IMMFA welcomes the opportunity to submit its views on the FSB Consultation.

IMMFA is a trade association representing managers of stable NAV money market funds based in Europe and associated business partners. At the end of 2012, our members had funds under management of €493 billion. All the money market funds we represent prioritise preservation of capital and liquidity and as such meet the ESMA definition of ‘Short-Term Money Market Fund’. Furthermore the money market funds operated by our members also adhere to a voluntary IMMFA Code of Practice which further determines their *modus operandi*, specifying tighter operating controls, with respect to liquidity limits for example, than are currently set out in the ESMA guidelines.

IMMFA is fully supportive of the FSB in its objectives of mitigating systemic risk in the overall financial system. We appreciate the concern regarding the role played in the system by money market funds given the scale of the industry. However the inclusion of money market funds as part of “shadow banking” is regrettable with the connotation that the activities are somehow less legitimate or less transparent than banking activities. If anything the reverse is true.

IMMFA money market funds are simple products, which invest very conservatively and which operate with a high degree of transparency with their investors. The fund managers take their fiduciary responsibility to their investors seriously. They recognize the significance of their activities and do not feel it is justified to present them as operating with anything less than fairness and transparency.

We agree strongly with the objectives of enhancing oversight and disclosure as a means of detecting future problems more swiftly.

We find the FSB’s comments regarding the potential consequences of well-intended but possibly faulty or disproportionate regulatory reforms particularly pertinent to the money market fund issue. Too much regulation imposed on the market as it exists, where demand for simple and easy to use product is very strong, will undoubtedly drive the market for such instruments elsewhere.

From this perspective, we find it extremely important that there is a full the understanding of the potential impact of proposed new regulations on all the various parties involved – but most particularly on those who need money market funds as an investment tool, and on those in the real economy who are financed via these products. Money market funds have often proved to be a more
loyal provider of funds to institutions of appropriate credit quality than other investment funds or financial institutions.

Given the objectives of our association, we restrict our comments purely to Work Stream 2 – Money Market Funds.

Analysis

IMMFA has consistently engaged in the debate about the future direction of money market fund regulation. We agree that although great progress has been made in strengthening money market funds since the disruption of 2007/2008 there is still further work and harmonization to be done. However we caution against incongruous or excessive regulation which has potential to damage a product which is highly valued by investors and issuers. Several consequences of the recent market upheaval are:

i. An increased need for cash management products as institutions hold higher levels of cash as protection of their own liquidity

ii. A greater appreciation of the value of money market funds as genuinely diverse portfolios of risk which enable investors to minimize their vulnerability to the fallibility of any one particular financial institution

iii. Issuers, particularly banks, placing value on MMF as a cheaper and more stable cross-border source of funding that is able to respond rapidly to the needs of borrowers, for example through reverse enquiries for financing. A significant reduction in the size of MMF market would raise funding costs for issuers and make banks more reliant on the inter-bank lending market for their funding.

Our recommendations for further reform of MMF include

- Prescribed minimum liquidity limits
- Enhanced disclosure both to investors and to regulatory authorities
- Sound ‘know your client’ requirements
- The potential to introduce other measures such as temporary suspension of withdrawals or liquidity fees in highly stressed market conditions

Although we are in agreement with many of the aims and objectives of the FSB in strengthening the oversight and management of money market funds, we do not fully agree with the analysis of the role played by money market fund in the initial crisis of 2007/2008. In particular, IMMFA disagrees with the statements that CNAV funds are bank-like, that a conversion of CNAV MMFs to VNAV MMFs will best address their perceived greater vulnerability to ‘runs’, and with the concerns about amortisation. We summarise each of these points in turn below.
**MMF are not bank-like**

One of the key points in the money market fund reform debate relates to the assertion that an investment in a MMF is “like” a bank deposit, and hence MMF should adopt more bank-like protections. However we would refute this assertion\(^1\).

Money market funds are different from banks in four fundamental respects. These differences concern their legal form but also, importantly, their economic function.

First, money market funds do not create liquidity for their investors rather they manage liquidity using short-term, high quality assets. Second, an investor in a money market fund buys an equity share in the fund rather than placing cash on deposit with a bank. Third, the type and quality of assets owned by a money market fund are defined by regulation, and inventories of holdings are available to investors, which is not the case for bank depositors. Finally, money market funds are **fully capitalised** and do not use leverage, which means that they hold 100% equity capital for the assets they own, unlike banks which fund their assets by a mixture of equity, debt and deposits.

**A conversion from CNAV to VNAV MMF will not address the issue of ‘runs’**

Over the past thirty years, academic economists have tried to develop models that explain the reasons why banks runs occur and what can be done to prevent them, or to mitigate their consequences. This literature is well-known and regularly quoted by central bankers and other bank regulators. The central conclusions are that the best protections against bank runs are government sponsored retail deposit insurance schemes; or the suspension of convertibility, which means a temporary cessation of the standard terms under which depositors are able to access cash from their bank.

