FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP23/28**

Updating the regime for Money Market Funds

December 2023

How to respond

We are asking for comments on this Consultation Paper (CP) by **8 March 2024**.

You can send them to us using the form on our website.

Or in writing to:

Felix Grenfell Bozek and
Liam Browne
Financial Conduct Authority
12 Endeavour Square London
E20 1JN

Telephone:
0207 066 1000

Email:
cp23-28@fca.org.uk

When we make rules, we are required to publish an account of the representations we receive and how we have responded to them. We are also required to publish a list of the names of the respondents who made the representations, where those respondents have consented to the publication of their names. In your response, please indicate whether or not you consent to the publication of your name. For further information on confidentiality of responses, see the Disclaimer at the end of this CP. Responses to this CP will be shared with the FCA, Bank of England, and HM Treasury.

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Chapter 1

Summary

Why we are consulting

1.1 This consultation sets out proposals to enhance the resilience of Money Market Funds (MMFs) domiciled in the UK, addressing vulnerabilities identified in the 2020 'dash for cash' and other times of market stress. We want there to be an effective market in MMFs. The proposals are intended to mitigate risks to wider financial stability and reduce the need for central bank support in the future, whilst maintaining cash management services that meet the needs of investors.

1.2 The consultation also forms part of the Government's delivery of the Smarter Regulatory Framework (SRF) for financial services, replacing retained European Union (EU) law (REUL) with an approach to regulation tailored to the UK.

1.3 HM Treasury expects to lay a Statutory Instrument (SI) before Parliament which will replace UK Money Market Fund Regulation (UK MMFR) with provisions in new legislation which will set an overall framework for MMF regulation more suited to the needs of the UK market. Correspondingly, this consultation proposes new FCA Handbook rules to replace the provisions to be deleted from legislation. HM Treasury is publishing the draft SI and policy note at the same time as this consultation and the two documents should be read in conjunction with each other.

1.4 MMFs are a type of open-ended investment fund (OEF) used in many jurisdictions. MMFs are considered to be low-risk investments that give investors a way to diversify credit risk and a place to hold their assets, while aiming to yield a return in line with short-term money market rates. MMFs are an important cash management vehicle for investors to manage short-term liquidity and meet margin calls. There are few alternatives for larger corporate and financial institutions that meet their needs.

1.5 Investments in an MMF are, however, not guaranteed. MMFs offer daily redemptions on demand, often with same day settlement, despite many of the assets that they invest in having a longer maturity and an illiquid secondary market. This creates a 'liquidity mismatch', with MMFs undertaking 'liquidity transformation' and can also lead to a first-mover advantage - an incentive for investors to redeem ahead of others. If heightened redemptions at one fund lead to redemptions in other funds, this can amplify the original liquidity stress. MMFs are subject to regulation that places limits on the amount of liquidity transformation they can undertake, and that requires MMFs to hold minimum amounts of short-term liquidity, to promote MMFs' ability to meet redemption demands. Over the last few years there have been several instances where the resilience of MMFs has been tested:

- In March 2020, financial markets globally reacted to the unexpected effect on economic activity of the Covid pandemic and the public health measures that were introduced. This shock catalysed an abrupt and extreme dash for cash.

MMFs came under severe strain as investors withdrew money to meet obligations elsewhere such as collateral calls, and out of fear of not being able to redeem at a future date. This in turn increased the pressure on MMFs, increasing the risk they would be unable to meet investors' redemption demands. If multiple MMFs used by UK investors had suspended in March 2020 – restricting investor access to cash - there could have been a significant threat to wider UK financial stability.

- In late 2022, a rapid and unprecedented increase in UK gilt yields exposed vulnerabilities in Liability-Driven Investment (LDI) funds in which many pension schemes invest. This led to a spiral of collateral calls and forced gilt sales that risked further market dysfunction and a material risk to UK financial stability. Some MMFs saw a rapid wave of withdrawals as investors sought to raise cash including for collateral calls, followed by strong inflows in the period immediately following the market disruptions as investors rebuilt their short-term liquidity.

1.6 Work internationally on addressing MMF vulnerabilities has been led by the Financial Stability Board (FSB). This follows on from international reforms to MMFs after the global financial crisis, when vulnerabilities in MMFs were also exposed. In October 2021, the FSB published its Final Report on possible policy proposals to enhance MMF resilience. Many of the FSB's policy options aim to enhance resilience through reducing the likelihood of destabilising redemptions by reducing liquidity transformation (for example by increasing MMF liquidity), imposing on redeeming investors the cost of their redemptions, absorbing losses, or reducing threshold effects. This consultation takes forward FSB proposals in a UK context.

1.7 Many sterling denominated MMFs are domiciled outside the UK - around 90% of total assets under management (AUM) in sterling MMFs are in MMFs domiciled in the EU. The Government SI being published alongside this CP sets out the Government's Overseas MMF Regime which will enable approved MMFs to market into the UK provided they apply to the FCA for recognition under either section 271A of FSMA (where applicable) or section 272 of FSMA, or notify the FCA under the UK's National Private Placement Regime. Irrespective of any designations under this regime, we consider it appropriate for the FCA to propose rules in this CP for UK MMFs that will support financial stability, investor protection and growth.

1.8 This work should be considered part of broader international efforts to address vulnerabilities and increase the resilience of MMFs, ensuring consistently high standards in the international financial system.

Outcomes we are seeking

1.9 The UK authorities are looking to:

- Strengthen the resilience of MMFs and the financial system in supporting the UK economy and its international competitiveness.
- Reduce the need for future extraordinary central bank interventions of the kind that occurred in March 2020.
- Support the provision of sustainable and robust cash management financial services that meet the needs of investors including at times of financial stress.

1.10 This consultation was preceded by Discussion Paper DP22/1 on the Resilience of Money Market Funds (DP22/1), in which we gathered feedback on the FSB policy options, seeking to understand how best to support financial stability in a UK context through enhancing the resilience of MMFs. The Bank of England's Financial Policy Committee (FPC) has also developed its view on how the risks are best addressed. Feedback to DP22/1 supports our analysis that our aim should be to mitigate and reduce risk associated with MMFs rather than restrict their operations. This is because the measures necessary to eliminate risk would prevent MMFs either being able to operate effectively or to provide the features such as same day settlement and a high degree of NAV per unit stability that are most valued by MMF investors. This would reduce the use of MMFs and move demand for cash management products and risk to other parts of the financial markets which may not necessarily have the capacity to absorb it.

What we want to change

1.11 The proposals in this consultation, prepared in close cooperation with the Bank of England and HM Treasury, prioritise strengthening the existing regulatory regime for MMFs while maintaining the broad current MMF operating model. The proposals increase MMF resilience principally by ensuring MMFs have usable liquidity sufficient to endure severe but plausible redemption stresses. The proposals include:

- A significant increase in the minimum liquid asset requirement for all MMFs, raising daily liquid assets (DLA) and weekly liquid assets (WLA) levels to 15% and 50% of their assets respectively. We also modify the assets eligible for WLA for Variable NAV (VNAV) MMFs; and
- The removal of the regulatory link between liquidity levels in MMFs that have the ability to offer subscriptions and redemptions at a constant Net Asset Value (NAV) (so-called 'stable NAV MMFs') and the need for the manager to consider or impose tools such as liquidity fees or redemption gates. This is known as 'delinking' and is intended to make those MMFs' liquidity buffers more usable.

1.12 Other enhancements include:

- Enhanced 'know your customer' (KYC) requirements: strengthened and broadened KYC requirements on MMF investor concentration;
- Enhanced stress testing for stable NAV MMFs; and
- Enhanced operational resilience for stable NAV MMFs.

1.13 We have considered other policy measures set out in DP22/1 but not adopted them – either because they would prevent MMFs from being able to support the needs of investors - or because we consider there to be more proportionate ways of achieving our desired outcomes. Policy measures not adopted include:

- Changing or removing stable NAV operation for the current stable NAV MMFs, so these MMFs would be no longer permitted to deal at a constant NAV; and
- Making changes to how MMFs currently operate in order to impose on redeeming investors the true cost of their redemptions in the absence of MMFs selling assets and crystallising losses. However, we are consulting on a requirement for all MMFs to have at least one Liquidity Management Tool (LMT) available for use when the

fund is still trading if needed, and for all managers to have the ability to suspend their MMFs, with such tools to be deployed at the manager's discretion.

1.14 In addition to taking forward some of the measures discussed in DP22/1, this consultation also moves the industry-facing standards that were previously set out in the MMFR into our Handbook. As part of this, under the SRF, we streamline requirements by removing legacy rules that become duplicative or are otherwise not necessary, or by providing more clarity.

1.15 Lastly, we ask questions about how MMFs may be used in future as collateral, in light of recent industry initiatives to tokenise funds and improve collateral management.

1.16 This consultation sets out our proposed changes as follows:

- Chapter 2 sets out the wider context to this work.
- Chapters 3-6 consult on the proposals above for maintaining the utility of MMFs and addressing financial stability, together with the other issues we raised in DP22/1. The chapters introduce the issues, summarise feedback received and set out our response and proposed rules:
  - **Increasing available liquidity.** The chapter discusses the options for de-risking MMFs by reducing the magnitude of liquidity transformation. The UK authorities consider the proposals for delinking (for stable NAV MMFs) and increasing the minimum liquidity held by all MMFs to have the biggest potential impact in reducing the risk to financial stability posed by MMFs. We also propose to strengthen requirements on managers to consider investor concentration, including when determining liquidity levels.
  - **Passing on the cost of liquidity.** The chapter covers our proposals to ensure availability of LMTs and invites feedback on our proposal not to be more prescriptive on how LMTs are deployed.
  - **Addressing risks from Stable NAV MMFs.** Stable NAV MMFs present some additional risks to financial stability. The chapter sets out the analysis behind our proposal not to remove or change existing stable NAV operation. Measures proposed in this chapter instead strengthen Stable NAV MMF stress testing and operational resilience, with proposals in other chapters also aiming to reduce the risk.
  - **Other options not taken forward.** The chapter feeds back on further options raised in DP22/1 that we are not taking forward.
- Chapter 7 asks about the use of MMFs in meeting margin calls and the potential offered by tokenisation.
- Chapter 8 consults over the wider proposed changes we are making through moving UK MMFR provisions to the FCA Handbook under the SRF.

Measuring success

1.17 If we implement these proposals, a key measure of success will be the strengthening of the resilience of the UK MMF sector – in business-as-usual circumstances and in times of stress – which will be evidenced by the funds being able to meet the liquidity demands of their investors during periods of market stress without the need for extraordinary central bank intervention.

1.18 We believe the strengthened resilience of MMFs will provide greater confidence to investors over their use for short term cash management and to meet margin calls. A further measure of success will be maintenance and of, and possibly growth in, investment in UK MMFs.

Who should read this

1.19 We encourage feedback from:

- MMF managers;
- MMF users;
- Participants in short-term funding markets (STFM);
- Credit Rating Agencies;
- Policymakers and other regulatory bodies;
- Industry experts and commentators;
- Academics and think tanks; and
- Stakeholder advocacy groups.

Next Steps

1.20 We welcome feedback on our proposals by 8 March 2024 using the details on the Contents page.

1.21 We will consider all feedback, and subject to the responses received we will look to publish a final policy statement and final Handbook rules in line with HM Treasury's finalised SI.

Chapter 2

The wider context

2.1 This Consultation Paper (CP) has been prepared in close cooperation with the Bank of England and HM Treasury as part of the UK's response to policy options published by the FSB in October 2021 following the March 2020 dash for cash. The CP follows on from the work done in the Joint FCA-Bank May 2022 Discussion Paper on MMF Resilience, DP22/1.

2.2 In this chapter, we provide some context for the proposed rules by briefly describing the role of MMFs in the wider economy – and the risks to UK financial stability and investor protection that they may pose in the event of market stress. Further background can be found in DP22/1 and our analysis of the risks in the following chapters.

2.3 In this paper, we use the term Sterling MMF to refer to sterling-denominated MMFs regardless of their country of incorporation or domicile, and the term UK MMF to refer to UK domiciled MMFs.

Background

2.4 MMFs are a type of OEF that invest in short-term money market instruments. MMFs are subject to regulation that places limits on the amount of liquidity transformation they can undertake to manage the liquidity mismatch referred to in Chapter 1. The most recent MMF regulations were brought in after the global financial crisis in 2008. Despite that regulation, MMFs may be unable to meet redemption requests precisely when demand for redemptions increases.

2.5 When financial markets experience increased selling pressure, volatility and illiquidity as in recent market episodes, there can be major stresses across many asset classes. MMFs can come under particular pressure as investors use their ability to redeem immediately in order to meet demands elsewhere, such as margin payments.

2.6 There is concern that in recent market episodes, some investors may have made further redemptions because of a perception they would be unable to do so at a future date due to MMF suspension and other measures. Some MMFs then struggled to maintain the required liquidity levels as set out in law, which increased the perceived (and actual) risk of funds being suspended, which in turn may have increased investor outflows from some MMFs.

