



EUROPEAN COMMISSION  
Impact Assessment Board

Brussels,  
D(2013)

Opinion

Title

**DG MARKT - Impact Assessment on a proposal for a European framework for Money Market Funds**

**(draft version of 12 December 2012) \***

**(A) Context**

Money Market Funds (MMFs) serve as 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. The issue of MMFs has been at the core of the international work on shadow banking. The Financial Stability Board (FSB) and other institutions, such as International Organization of Securities Commissions (IOSCO) and European Systemic Risk Board (ESRB) have analysed the financial sector in the course of 2011 and concluded that certain activities and entities were of systemic importance but had not been addressed to a sufficient degree. The European Parliament adopted a resolution on shadow banking in November 2012 inviting the Commission to review the EU investment funds framework with particular focus on the MMF issue. IOSCO has formulated policy recommendations designed to tackle certain issues raised by MMFs. The impact assessment analyses the proposed policy tools and assesses their impacts, taking into account the specificities of the European MMF market.

**(B) Overall opinion: POSITIVE**

**The report provides a good overview of the issues at stake but needs to be improved in a number of respects. First, the problem definition should provide greater detail on the MMF markets and underpin its description with further EU examples illustrating, in particular, the cross-border dimension of the problems. Second, the report should better link both the objectives and the options with the identified problems and present a set of quantifiable operational objectives as a basis for robust progress indicators. Third, the report should better assess the impacts on investors, and should strive to quantify the compliance costs that the envisaged measures would entail. The impacts on Member States and on international regulatory coherence should be also explained. Finally, the report should systematically present stakeholders views, in particular, in the sections analysing and comparing the options.**

\* Note that this opinion concerns a draft impact assessment report which may differ from the one adopted.

## **(C) Main recommendations for improvements**

**(1) Develop the problem description.** The report should enhance the problem definition by describing in greater detail the MMFs market and the situation in the different Member States. In particular, the report should better explain how this market is geographically organised (i.e. funds domiciled in a small number of Member States, managers and sponsors located in another small number of countries). The reviewed problem description should be underpinned by (practical) EU examples illustrating, in particular, potential cross-border risks. The report should also explain why action needs to be taken now, that is, before the conclusion of a number of parallel work streams on the issue of MMFs (e.g. the European Systemic Risk Board's work, regulatory discussions in the US).

**(2) Improve the intervention logic and define more operational objectives.** The report should better link the options with the problems they are designed to address. For example, while there is an extensive discussion in the options section regarding the appropriateness of capital buffers or bank-like requirements (e.g. capital reserves), the problem definition does not properly describes the lack of capital to address liquidity shortages as a driver. The coherence between problems and objectives should also be improved. Thus, given the cross-border dimension of the identified risks, an objective in relation to the functioning of the internal market is missing. Furthermore, objectives should be reworded so that they are clearer to the reader (e.g. 'align the structure of MMFs'). Finally, the report should present a set of measurable operational objectives against which to assess the success of the envisaged measures.

**(3) Better assess and quantify impacts.** The report should develop the analysis of impacts, in particular, on retail and institutional investors, such as pension and social security funds, and clarify who (i.e. investors, sponsors, taxpayer) would bear MMFs related risks under each option. Likewise, the impact on the different Member States and how international regulatory coherence (e.g. with the US) is going to be ensured needs to be explained. The report should clarify the impact of the different measures on MMFs' systemic risk and explain, for example, how much of that risk options such as the capital buffer would mitigate. The report should also better explain what the difference between requesting a capital buffer and applying bank-like capital requirements is. This could be done by providing an estimation of the capital that MMFs should set aside to comply with banks' capital requirements. The discussion on credit ratings should clarify what the aim of the corresponding option is and critically assess how effective it would be. The report should also better explain why the legislative instrument option of amending the Undertakings for Collective Investments in Transferable Securities (UCITS) Directive has not been retained despite its broad support among stakeholders. Finally, the report should strengthen the quantitative analysis by providing, where possible, an estimation of the compliance costs of the planned measures, such as those imposing new disclosure or 'know your client' requirements.

**(4) Better present stakeholders' views.** Stakeholders' views should be systematically described in the sections analysing and comparing the options, in particular, those of Member States and economic actors that can be expected to be the most affected by the envisaged measures. The reticence of some stakeholders' regarding variable net asset value funds should be explained in more detail. When reporting on stakeholders' views, the report should identify the corresponding stakeholder category, instead of just referring to 'a majority/minority of stakeholders'.

*Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report*

**(D) Procedure and presentation**

The report provides clear explanations. However, it should be streamlined with a view to avoid repetitions and overlaps.

**(E) IAB scrutiny process**

Reference number	2013/MARKT/045
External expertise used	No
Date of IAB meeting	16 January 2013