

Update to the IOSCO Peer Review of Regulation of Money Market Funds



OICU-IOSCO

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1. Executive Summary

This report (**Report**) sets out the findings of a limited-scope review (**Update Review**) conducted in 2018 and 2019 by the International Organization of Securities Commissions (**IOSCO**) to identify progress by IOSCO member jurisdictions in implementing IOSCO policy recommendations for reforms regarding the regulation of money market funds (**MMFs**).

In September 2015, IOSCO published *Peer Review of Regulation of Money Market Funds: Final Report (2015 Report)*.¹ The 2015 Report set out findings of a thematic review conducted by the IOSCO Assessment Committee (**2015 Peer Review**) of the progress of 31 jurisdictions in adopting legislation, regulation and other policies in relation to money market funds (MMFs) in eight areas (**Reform Areas**).²

Key findings from the 2015 Peer Review were provided to the Financial Stability Board (**FSB**) for inclusion in their report to the G20 in 2015, titled *Implementation and the effects of the G20 financial regulatory reforms*.³ This was published in November 2015 and focused on the progress of implementation of reforms in 24 FSB member jurisdictions in three Reform Areas (**Reviewed Reform Areas**):

- i. Valuation practices of MMFs — addressing specific valuation issues for MMFs and their portfolios (Reform Area (c) Valuation);
- ii. Liquidity management for MMFs — aimed at ensuring MMFs maintain adequate liquidity resources in normal business conditions as well as in stressed market conditions (Reform Area (d) Liquidity Management);
- iii. MMFs that offer a stable Net Asset Value (**NAV**) — addressing the risks and issues which may affect the stability of MMFs that offer a stable NAV (Reform Area (e) Stable NAV).

In November 2017, IOSCO published a report setting out the findings of Update Reviews conducted in 2016 and 2017.⁴ The report covered progress made by jurisdictions in implementing reforms in the three areas mentioned above with the main findings of the Update

¹ Available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD502.pdf>.

² IOSCO published 15 key policy recommendations relating to eight Reform Areas in the *Policy Recommendations for Money Market Funds* (October 2012), available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD392.pdf>. The 2015 Peer Review was a Level 1 or Adoption Monitoring review to measure implementation progress of participating jurisdictions against the Reform Areas: (a) Definition of MMF; (b) Limitations to asset types and risks taken; (c) Valuation; (d) Liquidity Management; (e) MMFs that offer a stable NAV; (f) Use of ratings; (g) Disclosure to investors; and (h) Repos.

³ Available at: <http://www.fsb.org/wp-content/uploads/Report-on-implementation-and-effects-of-reforms-final.pdf>.

⁴ Available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD583.pdf>.

Reviews being reported to the FSB and included in the Second⁵ and Third⁶ Annual Reports on *Implementation and Effects of the G20 Financial Regulatory Reforms*, published on 31 August 2016 and 3 July 2017 respectively.

This report will set out the findings of the 2018/2019 Update Review, where IOSCO members from 24 participating FSB member jurisdictions were asked to provide information on any regulatory reforms in these areas as of **31 March 2019**. This report also reflects updates registered during 2018 to allow annual comparability.

In 2018, it was found that changes in implementation status were warranted for Argentina, most EU member jurisdictions⁷ (France, Germany, the Netherlands, Spain,⁸ the UK), Hong Kong, Singapore, and South Africa in at least one Reform Area. The Update Review also found that reforms were underway in Australia, China and Mexico, however, these did not warrant a change in implementation status (or only minor amendments to signal changes underway).

In 2019, the implementation status changed for two jurisdictions: Hong Kong and Republic of Korea. In Hong Kong, Final Implementation measures became in force in the two remaining reform areas – Liquidity Management and MMFs that offer a stable NAV. For the Republic of Korea, draft implementation measures were published in the two remaining reform areas – Valuation and Liquidity Management. Overall implementation of the Reported Reform Areas is most advanced in 12 participating jurisdictions (approximately 78% of the global market)⁹, including three of the largest markets (US, China and Japan), with reforms which came into effect in Argentina, France, Germany, the Netherlands, and the UK that changed the overall implementation status in 2018.

Most jurisdictions (except three)¹⁰ have implemented the fair value approach for the Valuation of MMF portfolios (Reform Area (c)). Of the three, South Africa reported that draft reforms were published with plans for executive approval anticipated in 2018, and Republic of Korea reported that draft reforms were proposed in 2019. Progress in Liquidity Management (Reform Area (d)) remains less advanced with 9 out of 24 reporting “Draft implementation measures

⁵ Available at: <http://www.fsb.org/2016/08/implementation-and-effects-of-the-g20-financial-regulatory-reforms-2/>.

⁶ Available at: <http://www.fsb.org/2017/07/implementation-and-effects-of-the-g20-financial-regulatory-reforms-third-annual-report/>.

⁷ In 2015, Italy’s status was found to be “Final implementation measures in force” on the basis of domestic regulation. While the EU reforms will impact Italy, no changes are warranted to implementation status.

⁸ In 2018, Spain’s overall implementation status was unchanged, however the status for Reform Area (e) changed from “No implementation measures needed” to “Final implementation measures in force” as a result of the MMF Regulation.

⁹ Size based on assets under management (AUM) in FSB jurisdictions (accounting for 83% of global AUM) at end-2014. See 2015 Report, available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD502.pdf>.

¹⁰ Australia, Republic of Korea and South Africa.

not published” in 2018 and 8 reporting same in 2019. In 2018, for Reform Area (e) (Stable NAV), 13 participating jurisdictions now permit MMFs that offer a Stable NAV, four more than last year (France, Germany, Hong Kong, Spain), however these constant NAV MMFs are limited and regulated with adequate safeguards. In 2019, only Hong Kong changed its implementation status for Reform Area (e) to Final implementation measures in place.

Table 1 — Number of jurisdictions having final implementation measures in place

	Cut-off Date	
	As of 30 August, 2018	As of 31 March, 2019
<i>Reform Areas</i>		
Valuation (c)	21	21
Liquidity Management (d)	13	15
MMFs that offer stable NAV (e)	10 (out of 13)	11 (out of 13)

Part 2 of the Report provides some background and Part 3 sets out the methodology used in the two Update Reviews. Part 4 of the Report analyses in detail the substance of the changes jurisdictions have undertaken in adopting legislation, regulation and other policies. Finally, Part 5 contains updated tables summarising the implementation status of each participating jurisdiction in areas covered by the Update Reviews.

2. Background

2.1. 2015 Peer Review

The 2015 Peer Review undertaken by the Assessment Committee was a Level 1 or “Adoption Monitoring Review”. It measured progress in implementation only and did not consider the consistency of Adoption Measures.

In relation to each of the Reviewed Reform Areas, the Review considered the status of a number of elements of reform.

In relation to **Valuation** (Reform Area (c)), the reform elements considered were:

- Requirements for MMFs to comply with the general principle of fair value when valuing the securities held in their portfolios on an up-to-date basis.
- Requirements on MMFs to use the amortised cost method only in limited circumstances. That is, whether there are any condition(s) on the use of the amortised cost valuation method.