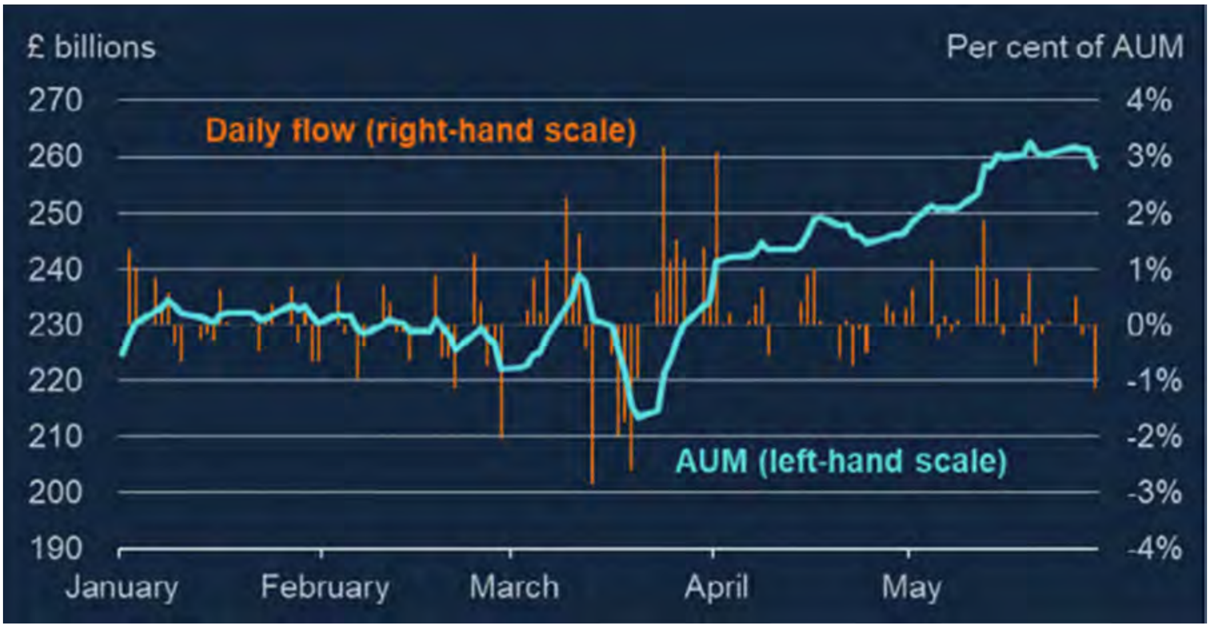
Recent market episodes

2.7 Such a situation was seen in the March 2020 dash for cash at the beginning of the Pandemic.

2.8 MMFs that invest largely in non-government assets, for example Prime MMFs in the US, and Low Volatility NAV (LVNAV) and VNAV MMFs in the EU, saw large outflows.

Sterling-denominated MMFs (mostly EU domiciled LVNAVs) saw outflows of around £25 billion; or 11% of their total assets (Chart 1). Market intelligence suggests redemptions were largely driven by investors that use derivatives seeking to meet margin calls by redeeming their investments in MMFs. These outflows were extremely large compared to previously observed sterling MMF flows (see Czech et al (2021).[1] Outflows across funds were unevenly spread, with three funds seeing outflows between 11-20 March of over 20% of assets.

Chart 1: Sterling MMF AUM and daily flows in 2020



Source: Bank of England, Crane Data

2.9 The stress in financial markets was reduced when central banks in some jurisdictions undertook asset purchases and other operations following widespread disruption in their economies. Complemented by government measures to support corporate cash flow, these actions reduced market volatility and met the increased demand for cash. No direct support was given to sterling MMFs, but the actions taken by central banks helped alleviate the redemption pressures they had been facing.

2.10 Without those extraordinary measures, the redemption pressure on MMFs in the relevant jurisdictions might have continued. Some funds might have chosen to suspend, and some stable NAV MMFs, specifically the Low Volatility NAV (LVNAV) MMFs, might not have been able to provide redemptions at par (that is, return investors' money in full), imposing at least a 20 basis points (bps) capital loss on redeeming investors. Suspending an MMF would mean that investors in the fund would not be able to redeem their investments.

2.11 Widespread loss of access to MMF investments could have had significant repercussions across the real economy and financial sector. It could have led to companies failing to make business critical payments, such as those related to their payrolls or to financial market participants being unable to meet margin calls, leading to the default of

1 The role of non-bank financial intermediaries in the 'dash for cash' in sterling markets", Czech et al, (2021), Bank of England Financial Stability paper No 47

those institutions. Although investors are made aware that MMF investments are not guaranteed, an MMF suspending could still have caused much wider disruption in the real economy and across the financial markets.

2.12 The 2022 LDI event, in which vulnerabilities in LDI funds were exposed by a rapid rise in UK gilt yields, also saw significant outflows from MMFs initially as LDI funds sold their holdings of MMFs (as well as gilts) in order to generate cash to replenish derivatives margins with investment banks.

2.13 For some MMFs, these outflows were larger than during the dash for cash. At the same time, the mark-to-market or model value of assets held by MMFs fell due to changes in market interest rates. As a result, some LVNAV MMFs approached the limit of the 20 bps 'collar' which allows them to offer a stable unit price. Were a fund to have breached this collar and moved to a variable unit price, this could have led to further outflows, potentially amplifying an existing stress.

2.14 Against the backdrop of an unprecedented repricing in UK assets, the Bank of England announced a temporary and targeted intervention to restore market functioning in long-dated government bonds. After intervention, LDI and pension funds significantly increased investment in MMFs, illustrating the interconnectedness between MMFs and other parts of the financial sector, and the need for MMFs to be resilient.

Chart 2: Sterling MMF AUM Breakdown of daily flows 2022-2023

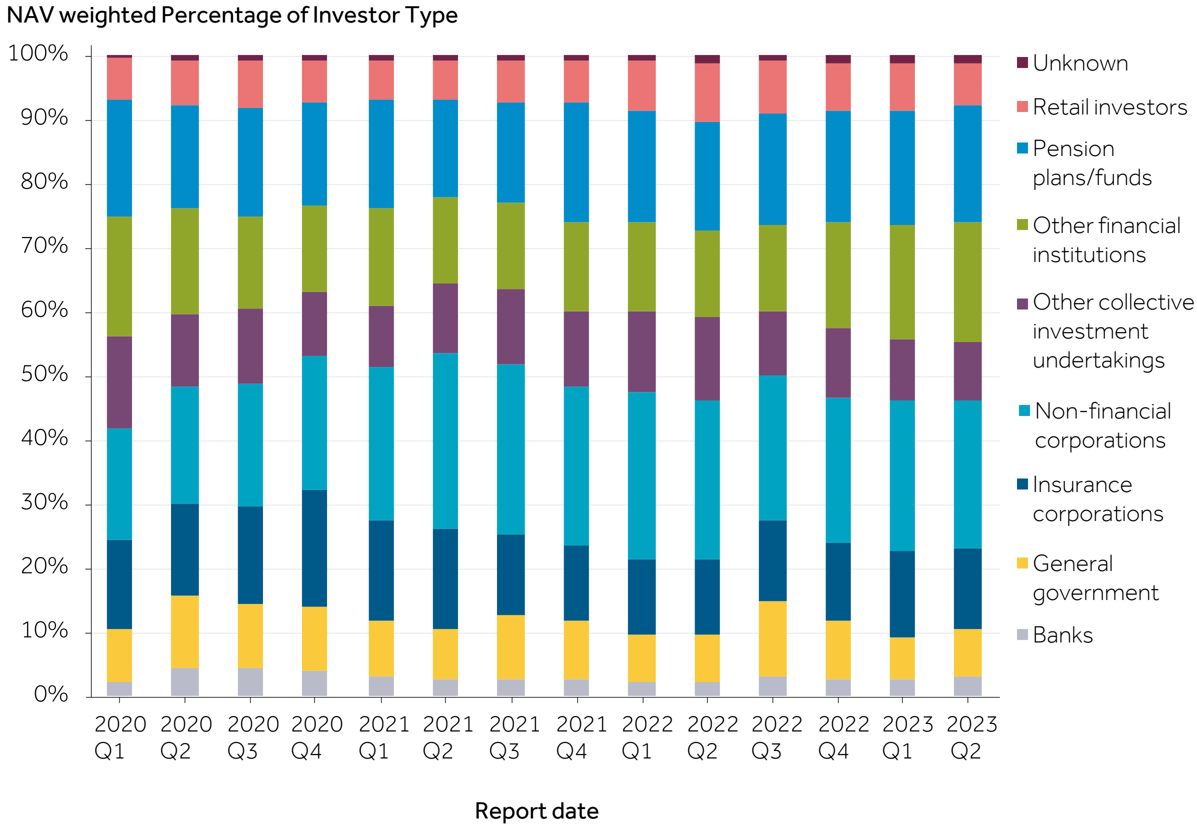
Source: Bank of England, Crane Data

The role of MMFs in the UK economy

How MMFs are used

2.15 Among UK investors, MMFs are predominantly used by financial services firms – investment funds, pension funds and other non-bank financial institutions. They are also used widely by non-financial corporates, local authorities and charities. Investors use MMFs as a cash management vehicle to manage short-term liquidity and to meet margin calls. Individual UK retail investors, by contrast, account for a small proportion of overall MMF shareholders by assets.

Chart 3: UK MMFs by Investor Type



Source – FCA 2023

2.16 MMFs have features that make them widely used as cash management tools:

- Most importantly, many MMFs offer 'same day liquidity' – permitting daily or even intra-daily dealing and settlement.
- MMFs tend to prioritise stability of value over maximising return and aim to deliver returns consistent with the short-term money market.
- They may be treated as 'cash equivalent' under accounting standards, even though they are investments, if management and auditors agree that they are short-term, highly liquid investments that can readily be converted to known amounts of cash, and that they carry an insignificant risk of changes in value[2].

2.17 They allow investors to place their cash in a transparent, diversified and relatively low risk fund. This feature matters to investors who report that they may not always be able to successfully place deposits with banks on similar terms (for example, same day liquidity) - especially on key days at the end of year, or end of certain fiscal periods.

2.18 As OEFs, MMFs have further features that also support their use by institutions:

- MMFs have historically offered higher yields than bank accounts that also offered instant access to cash;

2 Cash equivalents must also be held for the purpose of meeting short term cash commitments, rather than for investment or other purposes.

- MMFs allow investors to diversify counterparty credit risk, and outsource much of the risk management associated with investing with many different counterparties; and
- MMFs allow a wide spectrum of investors to place their cash securely and with a high degree of NAV per unit stability throughout the year.

2.19 Non-financial corporates (mostly large or medium sized) use MMFs as a way of managing cash balances. These balances may be needed to manage payroll, result from the proceeds of a bond issuance or be built up ahead of large capital expenditure. Bank of England analysis estimates that around half of FTSE 100 companies use MMFs to some extent, and most of them classify those investments as 'cash equivalent'.

2.20 Financial institutions also use MMFs as a store of short-term liquidity, including as a place to hold liquidity they may need to use for margin payments. MMFs coming within the FCA Handbook definition of a 'Qualifying MMF' can also be used by UK investment firms to hold client money. Margin calls may increase when market volatility increases, and financial institutions need to be able to access their store of liquidity in MMFs on demand to obtain cash to pay margin calls. Failure to access this when needed could result in increased likelihood of default.

2.21 Charities and local authorities use MMFs to manage tax receipts and donations as well as business critical payments to keep operating. Those institutions may be more sensitive to losses than financial institutions, no matter how small, given their not-for-profit mandate.

2.22 MMFs give the small proportion of small and retail investors that invest in them the opportunity to access markets that they may be unable to access readily as individuals.

2.23 Most UK investors in MMFs use sterling denominated MMFs, although a number of large corporates and financial institutions based in the UK also use MMFs denominated in other currencies, including US dollars and euros.

MMF investments

2.24 There is a high degree of inter-connection between MMFs and the STFMs in the UK. MMFs are involved in short-term government debt markets through two main channels – investments in short-term government debt and reverse repurchase agreements backed by government debt (gilts).

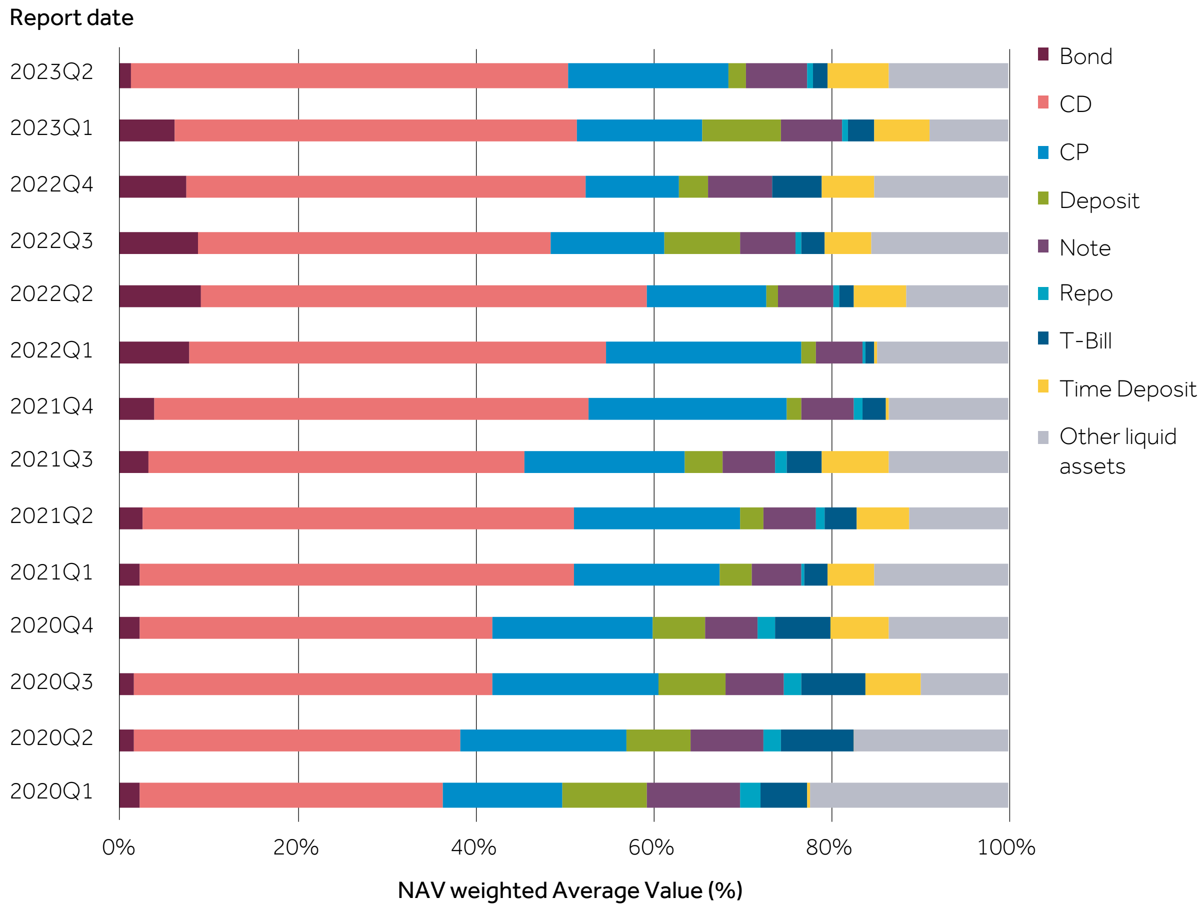
2.25 The vast majority of sterling MMF exposures are to banks (over 90% of MMFs' assets). This includes exposures to banks as counterparties in reverse repurchase agreements. The largest exposures to banks are through Commercial Paper (CP) and Certificates of Deposit (CD) holdings. MMFs typically invest in CP and CD with an initial maturity of around 3-6 months. Such funding receives favourable treatment for banks under liquidity regulation relative to instant access deposits, and as such MMF investors can obtain a higher return than a bank deposit.