There are no arguments within the academic literature in favour of changing the terms of the contract between the bank and the depositor. Under a standard demand deposit contract, if a depositor places $100 with a bank, this same depositor is entitled to withdraw some or all of their $100 deposit at any time during normal banking hours. The value of this deposit does not vary according to the performance of the bank’s investments.

It is quite remarkable that some regulators have suggested that the risk of a bank-style run would be reduced if money market funds were forced to convert from stable to variable NAV. If the same logic were applied to banks, it would be the same as suggesting that they start offering variable value deposits to depositors, something which would clearly never happen. The proposed reform to money market funds is without precedent in banking regulation and has no basis of support in the academic literature.

The differences between banks and money market funds highlighted above are important, not least because they explain the structural reasons why the dangers associated with the first mover advantage are significantly lower for money market funds than for banks. First movers are less likely to secure an advantage by trying to run from a money market fund. Furthermore, there are already mechanisms in place that could be used to prevent them from running such as restricting redemptions and consideration should be given to whether gating should be enhanced or refined.

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\(^2\) Survey of IMMFA Fund Managers December 2012
In a period of heightened systemic risk, the ability of money market funds to suspend the standard terms under which shareholders are able to redeem fund units for cash, significantly lowers the possibility of a first mover advantage and thereby reduces the risk of a run. This means *liquidity fees* or *liquidity gates*.

The large redemptions from CNAV MMF in the US in 2008 were not due to investors’ concerns about the fairness of pricing but due to their concern about the quality of the assets, specifically the bank assets, being held in those funds. The cash was mostly reinvested in treasury MMF – also operated as CNAV. This was not a run on CNAV MMF but a flight to quality.

**Amortisation is the most appropriate method to value assets in a MMF**

Money market fund managers tend to buy and hold investments. A recent survey of fund administrators\(^2\) revealed that the average annual value of asset sales from IMMFA MMFs in Europe amounted to less than 0.5% of the value of asset purchases. Therefore over 99.5% of assets are held to maturity.

Money market funds tend to own assets that do not have traded market prices. The same survey suggested that between 90% and 100% of assets in money market funds are priced using "evaluated prices" rather than traded or quoted prices.

Since money market funds buy assets with the intention of holding them to maturity, and since most of these assets do not have accurate traded market prices, amortised cost accounting is the most appropriate method to value assets in a money market fund. The use of amortised cost accounting is consistent with the accounting treatment of bank assets that are bought with the intention of them being held to maturity: it is consistent with FRS39 and is both "true and fair".

The use of constant NAV pricing for money market funds does lead to occasional frictional transfers of wealth between investors as they buy and sell shares. These transfers are not material in size; furthermore, these transfers cannot be avoided by moving from constant to variable NAV pricing for the fund because of the bid-offer spread for money market assets.

The historical difference in value between constant NAV funds and their marked-to-market "shadow price" is very small. Data from the US\(^3\) shows the difference in value to average 0.002% between 2000 and 2010. Moving from amortised cost accounting to mark to market pricing would have no material impact on the prices of money market funds but would pose significant operational and taxations issues for investors.

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\(^2\) Survey of IMMFA Fund Managers December 2012

\(^3\) ICI Survey
1. Comments on the IOSCO recommendations on MMFs

**Recommendation 1: Money market funds should be explicitly defined in CIS regulation.**

We fully agree with the proposal to define money market funds as “investments funds that seek to preserve capital and provide daily liquidity, while offering returns in line with money market rates”.

Any investment funds which wish to present themselves to investors as money market funds should be subject to the same regulatory requirements.

**Recommendation 2: Specific limitations should apply to the types of assets in which MMFs may invest and the risks they may take.**

We agree with this recommendation. IMMFA funds already adhere to a Code of Practice which is more restrictive than the ESMA guidelines in Europe with respect to the main risks to which money market funds are exposed, i.e. interest rate risk, credit/credit spread risk and liquidity risk.

The changes which have been implemented to the operation and management of money market funds since the initial credit shock of 2007/2008, specifically the tightening of credit quality restrictions, WAM and WAL controls, the adoption of prescribed liquidity levels and the increased levels of transparency have added greatly to the robustness of money market funds and their ability to withstand extreme market conditions.

In 2008, when one fund, the Reserve MMF in the US, was known to have a problem, due to the lack of transparency in reporting, investors did not know which other MMF may also have the same issue. Since then, as we describe, the rules on asset composition, WAM and WAL have been tightened and transparency considerably enhanced.

In summer 2011, when the markets were stressed once more by the Eurozone debt crisis, investors reacted much more calmly.