In relation to **Liquidity Management** (Reform Area (d)), the reform elements considered were:

- Requirements on MMFs to establish sound policies and procedures to know their investors. That is, procedures and policies to monitor its investors aimed at identifying patterns in investors' cash needs.
- Requirements on MMFs to hold a minimum amount of liquid assets (to strengthen their ability to face redemptions and prevent fire sales).
- Requirements on MMFs to periodically conduct appropriate stress testing.
- Requirements on MMFs to have in place tools/measures to deal with exceptional market conditions and substantial redemption pressures.

In relation to **MMFs that offer a stable NAV** (Reform Area (e)), the reform elements considered were whether MMFs with a stable NAV are permitted in the jurisdiction.

- If permitted, whether requirements for MMFs to convert from a stable NAV to a variable NAV were in place.
- If there are no requirements for such conversion, whether requirements were in place to reinforce stable NAV MMFs' resilience and ability to face significant redemptions (i.e. aimed at reducing run risk and the first mover advantage).

2.2. 2015 Peer Review Findings

Overall, the 2015 Peer Review found participating jurisdictions had made progress in introducing implementation measures across the eight Reform Areas.¹¹ Progress varied between jurisdictions and across Reform Areas.

For the jurisdictions with the largest MMF markets, only the US reported having final implementation measures in all Reform Areas, with China and the EU members still in the process of developing and finalising relevant reforms.

¹¹ The 2015 Peer Review was a Level 1 or Adoption Monitoring review to measure implementation progress of participating jurisdictions against the eight Reform Areas: (a) Definition of MMF; (b) Limitations to asset types and risks taken; (c) Valuation; (d) Liquidity Management; (e) MMFs that offer a stable NAV; (f) Use of ratings; (g) Disclosure to investors; and (h) Repos: available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD502.pdf>.

For jurisdictions with smaller MMF markets, implementation progress was less advanced, with only four other participating jurisdictions (Brazil, India, Italy and Thailand, the first three being FSB members) reported having final implementation measures in all Reform Areas.

Of the three Reviewed Reform Areas:

- On **Valuation** (Reform Area (c)), implementation was generally well progressed. However, a number of jurisdictions reported having no requirements for MMFs to comply with the general principle of fair value and/or use the amortised cost method only in limited circumstances. Of the Largest Jurisdictions¹², China was in the process of introducing further reforms for their MMFs for this Reform Area.
- On **Liquidity Management** (Reform Area (d)), implementation progress was less advanced and uneven, perhaps reflecting that pre-crisis, most jurisdictions did not have requirements in this area. Critically, implementation progress was least advanced for requirements on MMFs to establish sound policies and procedures to know their investors and requirements to hold a minimum amount of liquid assets, with a sizeable number of jurisdictions reporting they are still finalising reforms on these two aspects of this Reform Area.
- On **MMFs that offer a stable NAV** (Reform Area (e)), further work was needed. Twelve jurisdictions reported continuing to permit stable NAV MMFs, including four of the five Largest Jurisdictions (China, Ireland, Luxembourg and the US). Participating jurisdictions which continue to permit stable NAV MMFs had generally chosen to progress implementation measures that aim to reinforce a stable NAV MMF's resilience and ability to face significant redemptions.

3. Update Review Methodology

The Methodology used for the 2018/2019 Update Reviews is set out below. This is the same methodology used in 2016 and 2017

3.1. Objectives and Scope

This Report presents the progress of implementation in the Reviewed Reform Areas for 24 FSB member jurisdictions (**Participating Jurisdictions**). A full list of Participating Jurisdictions for the Update Reviews is set out at **Appendix I**.

Participating Jurisdictions were asked to identify progress in adopting legislation, regulation and other policies in relation to MMFs in the Reviewed Reform Areas.

For the purposes of the two Update Reviews, the cut-off date for reporting implementation progress was **30 August 2018 and 31 March 2019 (Reporting Dates)**.

¹² United States, China, Ireland, France, Luxembourg, Japan, Brazil, India and United Kingdom

3.2. Review Team

The Update Review in 2018 was conducted by a team comprised of staff from the IOSCO General Secretariat and the Autorité des Marchés Financiers, Quebec (**Review Team**).






3.3. Review Process

The Update Reviews were desk-based exercises. Participating Jurisdictions were asked to identify whether there had been any legislative or regulatory changes relating to the Reviewed Reform Areas and if so, whether these changes would require a revision to the implementation status reported in the 2015 Report.

Where changes were reported, the Review Team applied the original Methodology developed for the 2015 Peer Review to verify and assess the self-reporting to ensure the key elements that formed the basis of the 2015 Peer Review were applied in a consistent manner.

The original reporting scale, as shown in **Table 2** below, was used by the Review Team to indicate the status of reform activity.

Table 2 — Reporting Scale used for Peer Review

	Final implementation measures in force;
	Final implementation measures published;
	Draft implementation measures published;
	Draft implementation measures not published;
	For Reform Area (e) only: No implementation measures needed (as MMFs offering a stable NAV are not permitted in this jurisdiction).

△ = Further reforms are underway in relation to the Reform Area evidenced by published and documented proposals.

◆ = The rating reported is for the element of a Reform Area which is least progressed. One or more element of a Reform Area is further progressed than the reported rating.

It should be noted that the findings of the Update Reviews are based on information provided by the Participating Jurisdictions. This includes copies of relevant legislation, regulations or guidance. Where necessary, the Review Team has sought to clarify and verify the statements made by Participating Jurisdictions in their submissions. However, the Review Team has not sought independent confirmation of the matters reported by Participating Jurisdictions in their submissions for the Update Reviews.

4. Key Findings

4.1. Overview

4.1.1. 2018

In 2018, changes to implementation status were required for nine jurisdictions: Argentina, EU Jurisdictions (France, Germany, the Netherlands, Spain, the United Kingdom), Hong Kong, Singapore, and South Africa. As a result of measures coming into force, the augmentation in Argentina’s status for Reform Area (d) (Liquidity Management) brings the status in all three Reform Areas to “Final implementation measures in force”. Following the EU’s MMF Regulation regarding application for new funds, France, Germany, the Netherlands and the United Kingdom increased their implementation status for Reform Area (d) (Liquidity Management). For Reform Area (e) (Stable NAV), the MMF Regulation in the EU provides for MMFs that offer a constant NAV in limited circumstances — this changes the status of implementation for Italy, Germany and Spain (from previously prohibiting MMFs that offer stable NAVs to having “Final implementation measures in force”) as well as for the Netherlands and the UK (which previously allowed constant NAV MMFs from “Draft implementation measures published” to “Final implementation measures published”). Three jurisdictions reported regulatory changes that resulted in regulation/legislation being published. In Hong Kong, the consultation paper on proposed amendments to the Code on Unit Trusts and Mutual Funds was published in December 2017, which changed the status for reform area (d) (Liquidity Management) and (e) (Stable NAV) to “Draft implementation measures published”. In Singapore, following a period of consultation, Guidelines on Liquidity Risk Management for Fund Management Companies came into force in August 2018 promulgating sound liquidity management practices. Together with amendments to the CIS Code (still to come into effect), these changes meet the standards under Reform Area (d) (Liquidity Management), as such Singapore’s rating for this area and overall will change to “Final implementation measures published”. In South Africa, a proposed notice is being amended prior to executive approval which changed the status for Reform Area (c) (Valuation) to “Draft implementation measures published”.