2.26 Although complete data is not available, market intelligence suggests that sterling MMFs constitute a concentrated investor base in bank issued CD and CP with combined holdings exceeding £130bn (as set out in DP22/1).

2.27 MMFs also make up a significant proportion of overnight wholesale bank deposits. Sterling MMFs' deposits with banks account for approximately 45-60% of the transaction volumes used to calculate the Sterling Overnight Index Average (SONIA) (as set out in the DP22/1).

2.28 Sterling MMFs account for a significant amount of overnight gilt backed reverse repurchase agreement (reverse repo) activity. In short-term government debt, Sterling MMFs own a significant minority of UK Treasury bills, between 10-20% of the total amount outstanding (as set out in DP22/1). Sterling MMF holdings also consist of sterling debt issued by other (non-UK) sovereigns, government agencies and supranational organisations.

Chart 4: Type of Instrument in UK MMF Portfolios



Source FCA 2023

Types of MMF in the UK

2.29 All currently authorised UK domiciled MMFs are sterling denominated and are predominantly used by UK investors There are 17 UK domiciled MMF funds/sub-funds with around £27 billion of AUM. Of those, 3 are LVNAVs with around £9.9bn AUM, and 14 are VNAVs with around £16.9bn AUM (Q3 2023 figures).

2.30 The UK domiciled MMFs represent only about 10% of the sterling MMF sector by AUM. Around 90% of sterling MMF assets are in MMFs domiciled and authorised in the EU, mainly Ireland and Luxembourg MMFs. Both UK domiciled and EU domiciled sterling MMFs are mainly used by UK investors.

2.31 Regardless of domicile, UK and EU MMF regulations distinguish between two types of MMF: standard and short-term MMFs. The portfolio rules which specify requirements for the composition of the assets held by the MMF differ between these two types (see Chapter 3 below, and DP22/1).

2.32 The regulations then further distinguish among MMFs and require them to be set up as one of the following three types of MMF:

- Public Debt Constant NAV (PD CNAV) MMF, which must be a short-term MMF. This type of MMF can offer a stable NAV.
- Low Volatility NAV (LVNAV) MMF, which must be a short-term MMF. This type of MMF can also offer a stable NAV.
- Variable NAV (VNAV) MMFs, which can be either short-term MMFs or standard MMFs.

MMF features and vulnerabilities

2.33 As set out by the FSB, MMFs are subject to two broad vulnerabilities:

- They are susceptible to sudden and disruptive redemptions; and
- They may face challenges in selling assets, particularly under stressed conditions.

2.34 MMFs perform liquidity transformation as the redemption terms of their units (daily or intraday redemption) are not matched by the liquidity of some of the assets they hold, especially in a stress. MMF investors may find it easier to liquidate MMF units than to sell other assets such as direct investments in money market instruments.

2.35 Most of the time, MMFs hold most of their assets to maturity and redemptions are met from the MMF liquidity pool. This differs from most other OEFs which more typically sell assets to meet redemptions.

2.36 The FPC has judged that the mismatch between the redemption terms and the liquidity of some funds' assets means there is an incentive for investors to redeem ahead of others – a first-mover advantage, particularly in a stress. Early redeemers from the fund are more likely to receive their money back without delay or noticeable unanticipated losses – especially if the true costs of that liquidity are not passed on to redeeming investors. When market liquidity becomes scarce and costly, incentives to redeem increase and the first-mover advantage has the potential to become a systemic risk by driving increasing redemptions and possibly forcing MMFs to sell assets. This means that redemptions from MMFs can be much bigger than the underlying liquidity shock, and that stress at one fund can be transmitted to another through contagion.

2.37 If investors leave an MMF with a valuation for their redeemed units that is too high, in that it does not reflect the true cost of liquidity, this disadvantages continuing or subscribing investors. This is true even if no asset sales are necessary to fund the redemption, because the redemption would have decreased the overall liquid assets remaining in the fund. Depending on the circumstances that unfold in a stress, the remaining investors may also take a capital loss that should have been at least in part shared with those who had left the fund earlier. These effects are referred to as 'dilution' of the remaining investors and in theory can cause a first-mover advantage.

2.38 The risk of a first-mover advantage driving redemptions is increased for stable NAV MMFs by features of the current regulatory regime:

- Stable NAV MMFs have the ability to offer subscriptions and redemptions at a constant NAV per unit, usually 'par' (a unit price of 100 pence in the pound). They are therefore explicitly set up so that the 'real underlying' (floating) value of the MMF portfolio is not passed on to redeeming investors – this is only within defined limits for LVNAV MMFs (the 20 bps 'collar' explained in chapter 5). This gives rise to a threshold effect as and when the 'real underlying' (floating) market valuation of the assets held approaches those limits for LVNAVs. The majority of sterling MMF assets are held in LVNAV MMFs offering a stable NAV.
- Managers of stable NAV MMFs are currently required to consider imposing LMTs if the fund does not meet the 30% WLA requirement and if outflows are greater than 10% of assets on a given day. While managers retain the ability not to impose these tools, the thresholds have in practice become an important metric for investors to monitor, which also gives rise to a threshold effect that risks driving redemptions. This has also led to fund managers of stable NAV MMFs such as LVNAVs often being unwilling to let liquidity drop below 30%, although this is permitted. Both these effects can also limit the usability of those funds' liquidity buffers.

2.39 As discussed above, investors use MMFs as a cash management vehicle and expect their MMF holdings to be low risk and resilient, available to meet unexpected liquidity needs. However, MMFs are investment funds and do not share all bank deposit features:

- As an investment, MMFs do not guarantee principal, and the investor must bear the risk of loss. MMF investments are equity liabilities, unlike bank deposits which are debt liabilities whose value is supported by equity capital
- Many investors treat MMFs as cash-like, but MMFs cannot guarantee the availability of daily liquidity, nor high levels of NAV per unit stability. LMTs such as deferred redemption (also called 'gating', where a limit is placed on the amount an investor can redeem), or fund suspension, are possible in some circumstances and may become more likely in a financial stress, precisely when investors are most likely to need cash. The requirement for the manager to act in the best interest of all fund investors may in certain circumstances lead the manager to conclude that it must suspend dealing in the fund.
- MMFs do not have access to central bank liquidity facilities and are currently prohibited from receiving any external support under UK and EU MMFR.

2.40 Large scale outflows from a single MMF could raise fears that it and other MMFs could be suspended, and thereby trigger further large outflows from other MMFs particularly given the first-mover advantage described above. Suspension is a tool that protects investors under exceptional circumstances or an idiosyncratic stress. However, if multiple MMFs used by UK investors had suspended in March 2020, there could have been a significant threat to wider UK financial stability.

2.41 MMF suspensions can also have a negative impact on the wider economy. Real economy institutions such as non-financial corporates and local authorities which use MMFs for cash management might then be unable to make business critical payments such as wages or taxes. However, in March 2020, swift and decisive central bank actions supported the functioning of the financial system and eased financial conditions, which also reduced the liquidity strains on MMFs. While there was no direct official sector support of the MMFs themselves in the UK or EU, the underlying vulnerabilities within MMFs remain and could crystallise again in the future, including under less extreme circumstances than those at the beginning of the Pandemic.

2.42 There are other ways that MMF vulnerabilities may have wider implications given the significant role of MMFs in STFMs. A drop in MMF demand for CD or CP could lead to increases in funding costs for some banks or lead to difficulties in obtaining funding, although this could be offset by investors directly depositing cash in banks. In practical terms, the increase in liquidity buffers which sterling MMFs have held since the dash for cash has reduced some of their demand for CP and CD. This has not, however, caused difficulties for bank issuers or for bank funding costs to rise out of step with a general rising rate environment.

Key policy development inputs

Financial Stability Board (FSB)

2.43 The FSB, working the with the International Organization of Securities Commissions (IOSCO), has taken a leadership role internationally in developing a framework and policy toolkit to address MMF vulnerabilities. International co-ordination and co-operation on implementing policy reforms is critical to mitigating wider impacts and avoiding regulatory arbitrage.

2.44 In November 2020, the FSB published a Holistic Review of the March Market Turmoil and began work on policy options to enhance MMF resilience. In October 2021, the FSB published its Final Report on possible policy proposals to enhance MMF resilience. FSB members agreed to assess and address the vulnerabilities that MMFs pose in their jurisdiction by utilising the framework and policy toolkit set out in the report. The UK contributed to and worked with the FSB on the report.

2.45 The FSB is undertaking a stocktake of the measures adopted by FSB member jurisdictions and will follow this with an assessment by 2026 of the effectiveness of these measures in addressing risks to financial stability.

Financial Policy Committee (FPC)

2.46 The FPC has previously set out views based on discussions in March and October 2023. The FPC judged that "significantly more shorter-maturing assets than currently required was likely to be the most effective way to increase MMF resilience and so reduce risks to financial stability".

The FPC judged that "MMFs should be able to withstand severe but plausible levels of investor outflows without amplifying stress and increasing risks to financial stability" (see October 2023 Record).

2.47 The FPC also judged that while higher liquid assets, if calibrated appropriately, could largely mitigate financial stability risks, the LVNAV structure of many sterling MMFs created additional potential risks by creating a 'threshold effect' (see March 2023 Record).

2.48 The FPC noted that LMTs "could be effective tools to increase resilience when asset sales were used or intended to be used by MMFs to meet redemptions. However, given the short-term nature of MMFs and the reliance on maturing assets rather than asset sales to meet redemptions, the FPC noted that these tools were less likely to be needed in practice for MMFs" (See March 2023 Record).

FCA Panels

2.49 We engaged with the Markets Practitioner Panel and Consumer Panels in June 2022 following publication of the DP22/1, and with the Market Practitioners Panel, again in October 2023 about these proposals. They were supportive of our objectives.

2.50 The Consumer Panel noted the importance of addressing threshold effects for avoiding first-mover advantage, which could adversely affect retail investors disproportionately. It asked whether adopting counter-cyclical buffers (buffers that increase when authorities judge the risk to be greater) rather than delinking might be a better approach to achieving this. We have considered this but ultimately decided to proceed with delinking for the reasons described in Chapter 3 below.

Link of this work to FCA operational objectives

2.51 Our proposals are intended to advance the FCA's operational objectives to protect and enhance the integrity of the UK financial system and to secure an appropriate degree of protection for consumers.

Consumer protection

2.52 The proposals are intended to secure an appropriate degree of protection for consumers by reducing MMF liquidity transformation and the risk that MMFs will be unable to meet investor redemption demands.

Market integrity

2.53 The proposals are intended to protect and enhance the integrity of the UK financial system by supporting financial stability in the context of the risks posed by MMFs to orderly market functioning.

Secondary international competitiveness and growth objective (SICGO)

2.54 When discharging our general functions we must also, so far as reasonably possible, act in a way which, as a secondary objective, advances the competitiveness and growth objective. These measures have the potential to strengthen the long-term competitiveness of the UK MMF sector through increased financial stability, increasing investor confidence in the resilience of UK domiciled funds.

2.55 The SRF process of transforming the retained UK MMFR into simpler, clearer FCA rules aligns with the SICGO. Also, that process contributes to the SICGO by eliminating requirements not relevant to the UK market which would make this market more attractive and operationally efficient.

2.56 This is part of preparing "financial services for the future" through the "repeal and replace" process where firm-facing provisions will be repealed and replaced by our rules. This means we will then be able to adjust these rules, using our usual rule-making process, to promote our objectives further.

2.57 The Derivation and Changes Table at Annex 7 provides further information as to how REUL is being replaced by the proposed rules, and where similar provisions (if any) may be found in the new rules. You are encouraged to review this table and provide feedback if you do not agree with the description of the proposed changes in the table.