**Recommendation 3: Regulators should closely monitor the development and use of other vehicles similar to money market funds (collective investment schemes or other types of securities).**

We strongly agree that regulators should closely monitor the market for development of alternative products outside the agreed definition.

**Recommendation 4: Money market funds should comply with the general principle of fair value when valuing the securities held in their portfolios. Amortized cost method should only be used in limited circumstances.**

As we outline above, we do not necessarily agree that the amortised cost method of pricing is misleading. Given that money market funds are over 99% ‘buy-and hold’ investors⁴, it would seem to

⁴ Survey of IMMFA Fund Managers December 2012
be sensible, and on occasions more supportive of market stability, if funds were allowed to use this type of pricing.

Clearly there should be limits on the use of amortised cost prices: otherwise, if amortised prices were materially higher than mark-to-market prices, there is a risk of disadvantaging subscribing investors relative to incumbent investors, and remaining investors relative to redeeming investors. And if amortised prices were materially lower than mark-to-market prices, then *vice versa*.

Existing limits on amortised accounting take a variety of forms, and need to be considered in conjunction with other risk constraints designed to protect investors, notably limits on: maximum WAM; maximum WAL; maximum final legal maturity; minimum liquidity requirements; minimum credit quality requirements; asset diversification requirements; etc. Those limits are necessarily diverse because of differences in the relative maturity and size of national economies, which mean some money markets are relatively broad and deep (i.e. include a very large number of issuers and investors, and issuance at every available maturity) whereas others are relatively narrow and shallow.

At this stage in the development of national and regional economies and money markets, a principals-based approach seems appropriate. For example, ESMA’s Guidelines Concerning Eligible Assets for Investment by UCITS provides a helpful model:

> “With respect to the criterion "value which can be accurately determined at any time", if the UCITS considers that an amortization method can be used to assess the value of a MMI [Money Market instrument], it must ensure that this will not result in a material discrepancy between the value of the MMI and the value calculated according to the amortization method. The following UCITS/MMI will usually comply with the latter principles:

- **MMI** with a residual maturity of less than three months and with no specific sensitivity to market parameters, including credit risk; or

- **UCITS** investing solely in high-quality instruments with as a general rule a maturity or residual maturity of at most 397 days or regular yield adjustments in line with the maturities mentioned before and with a weighted average maturity of 60 days. The requirement that the instruments be high-quality instruments should be adequately monitored, taking into account both the credit risk and the final maturity of the instrument.

These principles along with adequate procedures defined by the UCITS should avoid the situation where discrepancies between the value of the MMI as defined at Level 2 and the value calculated according to the amortization method would become material, whether at the individual MMI or at the UCITS level. These procedures might include updating the credit spread of the issuer or selling the MMI.”

**Recommendation 5:** MMF valuation practices should be reviewed by a third party as part of their periodic reviews of the funds accounts.

IMMFA supports this recommendation.
**Recommendation 6: Money market funds should establish sound policies and procedures to know their investors.**

One of IMMFA’s key recommendations for the further strengthening of money market funds is improved ‘know your client’ legislation.

The following clause is already included in the IMMFA Code of Practice:

3.1 An IMMFA fund’s liquidity policy must address concentration risk, including any concentrations arising within shareholders or sector-specific issuance.

The two main arguments in favour of requiring money market fund managers to know their investor base are as follows:

First, a fund with a relatively concentrated investor base is clearly more heavily impacted by redemptions by those investors than a fund with a relatively unconcentrated investor base. Requiring money market fund managers to know their customer would enable them to identify and discourage concentrated investor bases. Ideally, just as money market funds diversify their assets, so they should diversify their investor base.

Second, some investors have correlated cash flow requirements: for example, corporates from within a single jurisdiction may redeem from money market funds at fixed points in the year to meet tax liabilities. Requiring money market fund managers to know their customers would enable them to more accurately model and project those cash flow requirements, and manage maturity risk more effectively.

However, we acknowledge two challenges:

- Imposing maximum shareholder concentration limits would give relatively large money market funds an advantage over relatively small funds. Shareholder concentration limits are also prone to passive breeches, i.e. an original subscription may be within a limit, but then breech the limit if other investors redeem. Furthermore, some investors (e.g. liability matching portion of pension investments) may also be known to be longer term and less prone to redemption at times that other investors may have an urgent need for cash flow – know your client becomes important in these circumstances but absolute client concentration limits could become counter-productive. Therefore, any reform ought not to take the form of formal limits per se, but rather of an obligation on money market funds to know their investor base in order to manage concentration risk.

- In some jurisdictions, a significant proportion of investors subscribe via platforms and other omnibus/third party arrangements. Insofar as such platforms represent more than a de minimis amount of a money market fund’s investor base then operators ought to be required or incentivised to disclose the identity/characteristic of the underlying investors to money market fund managers. A reasonable transition period would be needed to enable the platform operators to redocument contractual agreements, if necessary. However, this ought not to present any novel issues, since a number of regulatory and fiscal initiatives (e.g. FATCA) effectively already require disclosure by intermediaries to investment funds.