Two jurisdictions (Australia, China) also reported legislative or regulatory changes since the last Update Report. However, these changes did not materially change the implementation of the MMF Reforms in each of the relevant Reform Areas as assessed in 2017 and as such did not require any revision to the implementation status.

Finally, Mexico noted possible future reforms in relation to Reform Area (d) (Liquidity Management), however as these are not yet published, there is no change to implementation status.

Brazil, Canada, India, Indonesia, Japan, Republic of Korea, Russia, Saudi Arabia, Switzerland, Turkey and the United States reported no legislative or regulatory changes since last year’s update.

4.1.2 2019

In 2019, changes in implementation status were required for two jurisdictions – Hong Kong and Republic of Korea. In Hong Kong, following the publication of its consultation conclusions on proposed amendments, the revised Code on Unit Trusts and Mutual Funds became effective on 1 January 2019, which changed the status for Reform Areas (d) (Liquidity Management) and (e) (Stable NAV) to “Final implementation measures in force”, therefore changing the overall implementation status to “Final implementation measures in force” in all three Reform Areas.

For the Republic of Korea, following legislative changes relating to all the three reform areas, the status for Valuation and Liquidity Management both changed to Draft implementation measures published, which had the overall effect of changing the jurisdiction’s implementation status to Draft Published.

4.2. Changes in Reported Implementation Status in 2018/2019

4.2.1. Argentina

In the 2015 Report, Argentina’s implementation status for Reform Area (c) (Valuation) was “Final implementation measures in force” and Reform Area (d) (Liquidity Management) was “Draft implementation measures not published” with different stages of progress reflected in the ♦ symbol. As stable NAV MMFs are not permitted in Argentina, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated. No changes to implementation was need in 2016 or 2017.

In 2018, the CNV reported regulatory reforms that specifically addressed Reform Area (d) Liquidity Management. In June 2018, CNV published for consultation General Resolution No.745 which proposed investor evaluation requirements, minimum liquid holdings and periodic stress tests. In particular, Article 2 require funds managers to identify patterns in investors’ cash needs, their sophistication, their risk aversion, as well as to assess the concentration of the investor base. Article 4(b)(9) strengthens existing requirements for funds to hold a minimum amount of liquid assets to meet redemptions. In addition, Article 2 expressly requires for fund managers to carry out quarterly stress tests on MMF portfolios, which should have mechanisms to estimate potential losses under different scenarios considering risks related to liquidity, market, concentration and credit. Following the close of consultation, the CNV published General Resolution No. 757 which entered into force on 1 August 2018. The final regulation is in line with the consultation version and incorporates additional requirements for fund managers to evaluate investors according to categories — differentiating between natural persons, financial institutions, SMEs, etc.

CNV confirms that under General Resolution No. 757, fund managers are expected to use quantitative tools and valuation models verifiable by CNV and based on historical events,

calculated using Value-at-Risk techniques. The CNV also noted other legislative instruments¹³ which provides fund managers with liquidity risk management tools (such as notice periods, suspension of redemptions, redemptions in kind, etc) to be available in specified circumstances. In particular, General Resolution N° 757 has extended the limits of subscription per shareholder (20% of the fund's total assets) from initial to subsequent acquisition of shares, and notably this tool is to be generally used in normal market conditions. The CNV also noted that while General Resolution No. 757 repeals several articles relating to MMFs that offer a stable NAV, currently there are no such types of funds in Argentina. As such the status for Reform Area (e) remains not rated. The CNV also notes that General Resolution No. 757 explicitly defines MMFs.

In November 2018, CNV also issued General Resolution N° 7711. This reform improves the valuation methodologies regarding the securities held in Mutual Funds' portfolios (not specifically MMFs) in order to comply with the general principle of fair value.

Based on the above, the status for Reform Area (d) (Liquidity Management) changes from “Draft implementation measures not published” to “Final implementation measures in force” in 2018.

4.2.2. European Union

Authorities from EU jurisdictions confirmed that the *Regulation on Money Market Funds*¹⁴ had commenced to apply to new funds as of 21 July 2018 and will apply directly in EU member jurisdictions.¹⁵ In addition, on 13 November 2017, ESMA also published its *Final Report on Technical Advice, Draft Implementing Technical Standards and Guidelines* under the MMF Regulation.¹⁶

While the MMF Regulation was noted in the 2017 Update, the implementation status for EU jurisdictions¹⁷ was only upgraded in 2018.

¹³ See CNV Regulatory Framework ‘NORMAS (N.T. 2013 y mod.)’ Title V, Chapter II, Articles 4(b)(8) (limits on subscriptions); 16(c) (notice periods); 19(3.5) (suspension of redemptions); 21 (redemptions in kind) available at: <http://www.cnv.gov.ar/sitioWeb/MarcoRegulatorio>. See also Law No.24.083 Article N° 22 regarding redemptions in kind, available at: <http://servicios.infoleg.gob.ar/infolegInternet/anexos/0-4999/482/texact.htm>). Note that General Regulation No.745 Article 1(b)(10) also extends the limit of subscription of shareholder to subsequent acquisition of shares.

¹⁴ Regulation (EU) 2017/1131 of 14 June 2017 available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1131&from=EN>.

¹⁵ Note that existing funds benefit from an 18-month transition period and the MMF Regulation will be apply from 21 January 2019.

¹⁶ Available at: https://www.esma.europa.eu/sites/default/files/library/esma34-49-103_final_report_on_mmf_cp.pdf

¹⁷ Notably, France, Germany, Netherlands and the UK. While EU reforms are applicable for Spain and Italy, there are no changes to overall implementation status as the two jurisdictions completed reforms in 2015. In Reform Area (d) Liquidity Management both jurisdictions reported national reforms which implemented the requirements of 2015. In Reform Area (e) MMFs that offer a stable NAV, Spain and Italy changed from N/A to implementation completed in 2018 due to MMF Regulations allowing for public debt CNAV and LVNAV MMFs to offer a constant NAV.

The final MMF Regulation sets rules for the composition of MMF portfolios and asset valuation and introduces common standards for MMF liquidity and fund manager conduct:

Reform Area (c) (Valuation) — Articles 29, 30 and 33(1) requires that variable net asset value (**VNAV**) MMFs value assets based on a prudent approach, which includes daily valuation using mark-to-market whenever possible (and mark-to-model at other times). VNAV values its assets in accordance with a mark-to-model methodology and shall not use an amortised cost valuation method. VNAV shall round the NAV to the nearest basis point (or its equivalent in currency terms).

Articles 3(1)(b), 17, 29, 31 and 33(2)(a) allow public debt CNAV MMFs to offer a stable NAV and requires daily distribution of income and investment of at least 99.5% of its assets in government or equivalent debts, reverse repurchase agreements secured with government debt or in cash. Public debt CNAV MMFs are allowed to use amortised cost method to value its assets and to round the NAV to the nearest percentage point (or its equivalent in currency terms).