Wider effects of this consultation

2.58 As part of this consultation, we would like to hear any other potential consequences that could emerge following these proposed changes.

Q1: **What, if anything, do you consider to be unintended consequences of this intervention?**

Environmental, social & governance considerations

2.59 In developing this CP, we have considered the environmental, social and governance (ESG) implications of our proposals and our duty under ss. 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under s. 5 of the Environment Act 2021. Overall, we do not consider that the proposals are relevant to contributing to those targets.

Equality and diversity considerations

2.60 We have considered the equality and diversity issues that may arise from the proposals in this CP.

2.61 In absolute terms, two investor segments, local authorities and charities, account for a relatively small percentage of MMF investments. However, in the UK, local authorities and charities provide services to those with protected characteristics that these people may not be able to access elsewhere. We believe local authorities and charities may be more sensitive to losses than large corporations and financial institutions given their not-for-profit mandate. This means that the measures to support financial stability and protect consumers are particularly relevant to them as investors in MMFs.

2.62 Overall therefore, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other antidiscrimination legislation applies).

Effects of our proposals on unitholders

2.63 One of the effects of our proposals is that they have the potential to affect the rights that unitholders may currently have through their existing ownership of units in UK MMFs, for example, by requiring MMFs to change their portfolio composition.

2.64 We consider that our proposals are justified on consumer protection grounds (they enhance MMF liquidity transformation and reduce the risk that MMFs will be unable to meet unitholder redemption requests), and on market integrity and financial stability grounds and we consider our proposals to be proportionate.

Chapter 3

Increasing available liquidity

3.1 As set out in chapter 2, MMFs undertake liquidity transformation, which, combined with the way MMFs currently operate, can lead to first-mover advantage and the risk an MMF may need to suspend redemptions – with the financial stability and investor protection issues these bring. MMFs may be unable to meet redemption requests precisely when demand for redemptions increases. Even when liquidity levels are only approaching minimum levels required in regulation, investors may fear they will be unable to redeem later, and so redeem earlier than they otherwise would.

3.2 This chapter sets out our proposals to reduce the magnitude of liquidity transformation undertaken by MMFs. There are two main proposals:

- Supporting the usability of liquidity resources and reducing threshold effects for stable NAV MMFs, by removing the requirement for a manager to consider or activate LMTs when the MMF breaches regulatory thresholds relating to minimum liquidity levels (known as 'delinking'); and
- Increasing the level of MMF liquid resources available, by introducing higher minimum liquidity buffers for all MMF types.

3.3 We also set out why we do not intend to proceed with additional options discussed in DP22/1 to make liquid resources more usable, such as:

- Changing the level of liquidity required dynamically in a stress and/or changing how liquidity buffers are calculated; and
- New minimum public debt requirements or maximum private sector debt limits for UK MMFs' portfolios as a whole.

3.4 Additionally, we propose strengthening the requirements for MMF managers to consider investor concentration and the risks of correlated investor withdrawals ('know your customer', KYC requirements), including proposing that MMF managers must take 'appropriate actions' in respect of this if necessary. This includes actions to reinforce the liquidity of the MMF.

3.5 Finally, we ask about the viability of commercial lending to MMFs to increase available liquidity at times of market stress.

Liquidity-related threshold effects and usability of liquidity resources

Background

3.6 Under UK MMFR, a stable NAV MMF is required to consider whether to impose liquidity fees, gates that limit redemptions, temporary total suspension of the fund or to take no action other than correcting the portfolio imbalance when its proportion of WLA drops below a threshold of 30% of total assets and net daily redemptions on a single working day exceed 10% of total assets. When a stable NAV MMF's WLA drops below 10% of total assets, it must impose liquidity fees and or a fund suspension.

3.7 The first threshold above only requires a consideration of fees, gates or suspension rather than their mandatory imposition – as confirmed in our Finalised Guidance of 23 May 2022 (FG22/3). However, there is evidence that in the MMF jurisdictions most affected by the dash for cash (the EU and US), identical or similar regulatory requirements linked to minimum WLA levels of 30% of assets drove investor redemptions. It is generally accepted that investors monitored MMF liquidity levels and redeemed ahead of the prospect of such LMTs being imposed. This exacerbated first-mover advantage.

3.8 DP22/1 asked whether delinking would best address this particular driver of first-mover advantage for stable NAV MMFs.

3.9 We also asked about whether the UK authorities should take powers to approve managers' use of liquidity fees or gates, noting that we were not minded to take this forward.

3.10 DP22/1 also discussed additional ways to make liquid resources more usable. We discussed the idea that the FCA could change the level of liquidity required dynamically in a stress and asked whether changing how liquidity buffers are calculated would also improve their usability or effectiveness. Finally, we asked when MMF managers consider selling assets to meet redemptions, and how that might change as a result of options aimed at making liquidity buffers more usable.

Feedback to DP22/1

3.11 Almost all respondents were strongly in favour of delinking for UK stable NAV MMFs, agreeing with the reasons we had set out as potentially justifying such a change. However, the Consumer Panel noted the importance of addressing threshold effects to avoid first-mover advantage but asked whether adopting counter-cyclical buffers rather than delinking might be a better approach. Respondents welcomed FG22/3 in the meantime.

3.12 DP22/1 feedback was consistently in favour of MMF managers, not regulators, making the decision of when to activate liquidity fees and gates and which LMT to choose.

3.13 Most respondents said that further amendments to the definition or calculation period would not generate a meaningful change in making buffers more usable and/or eliminating first-mover advantage. One said that averaging requirements over a period would in fact reduce the current levels of transparency and another said that specifying average holding levels might still give rise to potential threshold effects. However, two respondents said that the ability to average liquidity during quarter end (when liquidity is generally harder to manage) might be beneficial.

3.14 Finally, respondents noted that MMFs have a "hold to maturity" model. Respondents noted that redemptions are usually funded not through asset sales but through maturing assets and liquidity buffers.

FCA proposals

3.15 In light of the feedback received, we consider that delinking the requirement for a manager of a stable NAV MMF to consider or activate LMTs with minimum liquidity levels would increase the amount of usable liquidity resources practically available to stable NAV MMFs and reduce first-mover advantage. **We therefore propose to delink UK stable NAV MMFs by not replicating UK MMFR Article 34 in our rules**.

3.16 This year's US MMF reforms by the Securities and Exchange Commission, and the European Commission's report on the functioning of the EU MMFR show a global trend toward support for MMF delinking where applicable.

3.17 In guidance on UK MMFR, FG22/3 also said a manager of a UK MMF that has gone under a liquid assets threshold (for example) should take into account fund investors' best interests when deciding what actions to take to return the fund to the relevant minimum, and when balancing the speed at which it returns to that minimum against investor outcomes[3]. MMFR envisages that MMFs may drop below minimum liquid asset requirements due to redemptions, or reasons beyond the manager's control. This guidance therefore relates to the usability of liquidity buffers.

3.18 **We propose to replace the guidance currently in FG22/3 on MMFR Articles 24 and 25 with functionally similar Handbook guidance** on the relevant rules in the new MMF Sourcebook (MMFS) in the FCA Handbook. We intend to revoke FG 22/3 as its remaining content – guidance on UK MMFR Article 34 – will no longer be needed if, subject to feedback, we follow through with our proposal to delete the rules in Article 34 MMFR.

3.19 **We will not be taking forward proposals on authorities approving the activation of fees and gates.**

3.20 In light of feedback received, **we do not propose any changes to the way that liquidity buffers are calculated, nor a proposal for the regulator to dynamically change requirements in a stress**. We do not think any of these proposals would help increase MMF resilience, and in fact several of them would bring their own significant downsides.

3 FG22/3 set out that, for example, a way in which an manager might seek to correct an imbalance in the MMF's portfolio, in the shortest time period, could be to suspend dealing in the fund. However, rather than returning to the relevant portfolio requirements as quickly as possible by suspending the fund, there may be other ways of rebalancing the portfolio which might better serve the interests of investors.

Q2: Do you agree with our proposal to 'delink' stable NAV MMFs' liquidity buffers? Please give your reasons.

Q3: Do you agree that we should revoke FG22/3, but retain its guidance on managers returning the fund to the relevant regulatory minimums as Handbook guidance in MMFS?

Q4: Do you have any overall comments on our policy position on other options to increase the usability of MMF liquidity resources?

Introducing higher minimum liquidity buffers

Background

3.21 UK MMFR requires MMFs to hold a liquidity buffer, setting a minimum for assets that mature within a day and within a week (5 business days). These requirements currently vary between different types of MMF, as shown in the table below.

	Short term MMFs			Standard MMFs
	Public Debt CNAV	**Low Volatility NAV (LVNAV)**	**Variable NAV (VNAV)**	**Variable NAV (VNAV)**
Daily liquid assets	10%	10%	7.5%	7.5%
Weekly liquid assets	30%	30%	15%	15%

3.22 Daily liquid assets (DLA) mostly comprise overnight deposits and reverse repurchase agreements, plus assets with a residual maturity of one day.

3.23 Weekly liquid assets (WLA) are usually assets with a residual maturity of five business days or less (including daily liquid assets). MMFR also has rules setting out maximum permitted contributions to minimum WLA of holdings of 'liquid' assets that nonetheless do not mature in five business days or less. See paragraphs 3.56 to 3.60 below.

3.24 As discussed above, under current UK MMFR Articles 24 and 25, MMFs are permitted to continue offering subscriptions and redemptions even if the DLA / WLA fall below these minimum requirements, but an investment restriction comes into force[4] and funds must make returning to minimum liquidity levels a priority.

4 MMFs cannot purchase assets if it would result in the MMF not meeting the minimum requirements i.e. if DLA for an LVNAV MMF if less than 10%, then the MMF can only invest in DLA eligible assets.

3.25 In addition, under current UK MMFR requirements, MMFs must also consider their investor bases and concentration in order to anticipate the effect of concurrent redemptions by several investors. The manager of an MMF must ensure that the value of the units held by a single investor does not materially impact the liquidity profile of the MMF. This consideration may lead funds to hold more DLA / WLA than the minimums set out in the rules. Our proposals for strengthening requirements for MMFs' consideration of their investor bases are set out later in this chapter.

3.26 DP22/1 discussed raising or adding to the current requirements for holdings of assets that mature within a certain amount of time (such as daily or weekly liquid assets). We asked for feedback on the relative impact and possible consequences of an additional 20-40 percentage points of WLA being applied to all types of MMF. We noted that we were conscious of the implications of changes for UK MMFs that would not necessarily be practical if applied across all sterling MMFs.

Feedback to DP22/1

3.27 Respondents strongly agreed that asset-side reforms were likely to be preferable to liability-side options such as notice periods, emphasising the importance of liquidity and the ability to redeem on the same day for many investors.

3.28 Most respondents said that current required 'liquidity buffer' levels were sufficient, assuming delinking for stable NAV MMFs. A few suggested that moderate increases (circa 10 percentage points) in for example WLA could likely be absorbed without significant impact on MMFs. One saw merit in a minimum monthly liquid assets requirement.

3.29 A number of respondents noted current difficulties MMFs have placing overnight cash with banks, particularly around reporting dates, and that these problems are particularly acute in GBP and EUR. Some said the problems would likely continue without a central bank Reverse Repurchase Facility to absorb excess liquidity.

3.30 Respondents said that increasing liquid asset requirements would reduce MMF yields. One said a 10 percentage point increase in WLA would reduce the yield in a non-public debt MMF by two to three bps. Some said that a drop in yields would cause declines in investor demand, and some thought that this would be material. One said that drops in yield would help confirm MMFs as a cash management product. Some thought it could lead to some managers exiting the sector.

3.31 Some pointed to potential risks if investors stepped away from MMFs and invested in bank deposits, where they would be exposed to more single-name credit risk.

3.32 Some respondents called for increases to liquidity requirements for VNAVs, to bring them into line with those for LVNAV and PD CNAV MMFs. One requested that MMFs be permitted to place money out in reverse repurchase agreements able to be terminated by giving prior notice of no more than 5 days, up from the maximum 2 days currently permitted, to give MMFs more options in building up their WLA.

FCA proposals

3.33 The UK authorities consider that reducing liquidity mismatch by increasing liquidity buffers would significantly enhance the resilience of MMFs and their ability to meet redemptions across a range of stresses.

3.34 The FPC judged in March 2023 that "MMFs should be able to withstand severe but plausible levels of investor outflows without amplifying stress and increasing risks to financial stability. Given the risk that difficulties in a single fund could lead to redemption pressures on other funds and hence amplify stress, MMFs should be resilient to outflows at least as large as those seen in the dash for cash and LDI stress events, when central bank actions also helped to limit outflows."[5]

3.35 The Bank of England has modelled the level of redemptions that MMFs with varying levels of liquidity would be resilient to. The modelling has been based on observed MMF portfolios since early 2020 and comparisons to outflows in stressed periods. The least resilient fund, i.e. the fund that could withstand the smallest maximum redemption for a given level of WLA, was used to judge the levels of WLA needed, given the risks of contagion from one fund to others. Much of the modelling has focused on minimum WLA levels as it is important to look at the ability of MMFs to withstand stresses over extended periods, for example 1 week and 2 weeks, and to ensure a stream of maturing assets to replenish DLA, without having to resort to asset sales or rely on subscriptions. No assets sales were included in the model.