**Recommendation 7: Money market funds should hold a minimum amount of liquid assets to strengthen their ability to face redemptions and prevent fire sales.**
We agree with this recommendation. IMMFA funds already adhere to a Code of Practice which outlines the amount of assets, as a percentage of the funds under management, which should mature on the next working day (10%) and within 5 working days (20%). We would strongly recommend that limits of this type be introduced as standard across all money market funds.

A loss of confidence in the banking system may cause a ‘flight to quality’ by some investors, including switching between prime and Treasury money market funds. The only credible way of stopping that flight to quality is to restore confidence in the banking system. In the absence of a functioning secondary market, the main objective of money market fund reform should be to ensure that funds have sufficient natural liquidity to meet redemption payments, otherwise there is a risk that money market funds would be forced to gate, which would transmit the crisis into the real economy.

Minimum liquidity requirements directly address this issue: they better enable money market funds to meet redemptions in cash, and without relying on secondary markets.

Further to reforms in 2010, US money market funds now must hold at least 10% of their assets in overnight cash, and 30% in assets that mature within one week. Therefore, in November 2010 it was reported\(^5\) that US money market funds had USD260bn in cash, and USD800bn maturing within one week: amounts far in excess of the actual redemptions experienced in 2008. Similarly, IMMFA’s Code of Practice requires members’ funds to hold at least 10% of their assets in overnight cash and 20% in assets that mature within one week.

**Recommendation 8: Money market funds should periodically conduct appropriate stress testing.**

IMMFA fully supports this recommendation. IMMFA funds already conduct periodic stress testing as part of their adherence to the IMMFA Code of Practice:

6.1 Members should ensure that periodic stress testing of each of their IMMFA funds is performed, at a frequency which is determined by the fund’s board of directors as appropriate and reasonable in light of prevailing market conditions.

**Recommendation 9: Money market funds should have tools in place to deal with exceptional market conditions and substantial redemptions pressures.**

IMMFA supports this recommendation. As with the ‘know-your-client’ recommendation above, IMMFA members understand that in extreme market circumstances, a variety of tools need to be at their disposal in order to carry out their fiduciary duty and to protect the interests of all their investors equally. These measures may include the option of imposing a temporary liquidity fee (or pricing shares using bid pricing for assets), temporary suspension of withdrawals or ‘in specie’ repayments.

**Recommendation 10: MMFs that offer a stable NAV should be subject to measures designed to reduce the specific risks associated with their stable NAV feature and to internalize the costs arising from these risks. Regulators should require, where workable, a conversion to floating/variable NAV. Alternatively, safeguards should be introduced to reinforce stable NAV MMFs’ resilience and ability to face significant redemptions.**

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IMMFA does not agree with the analysis which suggests that stable NAV funds present more of a risk than variable NAV funds. Any forced conversion risks:

i. Denying a wide range of investors access to a valued tool

ii. Imposing high costs on an industry at a time of economic stress

iii. Giving the false impression that the money market fund industry has been strengthened by making all money market funds VNAV

We do believe that there are further tools which may be used to improve funds' resilience, but that these must be applied to all money market fund equally, regardless of their accounting method.

One key additional tool which could be added would be the option of imposing a liquidity fee in stressed market conditions. This would take the form of a fee applied to abnormal withdrawals which would be sized to keep the remaining investors in the fund whole, should it be necessary to sell assets below their marked prices. The equivalent in a variable NAV fund would be to redeem shares at a price based on either the actual price achieved or the bid price of the assets in the market.

This tool preserves the integrity of the fund as it puts a charge on those on those investors who are requesting abnormal liquidity and protects those who stay in the fund. Furthermore, by imposing a real cost, such a fee disincentivises investors from irrational flight.

We do not support the proposals to require a capital or NAV buffer. Proponents of a NAV buffer believe it will disincentivise investors from redeeming as the fund is effectively over collateralised. If investors did redeem, the buffer would increase relative to the NAV to the benefit of remaining investors, and so the disincentive to redeem would grow still greater. We disagree with this argument. The options facing an investor in a prime MMF with a NAV buffer during a financial crisis would be:

- To remain in the prime MMF, in which case there is a remote chance of a loss if one of fund’s assets defaults, and the ensuing loss is greater than the NAV buffer; or

- To redeem from the prime MMF and subscribe to a Treasury MMF.

Faced with these options, the obvious choice for a risk averse investor would be to redeem: the NAV buffer provides insufficient an incentive for the investor to remain in the prime fund, relative to the ‘risk free’ option of the Treasury fund.

