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IOSCO Reviews Money Market Funds Recommendations and Events Arising from the March 2020 Market Turmoil

IOSCO today published a diagnostic report analyzing the events that occurred in the Money Market Funds (MMFs) sector during the market turmoil in March 2020. Simultaneously, IOSCO published a thematic review assessing the implementation of selected IOSCO recommendations issued in 2012 to strengthen the resilience of MMFs globally.

The [Thematic Review](#) was conducted by the [IOSCO Assessment Committee \(AC\)](#), and is based on IOSCO’s assessment of the legislative and regulatory frameworks of the nine largest MMF domiciles¹, in relation to the implementation of the [2012 IOSCO recommendations](#). The participating jurisdictions represent approximately 95% of the total net assets managed by MMFs worldwide. The assessment under this review is generally based on information as of end of August 2019.

The [Diagnostic Report](#) was conducted by the Financial Stability Engagement Group (FSEG)² to focus on the effects of the market dislocations related to the COVID-19 events on MMFs and seek to characterize the behavior of MMFs of varying types and of currencies across the main MMF jurisdictions.

Given its considerable size, the MMF industry plays an important role in the real economy by supporting the short-term funding needs of banks and non-financial corporations. In response

¹ The participating jurisdictions in the Review were Brazil, China, France, India, Ireland, Japan, Luxembourg, the UK and the US.

² FSEG is a Board-level group set up to enhance IOSCO’s approach to financial stability issues, including with regards to its engagement with the Financial Stability Board (“FSB”), international standard-setting bodies (“SSBs”), and other organizations.

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to the severe stress experienced during the 2008 global financial crisis, IOSCO published recommendations in 2012, aimed at strengthening the resilience of MMFs globally. The recommendations assessed in the Thematic Review focus on valuation; liquidity management; and MMFs that offer a stable Net Asset Value.

The Thematic Review found that the participating jurisdictions have generally implemented MMF reforms in line with the 2012 IOSCO recommendations, taking into account the heterogeneity and specificities of their local MMF markets. Liquidity requirements in most of the assessed jurisdictions are in line with the recommendations for MMFs to hold a minimum amount of liquid assets with some variation on the type of eligible assets and amount. All jurisdictions (except for very limited types of funds in one jurisdiction) systematically require the use of stress tests. In line with the 2012 recommendations, all assessed jurisdictions allow for the use of certain liquidity management tools and require specific pre- or post- sale disclosures to investors regarding the use of these tools.

Nevertheless, the March market turmoil impacted the functioning of the short-term funding markets and led to significant strains in the MMF sector, raising questions about its resilience. Against this backdrop, the Diagnostic Report provides a factual description of events across jurisdictions in March 2020. The Diagnostic Report describes how impacts – driven by a combination of cash needs and “flight-to-safety” behaviors – varied considerably by MMF type, structure and currency. Outflows from MMFs holding primarily non-public, mostly USD-denominated debt were significant. In contrast, the market saw historic inflows into MMFs holding primarily US government instruments.

Central bank interventions in money markets – some of them targeted specifically at MMFs – as well regulatory relief measures introduced by securities and prudential regulators, helped ease the financial strains. All non-government MMFs honored redemptions and none were forced to apply liquidity management tools such as fees, gates or suspensions.

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Nevertheless, the March market turmoil highlighted continuing vulnerabilities in certain types of non-public MMFs and the need for further reform. The Diagnostic Report highlights areas that merit further consideration, such as the broader ecosystem and the functioning of the money markets, the behavior of MMF investors and elements of regulatory frameworks that may have played a role in accelerating flows out of certain types of non-public MMFs.

IOSCO has contributed this analysis of MMFs during the March market turmoil to the FSB's [*Holistic Review of the March Market Turmoil*](#) and is continuing to work closely with its member authorities and the FSB on this and other aspects of the role of non-bank financial intermediation.

Notes to the Editor

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.
2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions and is made up of 34 securities regulators. Mr. Ashley Alder, the Chief Executive Officer of the Securities and Futures Commission of Hong Kong, is the Chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Bahamas, Belgium, Brazil, China, Egypt, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Morocco, Nigeria, Ontario, Pakistan, Portugal, Quebec, Russia, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, Turkey, the United Arab Emirates, the United Kingdom, and the United States of America (both the U.S. Commodity Futures Trading Commission and U.S. Securities and Exchange

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Commission). The Chair of the European Securities and Markets Authority and the Chair of IOSCO's Affiliate Members Consultative Committee are also observers.

3. The Growth and Emerging Markets (GEM) Committee is the largest committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 11 of the G20 members. Dr. Obaid Al Zaabi, Chief Executive Officer, Securities and Commodities Authority, United Arab Emirates and Vice Chair of the IOSCO Board, is the Chair of the GEM Committee. The Committee brings members from growth and emerging markets together and communicates members' views and facilitates their contribution across IOSCO and at other global regulatory discussions. The GEM Committee's strategic priorities are focused, among others, on risks and vulnerabilities assessments, policy and development work affecting emerging markets, and regulatory capacity building.

4. IOSCO aims through its permanent structures:

- to cooperate in developing, implementing and promoting adherence to internationally recognized 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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