Articles 3(1)(c), 29, 32 and 33(2)(b) establishes a new category of MMF — the Low Volatility Net Asset Value (**LVNAV**) MMF — which *may* use the amortised cost method for valuation of its assets in limited circumstances: only if its assets have a residual maturity of up to 75 days; as long as the difference between the amortised cost and the market price does not deviate by more than 10 bps; and as long as the constant NAV and the mark-to-market NAV does not deviate by more than 20 bps. If the amortised cost for a line of the portfolio deviates from the market price by more than 10 bps, then they shall cease using the amortised cost method for such line; and if the constant NAV deviates from the mark-to-market NAV by more than 20 bps, then they shall cease using the amortised cost method and meet subscription/redemption at the market-to-market value. LVNAV shall round the NAV to the nearest percentage point (or its equivalent in currency terms).

Articles 31 and 32 permits CNAV and LVNAV MMFs (respectively) to use the amortised cost method to calculate a constant NAV but at the same time set out obligations to also calculate the daily mark-to-market NAV, in order to monitor and publish the difference between the two.

In addition, Article 34(2) requires public debt constant NAV or LVNAV MMFs which suspend redemptions for more than 15 days within a period of 90 days to automatically cease to be constant NAV MMFs.

- Reform Area (d) (Liquidity Management) — Articles 24 and 25 sets out portfolio rules which includes minimum daily and weekly liquidity ratios for short term and standard MMFs. Articles 27 and 28 sets out requirements for MMF managers to establish KYC policies and sound stress testing processes (respectively). Under some specific conditions, breach of such ratio may in the case of public debt CNAV and LVNAV, on

an optional or automated basis, trigger the application of penalty fees, gates or suspension.¹⁸

- Reform Area (e) (MMFs that offer a stable NAV) — Articles 29(6) and (7) allow two types of short term MMFs to offer constant NAVs:
 - Public debt CNAV; and
 - LVNAV MMFs (in limited circumstances).

As noted above, for LVNAV MMFs, if the constant NAV deviates from the mark-to-market NAV by more than 20 bps, then they shall cease using the amortised cost method and shall meet subscription/redemption at the market-to-market value. While, there is no similar provision for public debt CNAV MMFs, such funds are restricted regarding the type of assets in which it can invest. As discussed above, Articles 31, 32 and 34(2) sets out additional obligations around calculating and publishing the variable NAV as well as when to convert to the variable NAV. Altogether, these rules appear to be aimed at helping MMF managers to face significant redemptions, to reduce run risk and the first mover advantage.

Based on the above, Reform Area (d) (Liquidity Management) for all EU jurisdictions should change to “Final implementation measures in force” with the deletion of the ♦ symbol.

4.2.2.1. France

Prior to the MMF Regulation, constant NAV MMFs were strictly regulated which in practice limited their existence in France. As the MMF Regulation directly applies, the AMF confirmed that constant NAV MMFs, within the scope of the MMF Regulation are now permitted in France. As a result, Reform Area (e) is now “Final implementation measures in force”.

4.2.2.2. Germany

Prior to the MMF Regulation, constant NAV MMFs were prohibited in Germany. As the MMF Regulation directly applies, BaFIN confirmed that constant NAV MMFs are, within the scope of the MMF Regulation, now permitted in Germany. As a result, Reform Area (e) is as in 2018 “Final implementation measures in force”.

4.2.2.3. Italy

Prior to the MMF Regulation, constant NAV MMFs were prohibited in Italy. As the MMF Regulation directly applies, Consob confirmed that constant NAV MMFs, within the scope of the MMF Regulation are now permitted in Italy. As a result, Reform Area (e) is now “Final implementation measures in force”.

¹⁸ Note that managers of MMFs that are UCITS have the possibility of temporarily suspending redemptions in exceptional cases (Article 16 of Directive 2011/61/EU and in Article 47 of the Commission Delegated Regulation (EU) No 231/2013 (1)); and the managers of MMFs that are AIFs can use special arrangements in order to cope with a supervening illiquidity of the funds’ assets.

4.2.2.4. The Netherlands

Prior to the MMF Regulation, MMFs offering stable NAVs were permitted in the Netherlands. The AFM confirmed that constant NAV MMFs will continue to operate in the Netherlands, within the scope of the MMF Regulation. As a result, Reform Area (e) is now “Final implementation measures in force”.

4.2.2.5. Spain

Prior to the MMF Regulation, MMFs offering stable NAVs were prohibited in Spain. As the MMF Regulation directly applies, the CNMV confirmed that constant NAV MMFs are, within the scope of the MMF Regulation, now permitted in Spain. The CNMV also report two ongoing initiatives in domestic regulation to support implementation:

- Modification of CNMV Circular 1/2009, on the categories of collective investment institutions based on their investment vocation to include two new categories of MMF (Low Volatility Net Asset Value (LVNAV) and Public Debt Constant Net Asset Value (CNAV)), and to state that all MMF shall comply with MMF Regulation. Public Consultation on the draft text has been already closed and the legal text is in its last steps to be finished.
- Drafting a new Q&A on valuation to allow the use of the amortised cost method with the requirements stated in the MMF Regulation. CNMV Circular 3/2008 does not allow the use of that method for the ongoing valuation of the fund’s asset portfolio, instead fair value should be used. The Q&A will clarify that in the case of CNAV and LVNAV funds, amortised cost method might be used, in accordance with MMF Regulation. This Q&A be published on the CNMV web page.

As a result, Reform Area (e) is now “Final implementation measures in force” with further reforms underway reflected in the Δ symbol.

4.2.2.6. United Kingdom

Prior to the MMF Regulation, MMFs offering stable NAVs were permitted in the UK. The FCA confirmed that constant NAV MMFs will continue to operate in the UK, within the scope of the MMF Regulation. As a result, Reform Area (e) is now “Final implementation measures in force”.

4.2.3. Hong Kong

In the 2015 Report, Hong Kong’s implementation status for Reform Area (c) (Valuation) was reported as “Final implementation measures in force” and for Reform Area (d) (Liquidity Management) was “Draft implementation measures not published” with different stages of progress reflected in the \blacklozenge symbol. As stable NAV MMFs are not permitted in Hong Kong, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated.

In 2016, 2017 and 2018 the Hong Kong Securities and Futures Commission (SFC) reported they were in the process of developing regulatory guidance/requirements on liquidity risk

management on SFC-authorized funds. On 4 July 2016, the SFC issued a circular to provide guidance to management companies of SFC-authorized funds on liquidity management of funds,¹⁹ covering areas on governance, product design and disclosure, ongoing liquidity risk assessment, stress testing and liquidity risk management tools.

On 1 January 2019, the revised Code on Unit Trusts and Mutual Funds (UT Code) became effective following the publication of the *Consultation Conclusions on Proposed Amendments to the UT Code*²⁰. The revised UT Code contains enhanced requirements governing MMFs including portfolio maturity limits and minimum liquid asset levels to be maintained by MMFs. Pursuant to the revised UT Code, a MMF must (i) maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and (ii) hold at least 7.5% of its total net asset value in daily liquid assets and at least 15% of its total net asset value in weekly liquid assets.

The revised UT Code has also codified the liquidity risk management requirements on SFC-authorized funds that management companies must maintain and implement effective liquidity risk management policies and procedures (including stress testing, where applicable) to monitor the liquidity risk of the scheme, taking into account factors including the investment strategy and objectives, investor base, liquidity profile, underlying obligations and redemption policy of the scheme. In relation to MMFs, the revised UT Code provides that it is expected that periodic stress testing to be carried out by the management company in monitoring the scheme's liquidity.

