FSB FINANCIAL STABILITY BOARD

14 August 2023

Thematic Peer Review on Money Market Fund Reforms

Summary Terms of Reference

1. Objective

The objective of this peer review is to take stock of the measures adopted by FSB member jurisdictions to enhance money market fund (MMF) resilience in response to the 2021 FSB policy proposals,[1] including those jurisdictions' evidence-based explanation of relevant MMF vulnerabilities and policy choices made.

2. Relevance to financial stability

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. These vulnerabilities, which crystallised during the March 2020 market turmoil, have been studied extensively in the academic literature and are documented in official reports and rulemakings. The prevalence of these vulnerabilities in individual jurisdictions may depend on market structures, use, and characteristics of MMFs. In practice, these two types of vulnerabilities have been significantly more prominent in non-public debt MMFs and can have system-wide effects.

The 2021 FSB report, which forms part of the FSB's work programme on non-bank financial intermediation (NBFI),[2] analyses MMF structures and vulnerabilities and includes a policy toolkit to enhance MMF resilience. The toolkit comprises mechanisms to: impose on redeeming fund investors the cost of their redemptions (e.g. swing pricing); absorb credit losses (e.g. minimum balance at risk and a capital buffer); address regulatory thresholds that may give rise to cliff effects (e.g. removal of ties between regulatory thresholds and imposition of fees/gates and removal of the stable net asset value); and reduce liquidity transformation (e.g. limits on eligible assets and additional liquidity requirements and escalation procedures). The table in the Annex, taken from the FSB report, provides an overview of these policy options.

The FSB report 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 mitigating cross-border spillovers and to avoiding regulatory arbitrage. FSB members agreed to assess MMF vulnerabilities in their

---

1 See FSB (2021), *Policy proposals to enhance money market fund resilience: Final report*, October.

2 See FSB (2022), *Enhancing the Resilience of Non-Bank Financial Intermediation: Progress report*, November.

jurisdiction and to address them using the framework and policy toolkit in the 2021 FSB report, in line with their domestic legal frameworks.

The FSB report states that the FSB will, working with IOSCO, review progress made by member jurisdictions in adopting reforms to enhance MMF resilience. This peer review will be followed up, by 2026, with an assessment of the effectiveness of these measures in addressing risks to financial stability.

3. Tasks

The peer review will:

- take stock of the progress made by FSB member jurisdictions in assessing and addressing MMF vulnerabilities in their domestic markets;
- set out the jurisdictions' evidence-based explanation of relevant MMF vulnerabilities and policy choices made; and
- identify any initial, commonly shared challenges for implementing MMF reforms.

In particular, the thematic review will be a narrow factual exercise with the goal of setting out progress made by member jurisdictions, focusing particularly on the following aspects:

- What do the relevant authorities consider as the main MMF vulnerabilities in their jurisdiction? How do the identified vulnerabilities differ depending on MMF structure, investor composition, asset profile, or other factors?
- Under what circumstances do the relevant authorities consider that the identified vulnerabilities could raise financial stability concerns?
- What steps in response to the 2021 FSB policy proposals have the authorities taken, or plan to take (and by when), to address MMF vulnerabilities?
- What evidence and considerations have driven their policy choices (e.g. in terms of intended reform objectives and the potential effects on MMF investor behaviour, fund managers/sponsors, and short-term funding markets)?
- Are the authorities considering complementary measures to MMF reforms (e.g. improvements in the functioning of underlying short-term funding markets)? What are those measures, when will they be adopted, and how are they expected to enhance MMF resilience?
- What steps have the authorities taken, or are they considering, to address any concerns that the proposed measures may lead to cross-border spillovers or regulatory arbitrage?
- To what extent do the measures reflect the policy options discussed in the FSB report?

4. Process

The primary source of information for the peer review will be responses to a questionnaire by FSB jurisdictions. The questionnaire will reflect issues identified in Section 3 and will cover information not already available through other work.

5. Expected final deliverable

The FSB expects to publish a report that describes the results of the peer review by the end of 2023. The report may identify areas where members face common challenges, document practices that have proved effective, and make recommendations (where appropriate) to address common challenges.

Annex: MMF policy options and their variants/extensions by mechanism to enhance resilience[3]

Representative options	Mechanism to enhance resilience	Primary objective	Secondary objective	Extensions and variants
Swing pricing (or economically equivalent measures)	Impose on redeeming investors the cost of their redemptions	Reducing the likelihood of destabilising redemptions	Mitigating the impact of large redemptions	Authorities mandating macroprudential swing pricing
Minimum balance at risk (MBR)	Absorb losses	Reducing the likelihood of destabilising redemptions		
Capital buffer	Absorb losses	Reducing the likelihood of destabilising redemptions	Mitigating the impact of large redemptions	Sponsor support, liquidity exchange bank
Removal of ties between regulatory thresholds and imposition of fees and gates	Reduce threshold effects	Reducing the likelihood of destabilising redemptions	Mitigating the impact of large redemptions	Authorities approving activation of fees and gates, MMF investor concentration limits, countercyclical liquidity buffer
Removal of stable NAV	Reduce threshold effects	Reducing the likelihood of destabilising redemptions		
Limits on eligible assets	Reduce liquidity transformation	Mitigating the impact of large redemptions		Limit MMFs to government MMFs, redemption in kind, non-daily dealing, liquidity-based redemption deferrals
Additional liquidity requirements and escalation procedures	Reduce liquidity transformation	Mitigating the impact of large redemptions	Reducing the likelihood of destabilising redemptions	

3 Excerpt from Table 3 of the 2021 FSB report.