Common definition of european money market funds. July 2010.

Some money market funds experienced difficulties in 2008 due to their holdings of certain highly rated asset-backed securities which were downgraded by the relevant rating agencies and which showed a poor level of liquidity. In September 2008, significant levels of redemption activity were witnessed following the Lehman Brothers failure, the general unease in the money markets and the cash needs of investors. The poor level of liquidity demonstrated by a significant number of money market instruments was added to the problems experienced by money market funds at that time. Moreover, deposit guarantee schemes put in place by certain governments made money market funds a less attractive alternative to bank deposits and this also resulted in increased redemptions.
In the light of these market events, CESR agreed in December 2008 that better coordination between its members on funds in general, and money market funds in particular, was needed, as well as a better understanding of the categorisation of money market funds given the lack of a harmonised definition.

On 19 May 2010 CESR has published its guidelines on a common definition of European money market funds. The guidelines aim to improve investor protection by setting out criteria to be applied by any fund that wishes to market itself as a money market fund. The criteria reflect the fact that investors in money market funds expect the capital value of their investment to be maintained while retaining the ability to withdraw their capital on a daily basis.

CESR's guidelines set out two categories of money market fund: Short-Term Money Market Funds and Money Market Funds. This approach recognises the distinction between short-term money market funds (which operate a very short weighted average maturity and weighted average life) and money market funds which operate with a longer weighted average maturity and weighted average life. For both categories of fund, CESR expects that there should be specific disclosure to explain clearly the implications of investing in the type of money market fund involved. For Money Market Funds, for example, this means taking account of the longer weighted average maturity and weighted average life of such funds. For both types of money market fund, this should reflect any investment in new asset classes, financial instruments or investment strategies with unusual risk and reward profiles.

The guidelines will enter into force in line with the transposition deadline for the revised UCITS Directive, that is 1 July 2011. However, money market funds that existed before that date will be granted an additional six months to comply with the guidelines as a whole.

View the entire document by clicking at http://www.cesr-eu.org/popup2.php?id=6638