3.36 Details of the Bank of England modelling can be found in Annex 4. The results of the modelling show:

- Holding 40% WLA would be insufficient to provide resilience against the largest historical outflows in sterling MMFs without resorting to what could be fire sales of assets e.g. of short-term commercial paper or government debt.
- 50% WLA provides resilience to the largest historical sterling MMF flows, mostly without asset sales. However it would be insufficient to cover the largest outflows seen in EU-domiciled US dollar-denominated funds during the dash for cash without asset sales.
- With 60% WLA, asset sales would likely not be needed, when comparing against sterling MMF flows. 60% provides resilience against the largest weekly flows observed in EU domiciled USD funds over a week, but not a two week period.
- 70% WLA comfortably provides resilience against the largest dash for cash outflows seen by UK and EU domiciled funds in any currency, without the need for asset sales, even if the outflows were more persistent.

3.37 This analysis suggests that total weekly liquidity levels in the region of 50-60% would give a suitably high level of assurance around financial stability, in the event of severe but plausible stresses. While even higher levels would further reduce liquidity mismatch and risks of escalating redemptions, they may not be practicable or proportionate and could negatively impact market functioning.

5 See FPC Record March 2023

3.38 Bank of England analysis also shows that DLA, which is generally used to meet daily redemption, of 15% or greater would be sufficient to meet the largest daily redemption seen by sterling MMFs in the dash for cash. In practice, MMFs generally hold considerably more DLA than 15%, so introducing 15% as a minimum requirement would mostly have the effect of raising the minimum resilience of an MMF. Furthermore, we would expect that some of the increases in WLA to meet higher requirements are most likely to be met by assets that are also eligible to be included as DLA.

3.39 Based on DP22/1 feedback as a whole and this analysis, **we propose to change the existing rules to increase liquidity buffers for all MMFs types to minimum WLA of 50% and minimum DLA of 15%**.

3.40 We are proposing to harmonise liquidity requirements across all fund types – both stable NAV MMFs and VNAV MMFs. This will result in a larger increase in liquidity requirements for VNAV MMFs. Evidence from other jurisdictions where a variable or floating NAV is more common has shown that these funds can still be susceptible to large outflows. There has not been strong evidence to date that LVNAVs are more vulnerable to outflows than VNAVs. Chapter 4 sets out how first-mover advantage arises for VNAV MMFs as for any other type.

3.41 UK authorities do still judge that there are additional risks specifically associated with stable NAV MMFs, in particular LVNAVs. Options for proportionately addressing these are discussed in Chapter 5. However, we do not see differential minimum liquidity requirements between MMF types as the best way to manage the risks here.

Market impact of liquidity changes

3.42 In proposing to raise minimum liquidity buffers, UK authorities have considered the market impact of higher liquidity requirements on UK domiciled MMFs and consider it to be small. Following feedback to DP22/1, we have also taken a broader view and considered what the impact would be on market capacity if higher levels of liquidity were held by all sterling MMFs, irrespective of domicile, in line with a global reassessment of MMF stability measures.

3.43 Overall, we see limited evidence that higher WLA requirements would lead to concerns about general market functioning, if applied to all sterling MMFs. Sterling MMFs have consistently held close to 50% WLA in aggregate since March 2020. This suggests the actual required increase in assets would be much smaller than suggested by the increase in minimum requirements.

3.44 We do not currently see day-to-day issues with market capacity in the assets that comprise WLA. We have not identified financial stability impacts from reductions in market capacity and lower market rates around year-ends. Over previous years, changes in overnight rates around year-end have been temporary and returned quickly to more normal levels.

3.45 An appropriate transition period once final requirements have been set would enable the UK MMF sector to adapt and adjust portfolios in light of the new requirements. This would avoid the need for a sharp adjustment to meet minimum requirements. It would also allow entities who borrow from MMFs to adapt funding plans due to changes in demand from MMFs.

Q5: **Do you agree with the proposed increases in minimum daily and weekly liquidity to 15% and 50% of assets respectively for all UK MMF types? Please explain your reasoning.**

Q6: **Do you agree with our assessment of the market impact? Are there other factors we should consider?**

Q7: **Do you agree with the resulting balance between daily and weekly liquidity requirements? How does the balance between these elements impact resilience?**

Consideration of portfolio rules and WLA composition

Background

3.46 We are consulting on rule changes on WLA composition to better balance flexibility for managers with MMF resilience in a stress. We are also consulting on a change to give MMFs the ability to invest in reverse repurchase agreements with longer notice periods, such that those agreements can qualify for WLA. We think the net result of these changes will, on balance, give MMFs more options to build up their WLA.

3.47 UK MMFR permits MMFs to meet minimum WLA requirements by including a proportion of holdings of specified assets that do not mature within a week. These are in effect WLA derogations which allow the relevant MMFs more flexibility to build up their WLA (within certain limits):

- LVNAVs and PD CNAV MMFs (stable NAV MMFs) are permitted to include as WLA specified highly liquid assets with a maturity up to 190 days that are issued or guaranteed by governments, up to of 17.5% of total MMF assets.
- VNAV MMFs are permitted to include money market instruments or units of other MMFs within their WLA, up to a limit of 7.5% of total MMF assets, provided these assets can be redeemed and settled within five working days.

3.48 Separately, DP22/1 discussed two further options for increasing MMF liquidity as a whole in a stress:

- Placing minimum requirements for holdings of assets that tend to exhibit higher market liquidity (such as high-quality public sector debt).
- Placing maximum limits on holdings of private sector issued certificates of deposit (CD) and commercial paper (CP).

Feedback to DP22/1

3.49 Many responders agreed that sterling public debt markets (and Euro public debt markets) are too small to require MMFs to only invest in public debt. Some noted that given short supply and high demand, MMFs would likely have to invest in (relatively) longer dated debt to meet requirements, which would add more rate sensitivity and NAV volatility.

3.50 Most respondents said reverse repurchase agreements backed by public sector debt should be included in any public debt requirement, but inclusion of such would still not be sufficient to compensate for the lack of public sector assets. They noted the lack of capacity in repurchase markets around reporting dates.

3.51 Several respondents said that a private sector debt limit was equivalent to an increase in public debt requirements and therefore the same arguments against it held. Limits on private debt were noted as likely to have knock-on impacts to bank funding, with the impact that the banks would reduce their activities. Respondents agreed with concerns in DP22/1 of potential risks of having a single dominant investor type for certain assets.

3.52 Increasing DLA/WLA was preferred over public debt quotas or private debt limits. One reason cited by respondents was that this allowed managers more flexibility.

3.53 Some said that government debt holdings could increase fund liquidity and that the cap on the contribution of these to WLA for stable NAV MMFs should be removed.

3.54 One respondent also stated that the definition of liquidity should be consistent between different MMF types regarding the definition of WLA. They said that the definition of WLA eligible assets for VNAVs is more permissive than for stable NAV MMFs.

3.55 Two respondents asked for MMFs to be permitted to invest in reverse repurchase agreements that can be terminated with notice periods of up to 5 days (rather than periods of up to 2 days, as currently).

FCA proposals

3.56 We are seeking to balance flexibility for managers with resilience in a stress. The WLA derogations allow flexibility which is important, especially given the increases in WLA we are proposing for all MMF types. But the derogations mean WLA requirements are weaker from a MMF resilience perspective as there will always be doubt that longer dated assets (and MMF units) can be sold at or near par quickly in a stress, however high quality they are. In general, we consider it important that a large proportion of WLA is able to generate liquidity over a short period through maturing assets, rather than relying on such asset sales.

3.57 We consider that high-quality government/public sector debt instruments are in general likely to remain liquid in most stresses. However, we think this is less likely to apply in respect of other non-government/public sector money market instruments. In addition, MMFs holding other MMFs' units has the potential to increase interconnectedness between MMFs. If a MMF was relying on MMF units to make up WLA, this could increase the risk of contagion in a stress – especially if the MMF held was to suspend. Finally, we judge that there is no reason to have WLA derogations apply to stable NAV and VNAV MMFs differently.

3.58 We are therefore proposing to rebalance the WLA derogations as follows:

- **We are consulting on rules changes to extend the existing stable NAV WLA derogation (for certain highly liquid government debt as WLA, up to 17.5% of total assets) to VNAV MMFs as well;** and
- **We are also consulting on rules changes to delete the current VNAV WLA derogation** of holding other MMF units and certain money market instruments as part of WLA.

3.59 We consider that these WLA derogation proposals, which both impact VNAV MMFs, would deliver a better balance between MMF resilience and flexibility for MMFs to build up their WLA.

3.60 However, the WLA derogation for public debt instruments allows for a range of assets to be included, such as UK treasury bills and also short-term debt issued by other sovereigns, government agencies and supranational organisations. Some of these assets may still be difficult to sell in a stress. We are therefore also seeking feedback on the range of assets that should be considered eligible for inclusion in this derogation.

Q8: **Do you agree that the stable NAV MMF WLA derogation (to include highly liquid government debt as WLA up to a limit of 17.5 % of total assets) should be extended to VNAVs? Do you have views on what public sector debt should be permitted in this derogation, and what the appropriate level should be?**

Q9: **Do you agree that the WLA derogation allowing VNAV MMFs to include money market instruments or units of other MMFs within their WLA up to a limit of 7.5 % of total assets should be removed?**

3.61 We are not proposing to introduce new minimum public debt requirements or maximum private sector debt limits for UK MMFs' portfolios as a whole. The current structure and scale of UK short-term government debt markets are too small for this, especially if any such changes were hypothetically extended to the entire sterling MMF sector.

3.62 As set out in chapter 8, we are consulting on a rule change that will give MMFs the ability to invest in reverse repurchase agreements that can be terminated with notice periods of up to 5 days (rather than periods of up to 2 days, as currently). Such agreements will qualify as WLA.

Strengthening consideration of investor concentration

Background

3.63 MMFs with a highly concentrated investor base of a few dominant investors or investors of a particular type may be more vulnerable in times of market stress if one or more of the investors seeks to redeem at the same time.

3.64 Effective management of investor concentration should reduce the likelihood of destabilising large redemptions and mitigate their impact, including through an understanding of the MMF's customer base. Under Article 27 MMFR, managers are required to establish, implement and apply procedures to anticipate the effect of concurrent redemptions ('KYC' requirements). Managers are required to request KYC information from intermediaries and other parties if necessary, and UK intermediaries are required by existing rules to give managers what they reasonably require.

3.65 DP22/1 discussed policy options raised in the FSB report such as imposing hard limits on investor concentration. It noted some of the issues the FSB had identified with this idea, including passive limit breaches caused by other investors' redemptions.

3.66 Managers are already obliged to report to the FCA on investor concentration. DP22/1 discussed requiring public disclosure of information on fund concentration[6].

Feedback to DP22/1

3.67 Respondents from or representing the MMF industry said that they have KYC policies under MMFR that allowed them to effectively manage investor concentration. Some attributed MMF resilience during the dash for cash in part due to these policies.

3.68 Some respondents noted that many investors themselves limit their concentrations of investments in any single MMF. Some respondents noted that the rating agencies also track the level of investor concentration in MMFs.

3.69 Several respondents requested that existing requirements for UK intermediaries to provide KYC information to MMF managers be widened to encompass all information that the MMF KYC rules require, to aid with MMF manager KYC work.

3.70 All respondents were strongly opposed to hard concentration limits, arguing existing KYC practices were sufficient and that limits would be anti-competitive for smaller funds trying to get to scale, introduce cliff-edge implications and may risk a mechanically escalating need for other investors to redeem. They said limits would also be difficult to calibrate accurately as not all investors within a given investor 'type' have the same liquidity needs, nor behave in the same way during a crisis.

3.71 Two respondents suggested we explore the idea of a 'dynamic' liquidity buffer level (e.g. for WLA) that is adjusted in relation to changing client concentration level, and referenced MMF rules in two other large jurisdictions. Some investors favoured "soft limits" or targets to incorporate into their risk control policies.

6 This might help prospective MMF investors be more aware of and able to manage the risk of being affected by the behaviour of a few concentrated investors in the MMF they are using.

3.72 Many respondents were opposed to introducing timely public disclosure requirements on MMF investor concentration. They argued that disclosures were unnecessary and could be potentially harmful in, for example, triggering redemptions. There were also concerns over misunderstandings due to the inevitably incomplete picture that could be shared, due to investor confidentiality factors.

3.73 A significant minority of respondents supported timely public disclosure, however. Two respondents were actively supportive, with high level reasons given on benefits to investors, and without addressing the possible downsides in terms of sparking redemptions. Other respondents were ambivalent to the idea. Several respondents noted that top-10 investor concentration etc is already disclosed in the annual and semi-annual reports that FSMA-authorised MMFs must make available, although these are not timely[7].

FCA proposals

3.74 We are not proposing to introduce hard limits on MMF investor concentration or requirements for MMF managers to make further or more timely public disclosures on investor concentration. In light of the feedback, we consider that the risks and possible harms outweigh possible benefits in both cases. As noted in DP22/1, investors can ask the manager about investor concentration if necessary.

3.75 While Article 27 MMFR is framed widely by anticipating concurrent redemptions by several investors, its more detailed references are more focused on the impact of one or a few large holdings by single investors. The actions required by managers under MMFR are also quite narrowly focused on ensuing the units held by a single investor do not materially impact the liquidity profile of the MMF. Some MMF managers have shown that they nonetheless manage broader elements of investor concentration effectively, but others may not be taking adequate action in light of broader vulnerabilities posed by features of their investor base. We consider it important that our rules set adequate minimum standards.

3.76 In both the dash for cash and the September 2022 LDI episode, an important factor in driving large outflows from some MMFs was a significant amount of holdings belonging to investors who were impacted by large interest rate moves and the need to raise cash to meet margin calls. The problem was not necessarily one or two single large holdings, but wider correlated investor behaviour.