The NAV buffer proposal also raises the question of whether any buffer would be funded by shareholders, sponsors or a third-party. Furthermore, a buffer of any meaningful size could render the economics of a money market fund potentially unviable for many money market fund providers.

Recommendation 11: MMF regulation should strengthen the obligations of the responsible entities regarding internal credit risk assessment practices and avoid any mechanistic reliance on external ratings.
IMMFA fully supports the proposals to reduce over-reliance credit ratings. The IMMFA Code of Practice makes the following reference to a fund’s in-house credit capabilities:

2.1 The credit risk assessment facilities operated by the investment managers of an IMMFA fund must be proportionate to the nature, scale and complexity of its business. Investment managers must be competent to manage and transact in all debt obligations the fund is exposed to, whether directly or as collateral under repurchase transactions.

**Recommendation 12: CRA supervisors should seek to ensure credit rating agencies make more explicit their current rating methodologies for money market funds.**

We support the view that the CRAs should

- Be transparent about their rating methodologies.
- Give funds a reasonable amount of time to carry out remedial actions in case of problems with specific assets
- Should not take the strength of the sponsor into account.

We also agree that regulators ensure that the reference to “Triple-A” ratings does not convey an importance of safety.

**Recommendation 13: MMF documentation should include a specific disclosure drawing investors’ attention to the absence of a capital guarantee and the possibility of principal loss.**

IMMFA is in full agreement with this recommendation. IMMFA members’ prospectuses already make clear that

i. Funds are not guaranteed – they are investment products

ii. Preservation of capital is a principal aim but it is not guaranteed

We believe this should always be the case for all money market funds.

**Recommendation 14: MMFs’ disclosure to investors should include all necessary information regarding the funds’ practices in relation to valuation and the applicable procedures in times of stress.**

IMMFA fully agrees with this recommendation.

**Recommendation 15: When necessary, regulators should develop guidelines strengthening the framework applicable to the use of repos by money market funds, taking into account the outcome of current work on repo markets.**

The IMMFA code of practice sets out very conservative provisions for the use of repo, engaging in only very short term (next day) collateralized deposits and requiring very high quality collateral and
as far as we are aware do not repo out their assets. IMMFA will be happy to discuss how to move forward with the use of repo by money market funds once the current work on this topic is complete.

14th January 2013

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The Institutional Money Market Funds Association (IMMFA) a trade association which represents European-domiciled money market funds.

IMMFA Members are bound by a Code of Practice whose objective is to protect investors by imposing high and consistent standards on IMMFA funds.

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Amended 16 February 2007
Amended 14 December 2009
Amended 15 June 2011
Amended 14 June 2012
Amended 26 November 2012
PART I
Objective of the Code

1.1 The objective of the Code is to protect investors in IMMFA funds by establishing:
   (a) minimum standards for risk management (including in relation to credit risk, interest rate
       risk, liquidity risk and market risk);
   (b) general management obligations;
   (c) disclosure obligations; and
   (d) obligations for Compliance with the Code.

1.2 Full Members are bound by the Code and should comply with it and take such steps as are
    necessary to ensure each of their IMMFA funds complies with it. Associate Members are bound by
    the Code and should comply with it to the extent relevant to them and so as to support the
    provisions of the Code as they apply to Full Members and IMMFA funds.

1.3 Members must ensure that funds not compliant with the Code are not promoted as IMMFA funds.

1.4 Members should inform relevant parties of the Code’s provisions and the responsibilities arising
    from it, these parties to include: their IMMFA fund’s board of directors; trustees; administrators;
    credit rating agencies; third party data providers; and other organisations that might be affected
    by the Code.

1.5 The provisions of the Code are additional to any legal or regulatory requirements applicable to an
    IMMFA fund in the jurisdiction in which it is domiciled. In the case of conflict between such legal
    or regulatory requirements and the Code, the former take precedence.

1.6 The Board of IMMFA maintains and issues to Members a supplement to the Code comprising
    statements of clarification, guidance and other materials it deems to be relevant. The IMMFA
    Board may consult IMMFA committees on the content of statements of clarification and guidance.

PART II
Credit and interest rate risk

2.2 The credit risk assessment facilities operated by the investment managers of an IMMFA fund must
    be proportionate to the nature, scale and complexity of its business. Investment managers must
    be competent to manage and transact in all debt obligations the fund is exposed to, whether
    directly or as collateral under repurchase transactions.

2.3 Each security held by an IMMFA fund must present an appropriate level of credit risk for the period
    during which it is held by the fund. Members should take a proactive approach to managing risk in
    order to achieve this objective.

2.4 At the point of purchase, any security to be held in an IMMFA fund must be Top Tier. An IMMFA
    fund may purchase an unrated security if it is deemed by the investment manager to be at least
    comparable quality to Top Tier and the issuing entity is Top Tier or has the comparable long term
    ratings.