Other elements under Reform Area (d) Liquidity Management were noted to be already present in Hong Kong since 2015, such as KYC policies and periodic stress testing implemented through Product Design Guidelines prescribed under *Circular to Product Providers* with which all SFC-authorized funds (which include MMFs) must comply. The SFC confirmed these requirements continue to be applicable.

The revised UT Code provides safeguards for amortised cost accounting and constant NAV regarding MMFs. In accordance with the revised UT Code, an MMF that offers a stable or constant NAV or which adopts an amortised cost accounting for valuation of its assets may be considered by the SFC on a case-by-case basis and among others, the SFC must be satisfied with the overall measures and safeguards put in place by the scheme to properly address relevant risks associated with these features, having taken into account applicable international regulatory standards and requirements.

¹⁹ Available at: <https://www.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/openFile?refNo=16EC29>

²⁰ Consultation Conclusions on Proposed Amendments to the UT Code was published by the SFC on 6 December 2018 and is available at <https://www.sfc.hk/edistributionWeb/gateway/EN/consultation/conclusion?refNo=17CP8>

As the revised UT Code has become effective since 1 January 2019, Hong Kong's implementation status for Reform Areas (d) Liquidity Management and (e) Stable NAV will change to "Final implementation measures in force".

4.2.4. South Africa

In the 2015 Report, South Africa's implementation status for Reform Area (c) (Valuation) was "Draft implementation measures not published" and the status for both Reform Areas (d) (Liquidity Management) and (e) (MMFs that offer a stable NAV) was "Final implementation measures in force".

In 2016 and 2017, the South African Financial Services Board (**FSB SA**) reported they are progressing reforms in relation to valuation. In 2018, the FSB officially took up its new mandate as the Financial Sector Conduct Authority (**FSCA**) under South Africa's formal implementation of the Twin Peaks model pursuant to *Financial Sector Regulation Act, 2017*.

In 2018, the FSCA reported that on 23 June 2017, (as the FSB) it had issued an *Invitation for Public Comment on the Proposed Net Asset Valuation Calculation and Pricing for CIS Portfolios*. The proposed notice for the first time sets out legislative requirements for the valuation of CIS, which up until now have been set by industry standards. Most notably, the proposed notice sets out in Article 6.1(1) an overriding principle that "any asset must be valued at its fair market price". This principle is then supported by practical guidance in Article 6.2, which among other things, requires (a) "that price of each security is retrieved on a consistent basis and at valuation point on each valuation day in a manner which is consistent with the deed". While amortised cost is allowed, it appears to be restricted to constant NAV funds with the Article 6.2 guidance setting out several alternatives in the case that a market value is unavailable or that value does not represent fair value.

While the proposed notice sets out Article 9.5 MMF Portfolio Pricing for CNAV, it does not appear to set new or amend any existing safeguards for reinforcing the resilience of stable NAV MMFs and the ability for managers to face significant redemptions. These safeguards were earlier reported in *Board Notice 573 of 2003*, including the ability to suspend redemptions and stepped redemption; the legal authority to declare the application of side pocketing on an ad hoc basis; and MMFs being permitted to borrow up to 10% of the value of its portfolio assets to provide liquidity for redemptions. The FSCA confirmed that Board Notice 573 of 2003 has not been repealed.

Furthermore, the FSCA report that its ability to declare other measures to address risks on short term basis is entrenched in the Financial Sector Regulation Act,²¹ which will be developed further under the Conduct of Financial Institutions Bill (currently being drafted). Other powers are provided under the *Collective Investment Schemes Control Act* (section 22 – public interest exemptions; section 96 – borrowing powers); Board Notice 90 of 2014 (Chapter II – further

²¹ Either by application of Section 18, Section 100 or Section 144, depending on circumstances.

liquidity and risk management requirements). BN 90 is currently under review to enhance liquidity risk and other risk measures.

The FSCA reports that the comments received were extensive. Since then, a number of interactions have occurred with industry, which commended with a review workshop on 7 December 2017. The proposed notice has been amended and the documents are being prepared for FSCA Executive approval to be submitted to Parliament, anticipated for September 2018.

As the proposed reforms have been published for consultation, South Africa's implementation status for Reform Areas (c) Valuation will change to "Draft implementation measures published" with further reforms underway reflected in the Δ symbol in 2018.

4.2.5. Singapore

In the 2015 Report, Singapore's implementation status for Reform Area (c) (Valuation) was "Final implementation measures published". fa. And as stable NAV MMFs are not permitted in Singapore, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated.

In 2018, the Monetary Authority of Singapore (MAS) noted reforms in relation to Reform Area (d) Liquidity Management. Following a period of public consultation during October and November 2017,²² on 16 August 2018, MAS issued *Guidelines on Liquidity Risk Management for Fund Management Companies (FMCs)*²³ and amended its *Code on Collective Investment Schemes*²⁴ which promulgates sound liquidity risk management practices that FMCs should adopt, where appropriate, to minimise the risk of investor detriment due to mismatches in the liquidity profile of the assets in the collective investment schemes and its redemption terms.

In particular, the Guidelines provide the following.

- Article 5.1 sets out an expectation for FMCs to monitor investor's profiles and redemption patterns in an ongoing manner to facilitate the FMC's ability to anticipate or identify an emerging liquidity shortage.
- Article 5.2 requires that the assessment of the profile and liquidity needs of investors could include reviews of the investors' historical redemption patterns and expected future

²² Singapore MAS, Consultation Paper: *Liquidity Risk Management Framework for Fund Management Companies* (October 2017), available at: http://www.mas.gov.sg/~media/MAS/News%20and%20Publications/Consultation%20Papers/Consultation%20Paper%20on%20Liquidity%20Risk%20Management%20Guidelines_26%20Oct%202017.pdf

²³ Available at: <http://www.mas.gov.sg/~media/MAS/Regulations%20and%20Financial%20Stability/Regulations%20Guidance%20and%20Licensing/Securities%20Futures%20and%20Fund%20Management/IIID%20Guidelines/Guidelines%20on%20Liquidity%20Risk%20Management%20Practices%20for%20Fund%20Management%20Companies.pdf>

²⁴ Available at: <http://www.mas.gov.sg/~media/MAS/Regulations%20and%20Financial%20Stability/Regulations%20Guidance%20and%20Licensing/Securities%20Futures%20and%20Fund%20Management/Regulations%20Guidance%20and%20Licensing/CIS%20CODE%2016%20AUG%202018.pdf>

liquidity demands of the CIS at different stages of its life cycle under varying market conditions.

- Article 6 sets out a requirement for FMCs to complement its liquidity risk management tools with regular stress testing, noting that liquidity stress testing of the CIS should be performed at a frequency relevant to the specific CIS.

In addition, Appendix 2 of the CIS Code sets out minimum requirements in the type of assets and maturity of the underlying assets in which MMFs are allowed to invest. In particular:

- Article 5.4 requires that an MMF should invest at least 10% of its NAV in daily maturing liquid assets, and at least 20% of its NAV in weekly maturing liquid assets (where liquid assets refer to case or permissible investments).

The Singapore authorities reported that the Guidelines entered into force on 16 August 2018 and the amendments to the CIS Code entered into force in February 2019. Based on the above, Reform Area (d) should change to “Final implementation measures published”. Consequently, Singapore’s overall implementation status is now “Final implementation measures published”.

