

Press release

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FSB publishes final report with policy proposals to enhance money market fund resilience

The Financial Stability Board (FSB) today published its final report with policy proposals to enhance money market fund (MMF) resilience. The report, which was delivered to the G20, is a key deliverable for 2021 of the FSB's work programme on non-bank financial intermediation. The policy proposals in the report aim to address systemic risks and minimise the need for future extraordinary central bank interventions to support the sector.

MMFs are subject to two broad types of vulnerabilities that can be mutually reinforcing: they are susceptible to sudden and disruptive redemptions, and they may face challenges in selling assets, particularly under stressed conditions. The prevalence of these vulnerabilities in individual jurisdictions may depend on market structures, use and characteristics of MMFs.

The report considers the likely effects of a broad range of policy options to address these vulnerabilities. Policy options are grouped according to the main mechanism through which they aim to enhance MMF resilience. The policy toolkit includes mechanisms to: impose on redeeming fund investors the cost of their redemptions; absorb credit losses; address regulatory thresholds that may give rise to cliff effects; and reduce liquidity transformation. The report includes considerations on how authorities can prioritise and combine these options.

In terms of next steps, FSB members are assessing, or will assess, MMF vulnerabilities in their jurisdiction and will address them using the framework and policy toolkit in this report, in line with their domestic legal frameworks. The FSB recognises that individual jurisdictions need flexibility to tailor measures to their specific circumstances. At the same time, as shown by the experience of March 2020, there are important cross-border considerations to be kept in mind. International coordination and cooperation on implementing policy reforms is critical to mitigate spillovers and avoid regulatory arbitrage.

The FSB will, working with the International Organization of Securities Commissions (IOSCO), review progress made by member jurisdictions in adopting reforms to enhance MMF resilience. The review process involves a stocktake by the end of 2023 of the measures adopted by FSB member jurisdictions, followed up with an assessment by 2026 of the effectiveness of these measures in addressing risks to financial stability.

IOSCO plans to revisit its *Policy Recommendations for Money Market Funds* in light of the framework and policy toolkit in this report. Moreover, in response to the feedback from the public consultation, the FSB and IOSCO intend to carry out follow-up work, complementing MMF policy reforms, to enhance the functioning and resilience of short-term funding markets.

Notes to editors

The FSB published in November 2020 a Holistic Review of the March Market Turmoil, which lays out a comprehensive and ambitious work programme for strengthening the resilience of the NBFIs sector while preserving its benefits.

The final report with policy proposals to enhance MMF resilience reflects public feedback received on a consultative version of the report, which the FSB published in June 2021. The FSB also published today an overview of the responses to its public consultation.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Governor and Vice Chair for Supervision, US Federal Reserve; its Vice Chair is Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.