3.77 **We propose to strengthen and broaden the existing KYC requirements by** making rules changes and additions that:

- **Require a consideration of additional factors, such as whether a significant number of units in the MMF are owned by a relatively small number of investors, or by investors who may show correlated behaviour** by reacting to certain events by simultaneously seeking redemptions. Proposed accompanying guidance sets out that such events could include an LVNAV breaching its collar[8],

7 Not all UK MMFs are FSMA authorised, and these reports are issued 2 to 4 (and in some cases 6) months after the date to which they relate.
8 As nearly happened to several sterling LVNAV MMFs in September 2022.

or a sharp rise in market rates resulting in an immediate need for cash for collateral purposes on the part of some of the MMFs' investors.
- **Set out that a manager must take appropriate action to strengthen a MMF's robustness in light of broader investor concentration risks,** including reinforcing its liquidity or improving the quality of its portfolio. Proposed accompanying guidance sets out that other actions a manager could take include changing the investor base, or for a LVNAV, actions such as reducing the MMF's duration, to reduce the likelihood of a collar breach occurring.

3.78 We will continue to consider whether UK intermediaries should be required to provide MMF managers with all of the information the MMF KYC rules refer to, but we are not proposing rules changes at this time.

> **Q10: Do you agree with our proposed rules changes to strengthen and broaden the existing MMFR KYC requirements for managers of all MMFs?**

Borrowing on commercial terms

3.79 Under UK MMFR, MMFs are prohibited from borrowing or lending money, except insofar as such 'borrowing' or 'lending' forms part of an eligible repurchase agreement or an eligible reverse repurchase agreement. The use of money raised via repurchase agreements is itself subject to restrictive conditions to minimise additional risk and to prevent the MMF taking on investment leverage.

3.80 As the FPC noted in its March 2023 Record, under market stress, the ability for MMFs to access credit facilities from the market would enable MMFs to meet redemptions that exceeded their immediately available liquid asset buffers, and so would improve their resilience. Costs of borrowing would be borne by the MMF.

3.81 However, in our discussions with industry to-date, the viability of commercial borrowing by MMFs has been questioned. In order to borrow at times of market stress, a MMF would need to have pre-arranged a standing lending facility with a bank. Some market participants have argued that the cost to a fund of such a facility would compromise significantly the ability of the fund to maintain value given its investment in low yielding assets, which would be unlikely to cover the costs to the fund of the standing facility. The FPC has further noted the potential for contagion of stress to lenders, a stigma associated with MMFs making use of borrowing facilities that could discourage their use, and the practical challenge associated with restricting borrowing solely for the purpose of funding redemptions in a stress.

3.82 While we are not consulting at this time on proposed changes to rules on MMF borrowing, we would like to understand further market participants' perspectives on MMF borrowing.

Q11: What do you see as the advantages and disadvantages of a commercial borrowing facility for MMF liquidity during a stress? How likely would you be to use such a facility?

3.83 To support the limited use of liquidity from eligible repurchase agreements, we have proposed, in transferring relevant provisions from article 14 UK MMFR into the FCA Handbook, to clarify that where money received from eligible repurchase agreements is used for liquidity management purposes, it may be used to meet redemptions. We think this clarity will help but we do not consider this to be a change in policy in respect of the current position under UK MMFR.

Chapter 4

Passing on the cost of liquidity

4.1 The proposals in Chapter 3 seek to address the liquidity mismatch, and resultant first-mover advantage found in MMFs, by increasing available liquidity to such an extent that the risk of funds being unable to meet redemptions is remote. This chapter sets out options for preventing first-mover advantage by passing material costs of liquidity on to redeeming MMF investors. While for most other OEFs, passing on at least some of costs of liquidity is widespread market practice, the way MMFs operate and are valued makes this difficult to achieve without fundamentally undermining their utility to investors.

4.2 Having weighed up these factors, we are not proposing policy options that might better support the passing on the costs of liquidity in the absence of MMFs selling assets and crystallising losses, as such policies would prevent MMFs from working as they do currently. Options discounted include changing the MMFR valuation rules and the obligatory use of LMTs in accordance with parameters set by authorities. We therefore propose to instead rely largely on the changes proposed in Chapter 3.

4.3 There are, however, additional changes we can make to strengthen managers' ability to manage a severe redemption stress in which the MMF exhausts its liquidity, without affecting the overall utility of MMFs:

- requiring UK MMFs to have at least one LMT to be used while the fund is still open for dealing, at the discretion of the MMF manager; and
- ensuring managers of all UK MMFs have the ability to suspend the fund if needed by extending powers already available in relation to MMFs that are authorised under FSMA to UK MMFs that have been authorised under article 5 of the MMFR but are not authorised under FSMA.

4.4 We set these changes out in this chapter.

Background

4.5 Liquidity transformation within MMFs is caused by the illiquidity, especially in stress periods, of the money market assets MMFs hold that have a maturity longer than one day which would affect the price at which such assets can be sold[9]. This can create a first-mover advantage for redeeming investors and motivate redemptions. If redeeming investors leave an MMF with a valuation for their redeemed units that is too high, then remaining investors have been disadvantaged. This is true even if no asset sales are necessary to fund the redemption because the cost of liquidity would not be passed on sufficiently[10]. These effects are referred to as 'dilution' of the remaining investors.

9 It should not be assumed that many MMFs would simultaneously be able to sell many of their assets in the secondary market close to par value.

10 Because the redemption would have decreased the overall liquid assets remaining in the fund. The remaining investors may also take a capital loss that should have been at least in part shared with those who had left the fund earlier.

4.6 Managers may use a LMT to reduce dilution as part of acting in the best interests of all fund investors. Examples of LMTs include swing pricing or liquidity fees[11]. DP22/1 discussed potential measures to pass on costs of liquidity to redeeming investors.

Feedback to DP22/1

4.7 Most respondents did not know of any UK or EU MMFs using LMTs at all in the last 10 years. Two respondents were aware of very limited examples in retail VNAV MMFs, with the LMTs being applied rarely, with only small swings or levies.

4.8 Several respondents said that, in practice, the dilution effects arising from MMF subscriptions and redemptions are usually minimal in all but the most extreme circumstances, because MMFs generally hold assets to maturity and redemptions are funded from their more liquid assets (DLA). They see redemptions funded in this way as 'cost free' and not a cause of dilution. Some respondents said that when assets are sold, prices are normally close to par given their short residual maturities and high credit quality. Some respondents referred to difficulty in valuing / marking to market thinly traded money market assets, especially in a stressed market.

4.9 Three respondents stated that they thought UK MMF rules should be clear on the need for managers to avoid material dilution. There was a general view however that UK MMFs rules were already fit for purpose on this point. Three said MMF rules should align with the existing obligations for managers to act in the best interests of the fund and investors. Three respondents said the LVNAV collar was an appropriate threshold at which 'material dilution' is passed to investors. One respondent said that defining material dilution too prescriptively may restrict managers' decision-making.

4.10 Several respondents said that swing pricing is not suitable for some MMFs, in particular LVNAVs, as it prevents intra-day settlement of redemptions and removes price stability and 'cash equivalence'. Most respondents, and all who commented, supported new rules to ensure that managers have access to at least one LMT to address dilution in extreme circumstances (i.e. in which an MMF is forced to sell assets at a material loss to meet redemptions). Most, and all who commented, were strongly against new rules on how LMTs must be used. Overall, respondents strongly advocated for LMT selection and use to be left entirely up to the manager.

4.11 Many respondents commented on the existing MMF valuation rules, all who did were supportive of keeping these as they are currently.

FCA proposals

4.12 We recognise that for MMFs, it may be challenging to achieve accurate valuations that would allow the true cost of liquidity to be passed on redeeming investors in the absence of actual asset sales – especially in stressed conditions.

11 With swing pricing (also known as an anti-dilution adjustment), the price of a single-priced fund is modified, either upwards in the case of a net inflow, or downwards in the case of a net outflow, to reflect the actual or estimated level of dilution (the swing factor). Liquidity fees (also known as anti-dilution levies) operate on a similar principle, but apply to individual transactions, rather than the NAV of the whole fund (as with swing pricing).

4.13 MMFs differ from most other authorised OEFs in that MMFs' assets are usually held to maturity, and it may be difficult to value MMFs' assets. There is a thin or non-existent secondary market for most MMF portfolio assets, and MMFs have a large liquidity pool rather than being fully invested. It is extremely rare for MMFs to sell assets at a material loss to meet redemptions, and should be even more rare in light of our proposals to increase holdings of liquid assets as set out in chapter 3. MMFs typically fund redemptions from the liquidity pool ('buffer'). For most other OEFs (those investing in more liquid assets), the cost of liquidity is passed on to redeeming investors through sale of a vertical slice of the fund portfolio, or a synthetic valuation based on the assumption of such a sale where good market data is generally available.

4.14 Under the UK MMFR, MMFs must value their portfolios on a mark-to-market or mark-to-model basis daily, and publish the resulting NAV per unit. This determines the unit price at which VNAVs issue or redeem and influences the unit price at which LVNAVs issue or redeem. In practice, MMF managers typically assume redemptions funded from the liquidity pool are 'liquidity cost free' and the MMFR valuation methodologies do not result in the MMF's other assets (the rest of the 'vertical slice') being valued on the assumption that they must be sold. This means material costs of liquidity may not be passed on, even for VNAVs, especially in a stress when secondary market liquidity may be even lower than the levels in ordinary market conditions.

4.15 In most other OEFs, LMTs can be, and are regularly used, to avoid the effect of material dilution on investors in light of the liquidity costs of selling a vertical slice. While anti-dilution LMTs are usually available for MMFs, they are barely ever used. Their use is almost never seen as necessary by MMF managers, in the absence of assets being sold at a material loss.

4.16 This current model of MMF operation enables a very high degree of NAV per unit stability for all types of MMF including VNAVs, even in market stresses. It also helps some MMFs offer same-day settlement of redemptions. Both features are very important to many MMF investors.

4.17 Options to pass on fully the true cost of liquidity for MMFs would lead to a loss of their current NAV per unit stability and other vital elements of investor utility, as well as having other potentially very serious wider downsides:

- Forcing MMFs to sell a vertical slice of portfolio assets as part of normal redemption pricing procedures day-to-day would achieve the aim of passing on the costs of liquidity, albeit sales would often be into a relatively limited secondary market. However, this would be an extreme option. It would elevate the number of forced sales of money market assets, exacerbating a stress. The churn would also introduce significantly higher transaction costs for MMFs day to day, and potentially reduce their ability to offer intra-day settlements of redemptions.
- Introducing valuation changes that attempt to improve the synthetic estimate of the sale value of a vertical slice of the portfolio assets, and/or enforce use of LMTs under defined parameters to reflect such valuations, would be extremely challenging to implement. Both would run up against the same limitations on valuation and of the estimate of market impact and bid-ask spreads in an illiquid market, in the absence of the MMF actually selling a vertical slice of its assets. Both

could easily reintroduce first-mover advantage, especially if rules set inflexible parameters.

4.18 We do not think either option is practical or desirable.

4.19 **We are therefore not proposing changes that aim to ensure that the 'true' cost of liquidity is always passed onto redeeming investors** including changes to the current MMFR valuation rules, requiring the obligatory use of LMTs with parameters or introducing requirements on how redemptions must be met by asset sales.

4.20 Our decision not to proceed with these changes, together with a lack of viable alternatives for cash management products, places more reliance on the resilience proposals in chapter 3. Only with enhanced liquidity buffers does it become credible to assume that MMFs will not need to sell assets at a loss in severe but plausible stresses, and therefore acceptable to avoid implementing options to fully pass on the true cost of liquidity for MMFs.

4.21 However, we also propose a more limited set of measures to ensure managers have a consistent set of powers to take corrective action if liquidity is exhausted and the manager:

- wishes to suspend the fund, to avoid forced sales and material crystallised losses that would otherwise occur to meet redemptions; or
- wishes to keep the fund open, but forced sales are needed to meet redemptions so material crystallised losses occur and need to be passed onto redeeming investors via LMTs.

4.22 We are consulting on two proposals for new rules:

- **to extend the powers of fund suspension in the best interest of unitholders to include MMFs that are not FSMA authorised funds[12];** and
- **to require MMFs to have at least one additional anti-dilution LMT, as set out in the prospectus, that can be used while the fund is open, at the discretion of the manager in the best interests of investors.**

4.23 The rules further require, among other detailed proposed requirements, that the manager must be able to put the tools into operation quickly during stressed market conditions.

4.24 Proposed rules requiring MMFs to have at least one additional LMT to be available simply hardwire the existing good practice followed by UK MMF managers, which already have these tools available. We agree with respondents that managers are best placed to decide on which LMTs to choose, and on when and how to deploy them in the best interest of all investors. We do not envisage these new rules changing current industry practice.

4.25 The proposed FCA approach to investor dilution and LMT use for MMFs set out here should not necessarily be taken as our position on these matters for other OEFs more

12 FSMA authorised funds have such powers under existing FCA rules. Non-FSMA authorised funds do not.

widely, which will be informed by work currently proceeding in FSB and IOSCO. As noted, MMFs have a typical portfolio construction and mode of operation that is markedly different from most other OEFs.

Q12: Do you have any comments on our overall policy approach to the issue of passing on the costs of liquidity to redeeming MMF investors?

Q13: Do you agree with our proposed rules on requirements for liquidity management procedures and tools for UK MMFs?

Macro-prudential swing pricing

4.26 In DP22/1 we discussed macro-prudential swing pricing, another policy option discussed by the 2021 FSB report. Public authorities would take powers to order MMF managers to apply swing pricing in a certain way during market stress, and set the swing parameters. DP22/1 set out the serious downsides to this proposal and indicated that the UK authorities were not considering taking this option forward.