4.2.6 Republic of Korea

Since the 2018 Update Review, there have been legislative changes relating to all of the three reform areas of the Money Market Funds (MMFs) regulation.

In the 2015 and 2017 reports, Korea’s implementation status on Reform Area (c) (Valuation) was “Draft implementation measures not published,” and the same was true for Reform Area (d) (Liquidity Management) but with different stages of progress reflected in the ♦ symbol. The status on Reform Area (e) (MMFs that offer a stable NAV) was “Final implementation measures in force.”

The Financial Services Commission (FSC) of Korea proposed amendments to the Enforcement Decree of the Act and the Regulations on March 29, 2019. (The public comment period for the proposed amendments ends on May 8, 2019.) Specifically, the expected changes on the Reform Areas are as follows:

- a. Reform Area (c) (Valuation) – Prior to the amendments, all MMFs can use the amortised cost method, but MMFs using the amortised cost method should meet the 75-day limit of weighted average residual maturity (WAM), which is already shorter than the threshold of 90 days in Recommendation 4 of Policy Recommendations for Money Market Funds (2012 IOSCO Report). Furthermore, MMFs should frequently monitor deviations between the mark-to-market price and the price calculated using the amortisation method; if the difference exceeds 50 basis points or is likely to do so, MMFs should take appropriate measures including conversion to the market price, in accordance with article 260 of the Enforcement Decree of the Act and article 7-36 of the Regulations.

According to the proposed amendments of the Enforcement Decree of the Act and the Regulations, MMFs should use the mark-to-market price. The use of the

amortised cost method for valuation of their assets is allowed only in very limited circumstances. Amortised cost accounting is only permitted to MMFs for individuals and MMFs for institutional investors that have highly liquid assets such as sovereign debt in excess of 30 percent of their assets (article 7-36 of the Regulations). Moreover, the maturity limit for MMFs using amortised cost method is further strengthened: the limit of weighted average residual maturity (WAM) is shortened from 75 days to 60 days. The requirements for MMFs to conduct frequent monitoring of deviations between the mark-to-market price and the price calculated using the amortisation method and take appropriate measures for an excess deviation between the mark-to-market price and the price calculated using the amortisation method are maintained.

- b. Reform Area (d) (Liquidity Management) – According to the proposed amendments, MMFs should conduct appropriate stress tests on a semiannual basis. (Article 3-42 of the Regulations)
- c. Reform Area (e) (MMFs that offer a stable NAV) – the maturity limit for MMFs using amortised cost is further strengthened: the limit of weighted average residual maturity (WAM) is shortened from 75 days to 60 days. (Article 260 of the Enforcement Decree of the Act and article 7-15 of the Regulations)

In accordance with the 2012 IOSCO Report, Korea has put continuous efforts into addressing the valuation and liquidity management issues of MMFs. The authority notes that the proposed amendments of the Enforcement Decree of the Act and the Regulation are equivalent or even stricter compared to the Recommendation. Therefore, Korea’s authority deems it appropriate to revise the implementation status for the Reform Area (c) (Valuation) and Reform Area (d) (Liquidity Management) to “Draft implementation measures published.”

For the 2019 update, in light of the regulation currently in force and proposed amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act (“Enforcement Decree of the Act”) and the Regulations on Financial Investment Business (“Regulations”), Korea’s implementation status on Reform Area (c) (Valuation) and Reform Area (d) (Liquidity Management) will change to “Draft implementation measures published.”

4.5. Other Reforms Not Affecting Implementation Status

In 2018, several jurisdictions (Australia, China, Mexico) also noted additional reform progress, which are either planned or did not materially change the implementation of the reforms already in place. The Review Team determined that these did not require any revision to previous years’ implementation status.

4.5.1. Australia

In the 2015 Report, Australia’s implementation status for all three Reform Areas was “Draft implementation measures not published”, with different stages of progress in Reform Area (d) (Liquidity Management) additionally reflected by the ♦ symbol.

Following consultations in earlier years, in 2018 the Australian Securities and Investments Commission (ASIC) released Regulatory Guide 259 (Risk management systems of responsible entities) (RG259) which provides guidance to Responsible Entities of managed investment schemes, including MMFs, on the adequacy of their risk management systems.

In 2017, the Financial Service Council also released industry guidance to investment product manufacturers on MMFs. Guidance Note 35 Money Market Funds Naming Convention (GN35) sets out industry best practice having regard to feedback from ASIC and IOSCO principles.

In 2018, ASIC updated its guidance about ASIC’s expectations for compliance plans, contained within Regulatory Guide 132.

- In relation to Reform Area (c) Valuation, Australia did not have, nor progressed, the introduction of fair value valuation because it is common industry practice for Australian MMFs to adopt a mark-to-market valuation methodology and advertise a variable NAV thus regulatory requirements are considered unnecessary.
 - GN35 provides industry guidance that all MMFs should adopt mark-to-market and/or fair value valuation methodology, with no restrictions placed on varying the fixed unit pricing to reflect the market value at any point in time. Further, the use of amortised cost methodology is very limited across funds in Australia.
 - Australian accounting standards, issued by the Australian Accounting Standards Board, contain requirements for valuations of financial instruments held by any MIS including MMFs. Fair value valuation method is required for many asset types including those held by MMFs, and the best evidence for fair value is quoted prices in an active market.
- In relation to Reform Area (d) Liquidity Management, Australia already demonstrated it had in place requirements for MMFs to perform periodic stress testing and have measures in place to deal with exceptional market conditions.
 - RG259 advises Responsible Entities to consider their client base, and the related suitability of liquidity management tools that are available. GN35 provides industry guidance that all MMFs should establish sound policies and procedures to “know their investors” and implement a redemption profile in the customer profiling process.
 - While there are no minimum mandated liquidity requirements that exist specifically for MMFs specifically in Australia,²⁵ ASIC notes no significant mismatch between

²⁵ However, a distinction is drawn in the Corporations Act, between a liquid MIS and a non-liquid MIS. An MIS is liquid if liquid assets account for at least 80% of the value of the property in the scheme.

liquidity and redemption terms among MMFs and that no regulatory reform with respect to mandating minimum liquidity requirements is being considered. However, GN35 provides industry guidance that all MMFs should hold a minimum amount of liquid assets to strengthen their ability to face redemptions and prevent fire sales. In addition, it outlines the expectation that 10% of the MMFs assets be invested in daily liquid assets, and 30% of its assets be invested in weekly liquid assets.

- In addition to existing requirements for regular stress testing, RG259 sets out requirements on the adequacy of risk management systems (e.g. annual stress testing/scenario analysis), including ASIC’s expectations on what constitutes a “stress test”, materiality of liquidity risk and liquidity risk management process.
- In relation to Reform Area (e) MMFs with a stable NAV, Australia continues to report that MMFs are generally not sold as capital guaranteed, fixed NAV products and that mark-to-market/variable NAVs are the standard.

While, the reported reforms do address elements under Reform Area (c) Valuation and (d) Liquidity Management, they are either industry guidance and not legally binding, or the regulations do not satisfy all elements. Consequently, the implementation status remains unchanged for all three Reform Areas since 2015.