2.5 An IMMFA fund may utilise repurchase agreements provided the counterparty is Top Tier or has
    the comparable long term ratings. An IMMFA fund may additionally transact with repurchase
    agreement counterparties which are not Top Tier but which have short term ratings not lower than
    A2, P2 or F2 by any rating agency, provided that the collateral consists only of High Quality
    Government Securities. If the fund transacts a repurchase agreement with collateral that does not
    consist solely of High Quality Government Securities, the transaction is to be treated as direct
    exposure to the counterparty and such counterparty must be Top Tier or have the comparable
    long term ratings. A suitable “haircut” should be imposed on all repurchase agreements and
    consideration should be given to the liquidity characteristics of the collateral and the legal
    framework that may or may not impact the timeliness of the fund’s ability to take possession of
    the collateral.

2.6 The portfolio of holdings of an IMMFA fund should not have a WAL that exceeds 120 days. The
    final legal maturity of a security should be used to calculate the WAL of a fund, unless the security
    includes a put option where the right to exercise the put option is retained by the fund. In these
instances only, the maturity date of the security should be considered to be the earliest possible settlement date of the option.

2.7 The portfolio of holdings of an IMMFA fund should not have a WAM which exceeds 60 days.

2.8 An IMMFA fund should not hold a security with a final legal maturity which exceeds 397 days.

2.9 Immediately after the acquisition of any security, an IMMFA fund should not:
   (a) have more than five per cent of net assets invested with a single “family”, excluding any asset-backed commercial paper issued by an entity within the family. However, this limit may be increased to ten per cent of net assets for a period of five business days after any acquisition of a security issued by a family entity and up to 100% of a fund may be invested in High Quality Government Securities. Where asset-backed commercial paper is purchased, Members should consider any sponsor or liquidity support provided to the issuing conduit and the impact this would have on the other exposures of the IMMFA fund;
   (b) have more than five per cent of net assets invested with a single repurchase agreement counterparty, unless the relevant collateral consists only of High Quality Government Securities. If the collateral in a repurchase agreement is not solely High Quality Government Securities, then the exposure to that repurchase agreement is deemed to be direct to that counterparty and subject to the limitations in (a) and (c) of this Article 2.8; and
   (c) have more than five per cent of net assets in illiquid securities. Members should determine which securities are considered illiquid, but this should include any deposit or repurchase agreement with a residual maturity of more than five business days.

2.10 If an IMMFA fund fails to meet the minimum credit criteria required by the Code, the relevant Member must ensure that the fund’s investment managers use best efforts to ensure the fund complies with the minimum as soon as reasonably practicable thereafter, having regard to market conditions and the best interests of all shareholders in the fund.

2.11 A Member can refer new security types to the Investment Committee to agree their eligibility for an IMMFA fund. Should the Investment Committee determine that such security types do not represent a risk profile which is in general in accordance with the objectives of an IMMFA fund:
   (a) the analysis by the Investment Committee and the minutes of the meeting will be distributed to all Members;
   (b) if it can offer additional analysis and/or data about such security types, a Member can appeal any decision. Following review of this additional information, the Investment Committee will reconsider its position and circulate information as in (a); and
   (c) should the Investment Committee not consider a security eligible for inclusion in an IMMFA fund and the relevant Member decides to maintain the fund’s investment or make any new investment in spite of the specific guidance from the Investment Committee on this security type:
      (i) approval should be obtained from the fund’s board of directors to invest in this security type; and
      (ii) the information that the fund invests or may invest in such a security type should be disclosed to the fund’s shareholders.

**PART III**

**Liquidity risk**

3.2 An IMMFA fund must have a formal liquidity management policy to allow it to meet reasonably foreseeable liquidity demand, having regard to normal market liquidity. The liquidity management policy should be approved by the fund’s board of directors and should be reviewed no less than annually.

3.3 Notwithstanding the generality of Article 3.1, an IMMFA fund must maintain no less than ten per cent of net assets in investments which mature the following business day and no less than twenty per cent of net assets in investments which mature within five business days. For these purposes, Members may include in the maturing asset totals High Quality Government Securities and transactions in repurchase transactions which meet the requirements of Articles 2.4 and 2.8 and which mature within the relevant period.
3.4 If liquidity levels of an IMMFA fund fall below the minima in Article 3.2, the relevant Member must require the investment managers of the fund to use best efforts to ensure the fund complies with the minima as soon as reasonably practicable thereafter, having regard to market conditions and the best interests of all shareholders in the fund.

3.5 An IMMFA fund’s liquidity policy must address concentration risk, including any concentrations arising within shareholders or sector-specific issuance.