Feedback from DP22/1

4.27 Most respondents commented on this policy option. All that did were strongly against it. Respondents cited a combination of the problems they see with swing pricing for MMFs in general, added to the problems with authorities activating them. Respondents referred to concerns that authority activation would cause delays, managers knowing better than regulators what is best for their fund and investors, and investors not wanting LMTs to be used on their MMFs at all. They also cited contagion concerns if activation was not sector wide.

FCA proposals

4.28 In light of the analysis we presented in DP22/1 on this option, and of the feedback received, we confirm that **we do not propose to consult on rules for macro-prudential swing pricing**.

Chapter 5

Addressing risks from Stable NAV MMFs

5.1 Stable NAV MMFs present some additional risks to financial stability through threshold effects, as they may switch from issuing and redeeming units at a constant NAV per unit to dealing at a floating NAV per unit in times of market stress. Specific considerations apply to a PD CNAV MMF which may also switch to issuing and redeeming at a changed constant NAV per unit. This chapter sets out our proposals for addressing these risks and provides feedback on the wider DP22/1 responses.

5.2 We are not consulting on removing stable NAV operation from the MMFs currently permitted to use this, as we believe that this would be a disproportionate response to the additional risk they pose, which can be tackled with less severe interventions. We are also not proposing changes to the mechanics of stable NAV operation.

5.3 Instead, we are proposing to:

- enhance stress testing requirements for stable NAV managers by setting out that they must additionally consider various specific points in their scenarios such as the consequences of, for example, a LVNAV collar breach driving additional redemptions; and
- introduce strengthened operational requirements for stable NAV managers to prepare to switch to issuing and redeeming at a floating NAV per unit (and for managers of PD CNAV MMFs to also prepare to do so at a different constant NAV per unit), including ensuring that investors are kept adequately informed.

Some proposals in other chapters, for example on KYC, are relevant for stable NAV MMFs and their associated additional risks and complement our proposals here.

Background

5.4 In DP22/1, we discussed the risks associated with the ability under UK MMFR of some MMF types to offer subscriptions and redemptions at a 'constant' or 'stable' NAV per unit[13]. These are the LVNAVs, which largely invest in private sector assets, and PD CNAV MMFs, which must invest in government assets. The majority of sterling MMF assets are in EU domiciled LVNAV MMFs. There are three LVNAV MMFs domiciled in the UK, and no PD CNAVs. Investors in stable NAV MMFs include larger non-financial corporates, local authorities and charities. The focus here is largely on LVNAV MMFs.

5.5 All MMFs have to value their portfolio daily using mark-to-market or mark-to-model, calculate a unit price rounded to 4 decimal places (known as the 'NAV per unit'), and publish this price daily. VNAV MMFs are always required to deal in the fund at this 'real underlying' or 'floating' unit price. However, stable NAV funds are able to calculate the value of some (LVNAVs[14]) or all (PD CNAV) of their assets using amortised cost, and use

13 Such a stable NAV per unit will usually be at 'par' - this refers to a unit price of 100 pence in the pound.
14 For LVNAVs, amortised cost can be used for assets with a residual maturity of up to 75 days. There are other detailed requirements.

that to calculate a 'constant NAV per unit' price to 2 decimal places. Amortised cost is a 'straight line' accounting methodology suitable for assets that will be held to maturity, and it does not take into account day-to-day fluctuations in an asset's market value[15]. For LVNAVs, MMFR rules allow the fund to deal at this constant NAV unit price, provided the 'underlying real NAV' per unit stays within a 'collar' of 20 bps up or down of the constant NAV per unit.

5.6 If the LVNAV collar is breached, the fund is required to deal at the floating NAV per unit until the difference between the two NAVs per unit reverts to 20 bps or less. This allows a certain amount of potential dilution to the value of the fund. In the case of the floating NAV per unit moving below the constant NAV per unit, redeeming investors will receive a unit price that does not reflect the 'true' (lower) value of the portfolio, to the disadvantage of remaining investors. If the MMF is forced to cease redemptions at the constant NAV per unit/par, then subsequent redemptions will incur a capital loss of at least 20 bps.

5.7 The LVNAV collar represents a breakpoint, and investors may in theory be incentivised to redeem before a breach, causing first-mover advantage and potentially driving additional redemptions from such MMFs in a stress, undermining financial stability. One fund breaching its collar could also cause contagion in other MMFs. There has yet to be a case where a UK or EU LVNAV MMF breached its collar. Different industry stakeholders have markedly different views on whether this would lead to contagion. On some occasions, in particular the September 2022 LDI episode, some sterling LVNAV MMFs were extremely close to breaching the collar on the downside as rates in the market quickly increased. Removing stable NAV pricing might also better signal that MMFs are investments and not cash.

5.8 Taken in isolation, under the MMFR PD CNAVs are permitted to deal in units at a price calculated by amortised cost, no matter how large the difference is between this constant NAV per unit and the 'underlying real' NAV per unit of the fund. This could have the same consequences in terms of first mover advantage and investor dilution as for LVNAVs - but potentially to a much larger extent.

5.9 However, such MMF managers are required to act in the best interests of investors. Managers would need to determine whether dealing at the constant NAV was unfair given the difference between the unit prices. PD CNAV managers may choose to deal in the fund at the underlying floating NAV per unit instead, and could also take other action such as applying LMTs, suspending the fund, etc. PD CNAV portfolios will usually be much safer than LVNAV portfolios[16].

5.10 If PD CNAVs make sufficiently large crystalised losses, the price of units calculated by amortised cost will change, and the PD CNAV will deal in units at a different constant NAV per unit (for example, £0.99 instead of £1 per unit).

15 Losses under amortised cost would only be recorded if, for example, an asset has been sold at a loss or judged to have been impaired, where the write-downs are too large to be offset by the yield on the fund.

16 As they are invested in public sector assets. In markets where MMFs investing mainly in public sector debt are significant, in a stress, investors tend to exit private sector asset backed MMFs, to enter those backed by the public sector. Public sector debt markets are usually less likely to become seriously illiquid in large market stresses than private sector markets. If there is no actual default (and the MMF doesn't run out of liquidity), market moves and illiquidity in public sector assets are irrelevant for a PD CNAV's dealing price, subject to the points made in this paragraph.

5.11 DP22/1 said that the UK authorities were considering whether to consult on removing stable NAV operation from LVNAV MMFs, while noting that this would not on its own address the vulnerabilities associated with liquidity mismatches and other features of MMF operation in private debt MMFs. DP22/1 noted that there is a question as to whether the dilution and related harms related to stable NAV are material and acknowledged that stable NAV operation is important to some MMF investors, given limited alternatives.

Feedback from DP22/1

5.12 Most respondents said that the LVNAV collar was not a driver of redemption flows in the March 2020 dash for cash, citing a lack of evidence . These respondents pointed out that no LVNAV fund broke its collar during the dash for cash, although none acknowledged the system-wide liquidity support provided by central banks in that crisis. Some respondents said that VNAV funds had similar or higher redemptions than LVNAVs during the dash for cash, while one respondent disagreed with this.

5.13 Most respondents viewed the stable NAV ability to round the unit price to two decimal places as a key utility for investors. Nine respondents suggested that corporate investors, public sector bodies and charities value stable NAV MMFs as they are treated as "cash equivalent" (and this would be jeopardised by removal of stable NAV). Six said financial institutions value their ability to offer intraday liquidity.

5.14 Many respondents said that the removal of stable NAV for LVNAVs would cause most investors to exit LVNAVs. Respondents suggested that such investors who are comfortable with variable NAVs and did not have 'cash equivalence' classification issues would shift to VNAV funds, while others would shift to PD CNAVs or bank deposits. Some cited the US experience, where there was a large outflow from US Prime MMFs on their conversion to VNAV operation.

5.15 Many respondents said bank deposits were the obvious alternative but that most banks were reluctant to open new overnight accounts or to take additional deposits at scale. Respondents said investors moving from LVNAVs to banks would not benefit from the same risk diversification and may have to use banks with lower credit quality. Some listed direct investment in money market instruments as an alternative but said that this was impractical for smaller investors.

5.16 While two respondents did mention PD CNAV funds, they said these were an inadequate alternative for sterling investors as sterling PD CNAVs cannot operate at sufficient scale. Several expressed concern that the lack of a viable alternatives could push investors into less regulated products such as stable-coins and supply chain finance which could pose greater risks.

5.17 One respondent suggested that investors may not be adequately prepared for a fund to switch from dealing at a constant NAV per unit to dealing at the floating NAV per unit, and the implications this would have for intraday access to investments in the relevant MMFs. They said there should be a requirement for funds to be up front about the terms for dealing in units if the collar is breached.

5.18 Overall, most respondents (all bar one) favoured keeping stable NAV operation unchanged for both LVNAV and PD CNAV MMFs. In summary, this was due to a view that the risks with stable NAV function were not material, and that the investor utility they delivered was vital in the absence of realistic scalable alternatives. The respondent against said the LVNAV collar cliff-edge causes first-mover advantage and is not well understood, and was against amortised cost valuation for both types.

FCA proposals

5.19 We agree that the removal of stable NAV operation from LVNAV MMFs (the only stable NAV MMFs able to operate at scale), would severely reduce user utility and is disproportionate to the additional risks that stable NAVs pose in comparison to the risk associated with VNAVs. We accept that important classes of MMF investors would struggle to use MMFs for their cash management needs if a stable NAV option was not widely available.

5.20 If HM Treasury's draft SI is made in its current form, UK MMFs may continue to be authorised as VNAV MMFs, LVNAV MMFs and PD CNAV MMFs. **The FCA does not intend to change the regulatory environment that supports the current operation of LVNAV and PD CNAVs.**

5.21 We consider the main interventions we are proposing on liquidity buffer size to be more proportionate than removal of stable NAV in increasing all MMF types' resilience while retaining their user utility, including the special utility offered by stable NAVs. We note that one additional benefit of higher liquidity requirements is that the probability of a LVNAV collar breach is likely to be reduced further by the resulting shorter average maturity (duration) of the MMF's portfolio. Our proposed rule changes on delinking specifically benefits stable NAV MMFs as will some of our changes to KYC rules. As above we propose that managers must consider whether a significant amount of units are held by investors who may react to an event, such as a LVNAV breaching its collar, by seeking redemptions at the same time, and take appropriate action. This will complement the enhanced stress test proposal below.

5.22 We think there are two further proportionate changes that are necessary to reduce the additional risks specific to stable NAV MMFs. Enhanced stress testing aims to ensure that managers have also specifically considered the probability and consequences of, for example, a LVNAV collar breach. This can help drive the manager to take further appropriate action to strengthen the robustness of the MMF. The other is intended to ensure that a stable NAV fund switching to dealing at the floating NAV per unit would be operationally ready to do so (and PD CNAV MMFs are also ready for a change in the constant NAV per unit), and that investors are kept adequately informed. This is important to maintain orderly markets and to minimise disruptions a stress.

Enhanced stress testing for stable NAV MMFs

5.23 Under existing UK MMFR rules, all MMF managers must conduct regular stress testing to identify scenarios that could adversely affect each MMF. Managers must consider certain factors, at a minimum, including changes in rates and in the level of redemptions. Managers must test the impact of the factors on, at a minimum, the NAV of the MMF and the ability to meet redemption requests. The tests carried out by stable NAV managers must estimate for different scenarios the difference between the constant NAV per unit and the NAV per unit. Where necessary, the manager must take action to strengthen the robustness of the MMF.

5.24 **We are proposing new rules that add additional requirements for the stress testing carried out by a manager of a stable NAV MMF.**

These rules would set out that stable NAV managers also need to consider in their stress test scenarios factors specifically relevant to their stable NAV operation as applicable. Examples of the specific factors in our proposed new rules are:

- the impact on investor redemptions of a LVNAV breaching its collar – whether this would likely drive further new redemptions from the LVNAV, given its investor base (this and our new proposed KYC proposals are designed to complement each other on investor base matters);
- the impact on redemptions of another LVNAV breaching its collar (contagion)
- whether the gap between the constant NAV used to price units, and floating NAV per unit, could drive additional redemptions; and
- whether the level of liquidity held by the MMF at the start of the scenario would be sufficient to ensure good investor outcomes.

Enhanced operational resilience for stable NAV MMFs

5.25 We are also proposing new rules that would **require managers of stable NAV MMFs to have in place effective arrangements, processes and systems which would allow the manager to switch to issuing and redeeming units at the floating NAV per unit**, rather than at the constant NAV (and for PD CNAV MMFs to also have in place the same for issuing and redeeming units where the constant NAV per unit changes). We propose that the manager must consider internal matters such as governance and connections and communications with relevant (non-investor) external parties. Relevant external parties could be depositories and intermediaries such as platforms. The manager will need to document the necessary resources and information.

5.26 **We are proposing new rules that would also require that the MMF manager of a stable NAV MMF must have in place a communication plan and strategy** on how it would communicate in a clear and timely fashion to MMF investors in the event of any transition to dealing at the floating NAV per unit, and for PD CNAV MMFs also the transition to dealing at a changed constant NAV. We are also proposing a rule change to add to the pre-contractual warning that LVNAV managers must already make to investors about the circumstances in which a switch to dealing at the floating NAV per unit will occur. We propose that this warning must also include information on the anticipated impact of the switch, including (if applicable) on the availability of intra-day settlement of redemptions.