4.5.2. China

In the 2015 Report, China’s implementation status for Reform Area (c) (Valuation) was “Draft implementation measures not published” with different stages of progress reflected in the ◆ symbol. The status for both Reform Areas (d) (Liquidity Management) and (e) (MMFs that offer a stable NAV) was “Final implementation measures in force”. Following the release of *Measures for Supervision and Administration of MMF*, which took effect on 1 February 2016, China’s implementation status for Reform Area (c) (Valuation) changed to “Final implementation measures in force” because the Measures appear to address both the general principle of fair value as well as introduce a limited use of the amortised cost method. Since 2016, China is rated “Final implementation measures in force” for all Reviewed Reform Areas.

In 2018, the CSRC advised of two additional major regulatory reforms on MMFs which appears to strengthen the existing regime as follows:

- On 1 September 2017, the CSRC issued *Provisions on Liquidity Risk Management of Publicly Offered Open-End Securities Investment Funds* which further improved regulations in:
 - Reform Area (c) Valuation, including prohibiting amortisation for new institutional MMFs, requiring a reduction in portfolio duration, an increase in proportion of highly liquid assets, and a decrease in investor concentration so as to enhance risk resilience.

This distinction is relevant for investors seeking to withdraw their investment from the MIS, as only liquid MISs can offer at-call redemptions.

- Reform Area (d) Liquidity Management, including 1) introducing categorised supervision, to tighten risk management and prohibit the use of amortisation method for institutional MMFs; 2) establishing a mechanism to restrict the volume of MMFs, and ensure volumes match risk management/risk coverage capabilities; 3) increase the proportion of highly-liquid assets and portfolio diversification, further decrease portfolio maturity and tighten restrictions on illiquid asset investment; 4) strengthening management of reverse repurchase transactions to prevent credit risks from transforming to liquidity risks; 5) enhancing manager’s internal control mechanisms, improving stress testing mechanisms and backup instruments for liquidity risk management, enhance investor structure and management of purchases and redemption; etc.

In addition, the Provisions further requires managers to establish due diligence mechanisms for trading counterparts, to implement strict access regulation, differentiated and dynamically adjusted trading limit management for different counterparts.

- On 1 June 2018, the CSRC issued *Guiding Opinions on Further Regulating Internet Sales and Redemption Related Services of MMFs*, which further standardised MMFs’ sales behaviours on the internet and strengthens risk disclosure and reduce investors’ expectations for unlimited liquidity.

While the above reinforces regulatory requirements, China’s implementation status for all three Reform Areas is unchanged and remains “Final implementation measures in force” since 2016.

4.5.3. Mexico

In the 2015 Peer Review, Mexico’s implementation status for Reform Area (c) (Valuation) was “Final implementation measures in force” and for Reform Area (d) (Liquidity Management) was “Draft implementation measures not published” with different stages of progress reflected in the ◆ symbol. As the Mexican regulatory framework does not consider any type of MMFs that offer a stable NAV, the implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated. As further reforms were underway, this was reflected in the Δ symbol being present in all three Reform Areas.

In 2018, the Mexico Comisión Nacional Bancaria y de Valores (**CNBV**) reported no regulatory reform has been made regarding the contents of the CUFÍ Annex 2.²⁶ However, the fund manager must, among other duties, develop systems that allow them to estimate the potential losses under different scenarios (extreme cases included) related to the differences between the assets under management marketability and the shareholder redemption patterns (other commitments included), as well as for the unexpected sale of portfolio assets at an unusual discount, in order to comply with immediate obligations.²⁷

²⁶ <https://www.cnbv.gob.mx/Anexos/Anexo%202%20CUFI.pdf>

²⁷ CUFÍ, Art. 131, f IV(b)

As to future reforms, under the Investment Funds Act (January 2014 entry into force), the CNBV has the legal power to issue rules relating to a number of areas, including liquidity risks. So far, no regulatory changes have been made in relation to liquidity risk management of investment funds, nonetheless, a regulatory proposal is expected to be incorporated to the Regulatory Agenda of 2019. The regulatory proposal purports to incorporate specific guidelines and requirements to promote the adoption of best practices in liquidity risk management by investment funds, including MMFs.

For Reform Area (e), Mexico does not plan to change MMF regulation in relation with NAV or other regulatory elements, consequently, the Δ symbol which indicates further reforms underway has been removed. Finally, the CNBV also noted regulation relevant to Reform Area (g) (Disclosure to Investors), which is outside the scope of this Update Review.

4.5.4. Saudi Arabia

In the 2015 Report, Saudi Arabia's implementation status for Reform Area (c) (Valuation) was "Draft implementation measures not published" with further reforms underway reflected in the Δ symbol. The status for Reform Area (d) (Liquidity Management) was "Draft implementation measures not published" with different stages of progress reflected in the \blacklozenge symbol and further reforms underway reflected in the Δ symbol. As stable NAV MMFs are not permitted in Saudi Arabia, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated.

In 2016 and 2017, the Capital Market Authority (CMA) reported amendments to the Investment Funds Regulations which came into force on 6 November 2016. This caused the implementation status for Reform Area (c) (Valuation) to change to "Final implementation measures in force".

In 2018 following discussions with the CMA on Reform Area (d), the Review Team acknowledges the following:

- As noted in 2017, the Investment Funds Regulations²⁸ contain minimum liquidity requirements in Article 48(f). Which require the fund manager to continually ensure that at least 10% from the fund's NAV are cash or investments with maturity period or residual maturity not exceeding 7 days.
- The Investment Funds Regulations also gives MMFs managers the means to deal with exceptional market conditions and substantial redemption pressures. Articles 61 and 62 gives the discretion to fund managers (including those for MMFs) to defer or suspend redemptions under certain circumstances (i.e. where the total redemption requests for one dealing day amounts to 10% or more of the net asset value of the public fund or there has been a suspension of dealing on the principal markets for assets held by the public fund).

²⁸ Available at: <https://cma.org.sa/en/RulesRegulations/Regulations/Documents/IFRs%20Regulations-%20Final%20English.pdf>.

- While the Authorised Persons Regulations²⁹ sets out minimum KYC requirements in Article 39 and Annex 5.3. These initial and ongoing requirements (must update at least once every three years) appear to be aimed at establishing client profiles and suitability and gathers information about a client’s investment portfolio and risk appetite. If such a KYC requirement was implemented and updated frequently, it may indirectly help MMF managers to understand concentration risk, redemption patterns and cash flow needs to help MMFs to better manage liquidity risk. The CMA reported that based on observations of fund managers in practices, mostly all MMFs are collecting information regarding expected redemptions which they claim will be helpful for allocating assets and risk assessment.
- The CMA reported that Investment Funds Regulations Article 9(e) sets out requirements for the conduct of annual risks assessments, which based on CMA observations do in practice include stress tests. In addition, CMA Board Resolution of 28/12/2017, requires a MMF manager to disclose the Dual NAV on a quarterly basis under IFRS 9, which the CMA also considers a type of stress testing. Unfortunately, the Review Team does not consider the broad requirements of “risk assessments” equivalent to the specific requirement for MMFs to periodically conduct appropriate stress tests. Nor do IFRS 9 reporting requirements, which is focused on impairment testing for accounting purposes, satisfy the policy recommendations which sets out stress tests for risk management purposes. In IOSCO’s 2012 report, Recommendation 8 specifically refers to stress tests as follows: “MMFs should periodically test their portfolios based upon certain hypothetical and/or historical events, such as a rise in short-term interest rate, an increase in shareholder redemptions, a downgrade or series of downgrades on portfolio securities, or a credit event.”