3.6 An IMMFA fund’s prospectus and constitutive documents must permit an in specie transfer of assets of the fund to satisfy all or part of a material redemption request. Any proposal to use such a power must be both approved by the IMMFA fund’s board of directors and be in the best interests of all shareholders in the fund.

PART IV
Market risk

4.1 An IMMFA fund must use the straight-line method of amortising its assets when valuing them. If the relevant authorities in the fund’s domicile do not recognise this valuation methodology, the data published by the fund must nevertheless reflect the amortised value of the fund’s underlying assets.

4.2 To ensure its stated asset value remains close to its realisable value, an IMMFA fund must also be valued on a mark-to-market basis at regular intervals. In this context, ‘regular intervals’ means not less than once a week during normal market conditions.

4.3 An IMMFA fund must have an escalation procedure for occasions when the value of the fund under the straight-line method and under the mark-to-market method differs by more than a marginal amount. The escalation procedure must ensure that any variance in valuation is considered by individuals independent of the fund’s investment management team who are competent to act for the fund (usually the directors of the fund or its management company and its trustees) at an appropriate time.

4.4 An IMMFA fund must have an escalation procedure for occasions when the value of a security in the fund under the amortised cost valuation method compared with the relevant mark-to-market valuation differs by more than a marginal amount. The escalation procedure must ensure that any variance in valuation is considered by individuals independent of the fund’s investment management team who are competent to act for the fund at an appropriate time. The security level escalation procedure should not be reviewed in isolation. If the variance in valuation is sufficient to significantly impact the portfolio, the fund level escalation procedure should determine appropriate action.

4.5 An IMMFA fund must have a formal policy to address any realised gains and losses. This policy must be approved by its board of directors and should be reviewed no less than annually. The policy must require any realised capital gain or loss arising in the fund to be dealt with on a consistent basis and in a timely manner that is considered by the board of directors to be in the best interests of all shareholders in the fund. If it is proposed that a realised gain or loss is smoothed and/or offset over a period of more than one year, the fund’s board of directors must approve that action even if such powers have otherwise been delegated to the investment manager.

4.6 Members must require the administrators of their IMMFA funds to use pricing sources which properly reflect the fair disposal value of the securities in the relevant fund.

4.7 If an IMMFA fund experiences a permanent loss of value or such an event is anticipated, the relevant Member must inform the IMMFA Secretariat as soon as reasonably practicable.

PART V
Disclosure

5.1 An IMMFA fund should disclose to investors, if requested, at least monthly, as at the last business day of the month, and within five business days of the month end, the following items:
a) the liquidity profile of the fund, comprising the cumulative percentage of investments which mature within the following periods:
   (i) the following business day;
   (ii) one day to one week;
   (iii) one week to one month;
   (iv) one month to three months;
   (v) three months to six months;
   (vi) six months to one year; and
   (vii) over one year.
b) portfolio holdings;
c) credit profile, as represented by the short-term ratings of the fund’s portfolio;
d) portfolio composition, as represented by the types of investments in the fund’s portfolio;
e) WAM;
f) WAL.

5.2 An IMMFA fund may derogate from Article 5.1 for six months following the date of its commencement of trading.

5.3 An IMMFA fund should provide such information as is required to produce the weekly IMMFA Money Fund Report.

5.4 Members should exercise care to ensure that data provided by them about their IMMFA funds is accurate.

5.5 Queries made of Members in the course of checking and confirming data should be dealt with promptly and in full.

PART VI
General obligations

6.2 The primary objective of an IMMFA fund should be to provide investors with security of capital and high levels of liquidity. An important, but secondary, objective should be to enhance yield. Given these objectives, and acknowledging their responsibility to the market in general, Members agree to manage and operate, or arrange for the management and operation of, their IMMFA funds in accordance with the general and specific conditions set out below.

6.3 An IMMFA fund must maintain a triple-A rating.

6.4 An IMMFA fund must not invest in equities or in securities with equity-like characteristics or be managed to behave like equities.

6.5 Members should ensure that the administrator of each of their IMMFA funds is experienced in handling the administration of constant or accumulating NAV money market funds (as appropriate). Members should review the administrative services arranged for their IMMFA funds, whether provided directly or outsourced, and should be proactive in ensuring that the administrative services received are of high quality throughout the life of a fund. If the administrator of an IMMFA fund is not experienced in handling constant or accumulating NAV money market funds, the relevant Member should ensure that the administrative services provided are thoroughly scrutinised and are of a high quality throughout the life of the fund.

6.6 Members should have in place the necessary resources to manage and operate IMMFA funds.

6.7 Members should not undertake any action that, directly or indirectly, compromises the security of an IMMFA fund’s investment holdings.

6.8 Under normal market conditions, Members providing constant NAV IMMFA funds should offer share/unit redemption facilities on each business day on which the relevant markets for the relevant fund are open for business.

