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International Organization of Securities Commissions
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IOSCO Consults on Money Market Fund Systemic Risk Analysis and Reform Options

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has published a consultation report, [*Money Market Fund Systemic Risk Analysis and Reform Options*](#), which provides a preliminary analysis of the possible risks that money market funds (MMFs) could pose to systemic stability and consults on an exhaustive range of policy options to address those risks.

With over US\$ 4.7 trillion in assets under management as of third quarter 2011, MMFs account for over 20 percent of the assets of Collective Investment Schemes (CIS) worldwide and are a significant source of credit and liquidity. MMFs' history of providing daily liquidity and principal preservation have played a significant role in differentiating MMFs from other CIS and have facilitated the use of MMFs as important cash management vehicles.

Their importance and interconnectedness with the rest of the financial system make their safety crucial for financial stability at large.

But the September 2008 run on MMFs alerted regulators to the potential that MMFs have to increase systemic risk. Although MMFs did not cause the crisis, their performance during the financial turmoil highlighted their potential to spread or even amplify a crisis. In this regard, the Financial Stability Board (FSB) asked IOSCO to undertake a review of potential regulatory reforms of MMFs that would mitigate their susceptibility to runs and other systemic risks and to develop policy recommendations by July 2012.

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The FSB's mandate indicated that a key issue to be considered by such a review is whether the regulatory approach to MMFs needs to choose between (i) encouraging/requiring shifts to Variable Net Asset Value (VNAV) arrangements, (ii) imposing capital and liquidity requirements on MMFs which continue to promise investors Constant NAV (CNAV), and/or (iii) whether there are other possible approaches.

To ensure a sound base for evaluation of these options, the FSB asked IOSCO to review:

- The role of MMFs in funding markets;
- Different categories, characteristics and systemic risks posed by MMFs in various jurisdictions, and the particular regulatory arrangements which have influenced their role and risks;
- The role of MMFs in the crisis and lessons learned;
- Regulatory initiatives in hand and their possible consequences for funding flows; and
- The extent to which globally agreed principles and/or more detailed regulatory approaches are required/feasible.

In its report, IOSCO analyzes the features of MMFs that make them vulnerable to risk, and explains some of the implications for policy options that they have:

- **Susceptibility to runs:** In general, MMFs are vulnerable to runs because shareholders have an incentive to redeem their shares before others do when there is a perception that the fund might suffer a loss.
- **Importance in short-term funding and contagion effects:** MMFs are important providers of short-term funding to financial institutions, businesses and governments. Due to this intrinsic link of MMFs to the short-term markets, confidence shocks in MMFs can quickly have a broader macroeconomic impact. Confronted with redemption pressures, managers may have to unwind their positions against a declining market, potentially fuelling a liquidity crisis.
- **Importance for investors:** MMFs are often viewed as a diversified and safe alternative to bank deposits and are used as an important cash management tool by institutions and investors.

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In the consultation report, IOSCO asks its members and others to comment on options that fall within the following categories and are aimed at reinforcing the robustness and safety of money market funds:

- **Options regarding a mandatory move to variable net asset value funds, or other structural alternatives**, in an effort to lower investor expectations that MMFs are impervious to losses and reduce the potential for heightened run risk when a fund fails to live up to those expectations
- **Options regarding MMF valuation and pricing frameworks** that are aimed at increasing price transparency.
- **Options regarding liquidity management** that seek to ensure that MMF managers are able to face redemption pressure at any time.
- **Options to address reliance on ratings**, with a view to reduce the herding and “cliff-effect” that currently arise from rating thresholds being hardwired into laws, regulations and standards, and to encourage the establishment of stronger internal credit risk assessment practices.

Comments on the consultation report are due **Monday 28 May 2012**.

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NOTES FOR EDITORS

1. IOSCO is the leading international policy forum for securities regulators is recognised as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in 115 jurisdictions and its membership continues to expand.
2. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of 18 agencies that regulate some of the world's larger, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns. Mr. Masamichi Kono, Vice Commissioner for International Affairs at the Financial Services Agency of Japan (JFSA), is the Chairman of the Technical Committee. The members of the Technical Committee are the securities regulatory authorities of Australia, Brazil, China, France, Germany, Hong Kong, India, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, United Kingdom and the United States.
3. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
 - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
 - to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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