESRB, aim to ensure that MMFs will be able to meet investors’ redemption requests, and that this will continue to be the case also in the future.”

The ESMA Opinion includes the following key policy measures aimed at improving the resilience of MMFs:

1. Addressing the threshold effects for constant net asset value (CNAV) MMFs, by:
2. Removing the possibility to use amortized costs for low volatility NAV (LVNAV) MMFs; and

3. Decoupling regulatory thresholds from suspensions, gates and redemption fees for LVNAV/CNAV MMFs.
4. Addressing liquidity related issues by:
5. Ensuring mandatory availability of at least one liquidity management tool for all MMFs;
6. Amendments of the Daily liquid asset/ Weekly liquid assets ratios as well as the pool of eligible assets, including public debt assets, which can be used to satisfy these liquidity ratios; and
7. Inclusion/Reinforcement of the possibility to temporarily use liquidity buffers in times of stress.

In addition, ESMA is proposing complementary reforms aimed at enhancing MMFs' preparedness for a crisis. These include enhancements of reporting requirements and the stress testing framework, as well as clarification of the requirements on external support and new disclosure requirements linked to the rating of MMFs.

ESMA is also publishing today the annual update of the Guidelines on MMF Stress tests.

Next steps

ESMA has sent its Opinion to the European Commission and will work closely with the Commission throughout the Review of the MMF Regulation.

The Guidelines on MMF Stress tests will be further reviewed this year to take in particular into account the interdependencies between the different risk factors under certain market situations. ESMA will be consulting on this review in 2022 and the outcome will be published by the end of the year.

Notes for editors

1. [Final report - ESMA opinion on the review of the Money Market Fund Regulation](#)
2. In the last two years several workstreams at international level have assessed the situation faced by MMFs during the March 2020 crisis. These workstreams have also looked at which policy options should be considered in order to address the observed issues, and potentially to enhance further the reforms on MMFs adopted following the 2008 financial crisis. This is the case in particular the of ESRB, who published its Recommendation on reforms of MMFs and of the FSB.
3. [Annual update of the MMF stress testing guidelines](#)
4. [Recommendation from the ESRB](#) on reform of money market funds
5. ESMA is the European Union's securities markets regulator. Its mission is to enhance investor protection and promote stable and orderly financial markets.

It achieves these objectives through four activities:

- assessing risks to investors, markets and financial stability;
 - completing a single rulebook for EU financial markets;
 - promoting supervisory convergence; and
 - directly supervising specific financial entities.
6. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

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