6.9 The securities held in an IMMFA fund must be either in the base currency of the fund or fully hedged back to the base currency of the fund so far as reasonably practicable.

6.10 An IMMFA fund’s net assets may be invested in other collective investment schemes which are subject to the requirements contained herein or to equivalent standards as determined by the IMMFA Investment Committee. In the absence of any determination to the contrary by the IMMFA Investment Committee, funds that are subject to Rule 2a-7 of the US Investment Company Act of 1940 should be construed as equivalent.
6.11 Members should ensure that periodic stress testing of each of their IMMFA funds is performed, at a frequency which is determined by the fund’s board of directors as appropriate and reasonable in light of prevailing market conditions.

6.12 Members must adhere to the policies and escalation procedures maintained by each of their IMMFA funds as required by the Code.

PART VII
Compliance with the Code

7.1 Full Members must submit to the IMMFA Board and to the board of directors of each of their IMMFA funds an annual statement confirming compliance with the Code. The statement should be made within four months of the end of a fund’s financial reporting period, and should confirm compliance throughout the reporting period.

7.2 The IMMFA Board is responsible for investigating (or declining to investigate) alleged breaches of the Code. It may investigate in a way of its choosing, but subject to ensuring that any conflict of interest that may arise is dealt with in the course of the investigation.

7.3 The IMMFA Board shall decide what action to take in the event of a breach of the Code. Such action may include, amongst other things, that the relevant Member should be suspended or expelled from membership, that the relevant Member should correct the breach within a specified time period, or that no action should be taken. The IMMFA Board may, at its discretion, publish its decision to the membership or more widely.

PART VIII
Transitional provisions and amendments

8.1 The Board of IMMFA may amend the Code, which amendment, if material, shall be adopted if approved by a majority of Full Members who vote.

PART IX
Definitions

9.1 In the Code the following terms shall have the meanings shown opposite them as follows:

“administrator” the person or persons who act, variously, as general administrators, transfer agents and/or authorised corporate directors for an IMMFA fund.

“Associate Member” a Member that provides services to money market funds, but is not itself a promoter of IMMFA funds.

“Board of Directors” in relation to an IMMFA fund means that fund’s board of directors or, for contractually based vehicles, the board of directors of the manager.

“ESMA” European Securities and Markets Authority

“family” in Article 2.8 of the Code means all companies that are included in the same group for the purposes of consolidated accounts or, in accordance with recognised international accounting rules, are regarded as a single body.

“Full Member” a Member which is a promoter of money market funds.

“High Quality Government Security” is a debt instrument issued by a sovereign in the official currency of that sovereign, provided that this currency is also the operating currency of the relevant IMMFA fund. In determining which sovereign securities are High Quality Government Securities the investment manager should take into account the credit worthiness of the security and ensure that the security is capable of being traded for same day value with a range
of willing counterparties. Debt instruments guaranteed by a sovereign issued or issued or guaranteed by a government agency of a sovereign or a supranational entity can be High Quality Government Securities provided that the security is capable of being traded for same day value with a range of willing counterparties, they are issued in the currency of the fund and, in the case of a government agency, the credit worthiness of the security is the same as the sovereign.

“guidance” guidance issued by the IMMFA Board, intended to assist Members understand the provisions of the Code, but which is not binding on Members.

“IMMFA” Institutional Money Market Funds Association
“IMMFA fund” a European domiciled money market fund subject to the provisions of the Code
“Investment Committee” The IMMFA committee known as the Investment Committee and which was previously called the Technical Committee.
“Member” a member of IMMFA, being either a Full Member or an Associate Member.
“money market fund” a registered UCITS fund (or its equivalent, as determined by the Investment Committee), whose investment objective is to provide security of capital and high levels of liquidity, and which seek to achieve that objective by investing in a portfolio of high quality, low duration money market instruments.

“permanent loss of value” for a constant NAV money market fund, when a fund has a published share price or verified mark-to-market valuation amounting to 99.5% or less of the constant value of each share. An accumulating money market fund is deemed to have suffered a ‘permanent loss of value’ if either its published share price or its verified mark-to-market valuation per share falls below 99.5% of the highest level previously reached by the share price.

“statement of clarification” a statement issued by the IMMFA Board, intended to clarify the provisions of the Code, and which is binding on Members. Failure to comply with such a statement constitutes a breach of the Code.

“the Code” the Code of Practice issued by IMMFA, as from time to time amended.
“Top Tier” in relation to a security or entity means with not more than one short term credit rating of A2, P2 or F2 provided that there is also at least one short term credit rating of A1, P1 or F1 or higher.

“triple-A rated” AAAm from Standard & Poor’s, Aaa/mf+ from Moody’s Investors Service or AAA/mmf from Fitch Ratings, as amended from time to time. Other rating agencies may use other symbologies.

“WAL” weighted average life
“WAM” weighted average maturity