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IOSCO Publishes Policy Recommendations for Money Market Funds

The International Organization of Securities Commission (IOSCO) has published today a final report on [*Policy Recommendations for Money Market Funds*](#), which proposes recommendations to be the basis for common standards for the regulation and management of money market funds across jurisdictions. These are articulated around key principles for valuation, liquidity management, use of ratings, disclosure to investors, and repos.

IOSCO's work on MMFs is an important part of the efforts by the G20 and Financial Stability Board to strengthen the oversight and regulation of the shadow banking system. It follows the endorsement by the G20 Leaders of the FSB's initial recommendations and work plan regarding shadow banking submitted at the November 2011 Cannes Summit. The FSB requested that IOSCO undertake a review of potential regulatory reforms of MMFs, following the September 2008 run on some money market funds that alerted regulators to the systemic relevance of MMFs.

The IOSCO Board approved the report on money market funds during its meeting on 3 – 4 October in Madrid. While it was noted that a majority of the Commissioners of the US Securities and Exchange Commission did not support its publication, there have been no other objection.

The MMF industry is significant in size, since it represents approximately US\$ 4.7 trillion in assets under management at first quarter 2012 and around one fifth of the assets of Collective Investment Schemes (CIS) worldwide. Although money market funds, which provide a significant source of credit and liquidity, did not cause the crisis, their performance during the 2007-2008 financial turmoil highlighted their potential to spread or even amplify a crisis.

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As requested by the FSB, the current 15 recommendations for MMFs seek to supplement the existing frameworks where IOSCO considers there is still room for further reforms and improvements, following reforms undertaken on MMFs both in the United States and in Europe in 2010. Other reforms were also adopted in countries such as Canada, China, India and South Africa.

Also, compared to the 2010 reforms, which mainly focused on the asset side of funds, the present recommendations address vulnerabilities arising from the liability side, as well as the crucial issue of valuation and the display of a constant net asset value (CNAV). In particular, the IOSCO recommendations seek to address the vulnerabilities around the risk of run and first mover advantage which could have broader consequences for the financial system.

The size, features and systemic relevance of money market funds differ significantly from country to country. Accordingly, the implementation of the recommendations may vary from jurisdiction to jurisdiction, depending on local conditions and circumstances, as well as according to the specificities of the existing domestic legal and regulatory structures.

All the recommendations are important for the safety and robustness of the MMF industry. However, the implementation of some recommendations may need to be phased in, in order to avoid disruptive impacts on the MMF industry and the functioning of the financial system at large.

IOSCO proposes to conduct a review of the application of these recommendations within two years with a view to assess whether the recommendations should be revised, complemented or strengthened. At this time, IOSCO will also consider other market or regulatory developments which may have impacted money market funds over this period.

Among the developments which IOSCO will consider when reviewing the implementation of the recommendations, the following factors will be relevant: the impact of new banking regulations and the

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evolution in the structure of bank funding, potential upcoming regulatory reforms in relation to the shadow banking system, the interest rate environment, changes in the industry of MMFs, changes in investor demand and the potential development of competing products.

NOTES FOR EDITORS

1. IOSCO is the leading international policy forum for securities regulators and 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 it continues to expand.
2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 32 securities regulators. Mr. Masamichi Kono, Vice Commissioner for International Affairs at the Financial Services Agency of Japan (JFSA), is the Chairman of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, Chile, China, France, Germany, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, Morocco, the Netherlands, Nigeria, Ontario, Pakistan, Portugal, Quebec, Romania, Singapore, South Africa, Spain, Switzerland, Trinidad and Tobago, Turkey, 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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