In 2019, the Capital Market Authority (CMA) has been carrying out some reforms regarding the Investment Funds Regulations which will be published for consultation mid-year. These reforms will require stress testing for MMFs in order to test their portfolios periodically based upon certain hypothetical and/or historical events. Consequently, for the purpose of this report, there is no change to implementation status for Reform Area (d), which remains “Draft implementation measures not published”.

4.5.5. Turkey

In the 2015 Report, Turkey’s implementation status for Reform Area (c) (Valuation) was “Final implementation measures in force”. The status for Reform Area (d) (Liquidity Management) was “Draft implementation measures not published” with different stages of progress reflected in the ♦ symbol. As stable NAV MMFs are not permitted in Turkey, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated. Capital Markets Board of Turkey regulated “side-pocketing” as a liquidity management tool in March 2019. This tool Can be used by any type of fund including Money Market Funds, under certain prescribed conditions.

²⁹ Available at: <https://cma.org.sa/en/RulesRegulations/Regulations/Documents/AUTHORISED%20PERSON.pdf>.

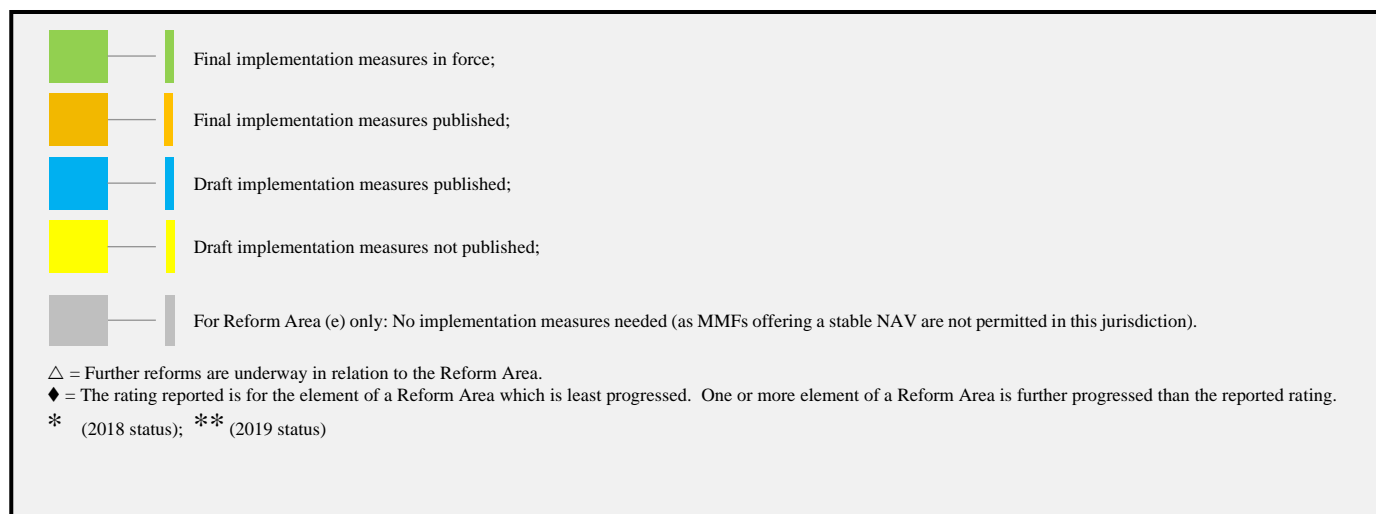
5. Summary of Implementation Status

5.1. Update of Implementation Progress

Table 3 — Implementation Status by Reform Area and Year

		Valuation (c)					Liquidity Management (d)					MMFs that offer a stable NAV (e)				
Jurisdiction	Change in Status (2018/2019)	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Argentina	Reforms in effect*						◆	◆	◆							
Australia	No change						◆	◆	◆	◆	◆					
Brazil	No change															
Canada	No change						◆	◆	◆	◆	◆					
China	No change	◆														
France	Reforms in effect (EU)*	△	△	△	△		◆△	◆△	◆△	△		△	△	△	△	
Germany	Reforms in effect (EU)*	△	△	△	△		◆△	◆△	◆△	△		△	△	△	△	
Hong Kong	Reforms in effect**						◆	◆	◆	◆△					△	
India	No change															
Indonesia	No change						◆	◆	◆	◆	◆					
Italy	Reforms in effect (EU)*	△	△	△	△		△	△	△	△		△	△	△		
Japan	No change															
Mexico	No change	△	△	△	△		◆△	◆△	◆△	◆△	◆△	△	△	△		
Netherlands	Reforms in effect (EU)*	△	△	△	△		◆△	◆△	◆△	△		△	△	△	△	
Republic Korea	Draft published**						◆	◆	◆	◆						△
Russia	No change						◆	◆	◆	◆	◆					
Saudi Arabia	No change	△					◆△	◆△	◆	◆	◆△					
Singapore	Reforms in effect*						◆	◆	◆	◆△						
South Africa	Draft published*				△	△										
Spain	Reforms in effect (EU)*	△	△	△	△		△	△	△	△		△	△	△	△	
Switzerland	No change						◆	◆	◆	◆	◆					
Turkey	No change						◆	◆	◆	◆	◆					
UK	Reforms in effect (EU)*	△	△	△	△		◆△	◆△	◆△	△		△	△	△	△	
US	No change	△	△				△	△				△	△			

Legend



The table sets out implementation status as of the following Reporting Dates:

- **31 March 2015**
- **8 June 2016**
- **7 February 2017**
- **30 August 2018**
- **31 March 2019**

Appendix I – List of Participating Jurisdictions in the Update Reviews

1. Argentina (Comisión Nacional de Valores);
2. Australia (Australian Securities and Investments Commission);
3. Brazil (Comissão de Valores Mobiliários);
4. Canada (Ontario Securities Commission and Quebec Autorité des marchés financiers);
5. China (China Securities Regulatory Commission);
6. France (Autorité des marchés financiers);
7. Germany (Federal Financial Supervisory Authority);
8. Hong Kong SAR (Securities and Futures Commission);
9. India (Securities and Exchange Board of India);
10. Indonesia (Indonesia Financial Services Authority (OJK));
11. Italy (Commissione Nazionale per le Società e la Borsa);
12. Japan (Financial Services Agency);
13. Mexico (Comisión Nacional Bancaria y de Valores);
14. The Netherlands (Netherlands Authority for the Financial Markets);
15. Republic of Korea (Financial Services Commission/Financial Supervisory Service);
16. Russia (The Bank of Russia);
17. Saudi Arabia (Capital Markets Authority);
18. Singapore (Monetary Authority of Singapore);
19. South Africa (Financial Sector Conduct Authority);
20. Spain (Comisión Nacional del Mercado de Valores);
21. Switzerland (Swiss Financial Market Supervisory Authority);
22. Turkey (Capital Markets Board);
23. United Kingdom (Financial Conduct Authority); and
24. United States of America (Securities and Exchange Commission).