5.27 Finally, **we are also proposing new rules that would require a LVNAV manager to inform its board, the FCA and the depositary when the constant NAV and floating NAV per unit differed by more than 15 bps (i.e. as the collar is approached)**. For PD CNAVs those notifications would need to take place when the difference between the constant NAV per unit and the floating NAV differed by more than 30 bps, or, if the constant NAV per unit changes.

Q14: Do you agree with our proposed rules on the enhancing stress testing for stable NAV MMFs?

Q15: Do you agree with our proposed rules on the enhancing operational resilience for stable NAV MMFs?

Q16: Do you have any comments on our overall policy approach to stable NAV operation in the UK MMF regime?

Chapter 6

Other options not being taken forward

6.1 This chapter sets out further policy options from the FSB report and discussed in DP22/1 that we have decided not to proceed within a UK context.

Liability side reduction in liquidity transformation

Background

6.2 In DP22/1 we sought feedback on options to reduce liquidity transformation by adjusting the redemption terms of MMF units, rather than increasing the liquidity of their assets.

6.3 We asked for feedback on three liability side policy options: dealing frequency, referring to how often an investor can subscribe or redeem from a fund; notice periods, referring to the period between a redemption request and initiation of the redemption; and minimum settlement periods, referring to the period between the initiation of a redemption and the final cash settlement of proceeds.

6.4 We noted in the DP that variations on these options would be likely to reduce materially the liquidity mismatch in MMFs, but would fundamentally alter the offering to investors, by moving MMFs away from products with at least daily redemptions and T+0 or T+1 settlement. We also noted that the UK authorities are of the view that liability side measures are less likely to be needed if adequate resilience can be delivered by other policies.

Feedback to DP22/1

6.5 Respondents uniformly considered the ability to deal and settle on the same day to be a key feature of a MMFs and without it they would lose their utility. Investors use MMFs as an important liquidity management product and removing this ability would affect investors' ability to manage their liquidity. A few respondents noted that MMF utility is particularly crucial in a context where prudential regulation has led to a reduction in bank deposit alternatives and post-financial crisis rules have increased the importance of T+0 for collateral and margin requirements.

6.6 Several respondents said that if investors could not get easy access to their cash from MMFs, they would seek alternative investment vehicles or cash management solutions, potentially in less transparent parts of the market. One respondent noted that local authorities and charities would particularly struggle to find alternatives.

6.7 Several respondents also noted that in a stress, liability side reduction requirements may lead to more pre-emptive redemptions.

6.8 On whether policy options to increase the liquidity of MMFs' assets could achieve the outcome of reducing MMF liquidity mismatch such that these liability side options may not become necessary, responses were mixed. Five agreed that the focus should be on fund liquidity buffer levels. However, two disagreed, with one stating that KYC requirements should be enhanced rather than raising liquidity buffers.

FCA proposals

6.9 We are not proceeding with any of the liability side reduction in liquidity transformation measures covered in this section as they would remove the key utility of MMFs and threaten their existence in the absence of scalable alternatives.

Redemption-in-kind

Background

6.10 In DP22/1 we sought feedback on redemption-in-kind, a mechanism by which funds can distribute the underlying assets on a pro-rata basis to investors, as opposed to paying cash to meet redemptions.

6.11 We noted that if transactions could be instantaneous with no friction and for all investor types, redemption-in-kind would significantly increase MMF resilience as it eliminates fund-level liquidity mismatch. However, the liquidity mismatch would be passed onto investors and, through their potential need to fire sell assets to obtain the cash they need, to the wider financial system. Redemption-in-kind may also not be a practical option given the need to share out typically well over a hundred separate lines of asset holdings, including those with sizeable minimum holdings amounts

6.12 As UK authorities were aware that this policy option was potentially not practical, we therefore sought further information on the benefits and costs associated with redemption-in-kind, which is currently possible under UK rules.

Feedback to DP22/1

6.13 Firms were generally not aware of MMFs having used using redemption-in-kind previously although one firm noted that they were aware of redemption-in-kind being used successfully in the management of a client invested in a VNAV enhanced cash fund moving to an individual portfolio management arrangement.

6.14 Three firms responded that redemption-in-kind should continue to be available as a LMT for managers of UK MMFs. Three stated that it would only be suitable as a fund wind-down tool.

6.15 There was greater feedback on the barriers. Eight firms noted that the complexity for investors of redeeming in kind is significant and particularly the necessity of having settlement or custody facilities in place to take delivery. A few respondents added this would be particularly problematic for corporate, charity, local authority and retail investors.

6.16 Several firms also remarked that redemption in kind would be difficult and time consuming due to the need to split money market instruments into a proportionate value to an investor's invested capital, particularly given the high denominations of money market instruments. Redemption-in-kind is therefore not a useful tool for managing liquidity management pressures.

6.17 A few respondents set out that investors would still need to sell the instrument, and that an MMF manager has a broader range of counterparty relationships through which to achieve this.

FCA proposals

6.18 The general view of respondents was that there are no mainstream uses for redemption-in-kind and that it would not be helpful, given the complexity for investors and the onerous and time-consuming processes required. While there may be particular occasions in which redemption-in-kind may be beneficial we do not propose to proceed with rules changes to promote use of redemption-in-kind.

Policies to Absorb Losses/Capital Buffers

Background

6.19 In DP22/1 we sought feedback on policy options deriving from the FSB report to absorb losses and so reduce the likelihood of destabilising redemptions. These were introducing a "minimum balance at risk" – in which a fraction of each investor's units would be held back subordinated to other units in order to absorb losses; a capital buffer for MMFs; allowing sponsor support; and a 'liquidity exchange bank' – a separate institution, funded by MMFs or other MMF stakeholders, that would purchase assets from an MMF to provide liquidity during periods of stress.

6.20 We noted in DP22/1 that MMFs are not guaranteed investments and do not need to absorb losses, as they are quite properly passed onto investors. We also noted that some of these policies could, variously, make pre-emptive redemptions more likely, stop MMFs offering full same day liquidity to users, and change the nature of MMFs from that of the MMF manager as agent towards MMFs becoming more like banks and/or an extension of other entities' balance sheet. As such we stated that other policies to address MMF resilience were preferable.

Feedback to DP22/1

6.21 All firms that answered the question (a majority of respondents) agreed that policies to absorb losses were not optimal and were supportive of not giving further consideration to the policies above.

6.22 Two firms made arguments against the above policies which included the elimination of liquidity in the case of introducing a minimum balance at risk; the lack of economic viability for a loss-absorbing capital model; and financial stability risks and an uneven playing field from exposure to asset managers' balance sheets. The costs of contributing to a liquidity exchange bank could force sector consolidation and generate associated concentration risks. This would pose challenges around operations and governance within different jurisdictions. It would also send the wrong signal to investors as it could be perceived as a liquidity guarantee.

FCA proposals:

6.23 Based on our own analysis of these policy measures, as well as the strong rejection of them by industry, **we do not propose to take forward policy options to absorb losses.**

Underlying Short-Term Funding Markets

6.24 In DP22/1, we asked for views on the underlying STFMs. Assets in STFMs, in particular Commercial Paper (CP) and Certificates of Deposit (CD), have low levels of liquidity as a result of being generally held to maturity, which contributes to MMFs' liquidity mismatch. MMFs can be significant purchasers of STFM debt, for example EU MMFs buy more than half the CP issued.

6.25 Respondents noted the high degree of interconnection between MMFs and the STFMs, and that any increase in STFM liquidity would support MMF stability. Respondents called for MMFs and STFMs to be considered as part of a larger financial ecosystem and asked for further investigation into how STFMs could be made more resilient.

6.26 While we do not believe there are immediate steps that can be viably taken to significantly increase liquidity in STFMs, as part of our commitment to improving international financial market functioning and regulation, the FCA is currently co-leading an FSB/IOSCO initiative to assess the state of the STFMs. Issues currently being explored include transparency, standardisation and market microstructures of STFMs.

General Questions

6.27 In DP22/1, we asked four further general questions – relating to:

- any other threshold effects that may act to exacerbate MMF redemptions in a stress that were not covered in DP22/1;
- any other potential rule changes to address MMF vulnerabilities that could have net benefits;
- the advantages and disadvantages of MMFs as cash management products, whether any proposals in DP22/1 would significantly impact the advantages, and if there are certain unique benefits to certain investors; and
- whether UK authorities should consider rule changes to MMF disclosures to investors.

Other threshold effects

6.28 A minority of firms responded to this question. Two noted no further threshold effects. One suggested the risk of investors being unnerved by difficulties affecting an unrelated fund managed by the same manager, and one noted the incentives for investors to redeem in the event of an LVNAV's floating NAV per unit deviating by 20 bps above the constant NAV per unit (leading to a collar breach on the upside).

6.29 In the absence of further feedback, **we do not propose further measures to address threshold effects.** We will reconsider the upper 20 bps collar if we identify risk of significant consumer detriment.

Other potential rules changes to address MMF vulnerabilities

6.30 A number of other options were also presented by respondents. Two respondents suggested that MMFs should have access to a programme or facility such as the Federal Reserve's Reverse Repo Facility, for the placement of excess cash. Both also argued that MMFs should have access to directly depositing cash with the Bank of England.

6.31 One firm stated that it is important that regulation does not pose barriers to MMFs accessing repo clearing as central repo clearing has become an important consideration in MMF's ability to manage liquidity. One respondent stated that there is a gap in investor information provided by intermediaries that MMF managers use to manage risks, conduct stress tests, and anticipate stresses. Another respondent set out that MMFR is silent on how an MMF should operate within a negative yield environment.

6.32 We thank respondents for these suggestions. We **do not propose further measures to address MMF vulnerabilities** as we currently believe that the set of reforms in this CP addresses the risks posed in a proportionate way.

Benefits and drawbacks of MMFs as cash management products

6.33 Respondents were keen that the UK authorities did not undertake reforms that would undermine the MMF product and its utility.

6.34 They stated that MMFs represent one of the most transparent and cost-effective products available to investors. Another respondent noted that MMFs are preferable to direct participation in the STFMs.

6.35 One respondent stated that depositing with a bank can be more costly than investing in an MMF, and less transparent. Another noted that MMFs were much more efficient than banks at intermediating between short-term cash investors and short-term government and corporate borrowers.

6.36 We thank respondents for their evidence and as set out in the rest of the CP, **we are keen to preserve the benefits of MMFs for the market whilst making tailored improvements to enhance their resilience.**

Rule changes to MMF disclosures to investors

6.37 Several respondents considered that changes to disclosure rules are not necessary as transparency standards for MMFs already greatly exceed those for almost all other fund types.

6.38 One respondent requested further clarification on the MMFs rules scope. One suggested formalising the monthly reporting provisions under the MMFR, another respondent recommended that important metrics that currently are required to be disclosed at least weekly in the MMFR should instead be disclosed daily and a further supported disclosure of investor concentration to investors.

6.39 As set out in chapter 3 we are not consulting on requirements for MMF managers to make further public disclosures on investor concentration. However, we are consulting on increasing operational resilience for stable NAV MMFs – and this includes additional proposed communications that must be made to investors.

Central Bank liquidity support for Non-Bank Financial Institutions

6.40 The Bank of England recently announced that it had begun work to develop a lending tool for non-bank financial institutions (NBFIs) to backstop market functioning and underpin financial stability in times of stress. The tool will be designed to address dysfunction in core sterling markets in the exceptional circumstances where there is a threat to UK financial stability. It will do so by channelling liquidity directly to resilient NBFIs when capacity constraints prevent banks from lending in sufficient size. The tool will not provide liquidity for firms facing solely idiosyncratic stress, and will not absolve them of their responsibility to maintain robust self-insurance. Indeed, firms' eligibility for the facility, and the terms that eligible firms will face, will depend on their level of resilience.

6.41 As a first step, eligibility of the facility will be limited to UK insurance companies and pension funds, including LDI funds. As a second and parallel step, the Bank will explore whether, and if so how, access might need to be expanded to other NBFI sectors over time. The Bank's decisions about expanding coverage will be based on an assessment of whether offering lending to other NBFI sectors is needed in order to ensure the facility is effective in stemming potential systemic shocks via core market dysfunction without necessitating premature recourse to asset purchase operations, while ensuring that the facility remains a backstop.

No decisions have been made at this time about whether eligibility might be extended to MMFs or other NBFIs – and any such decisions could be some time off. However, were such a decision ever to be made, it is likely that the MMF rules would need to be adapted to support that, and other eligibility requirements might be imposed.

Chapter 7

Developments in relation to use of MMF units

7.1 This chapter asks about the operational or other reasons that participants in UK markets are unable, or choose not to, use MMF units as collateral where eligible under the UK regime for non-centrally cleared derivatives.

7.2 In recent market stresses including the 2022 LDI event, money first flowed out of MMFs, as MMF units were sold by market counterparties such as pension and LDI funds to generate cash to meet dynamic margin requirements. Following this, money flowed back into MMFs - according to market intelligence, market counterparties including the pension and LDI funds purchased MMF units. During the 2022 LDI event, the total value of sterling MMFs as an asset class increased substantially as a result of providing a safe harbour for available cash.

7.3 Respondents to DP22/1 noted that targeted reforms might reduce redemption pressures on MMFs by increasing the use of MMF units to meet margin requirements, rather than selling those units when needing to post collateral. Some financial sector MMF investors want to be better able to use their MMF units to meet margin calls. We would like to consider this issue in the round as it relates to non-centrally cleared derivatives.

7.4 A related topic to using MMF units for meeting margin requirements is the tokenisation of MMF units for use as collateral in transactions. This offers the possibility of accelerating the settlement process relevant for use of MMF units as collateral. Fund tokenisation of MMFs is being tested in several world financial markets including the UK. The Technology Working Group set up by the Government's Asset Management Taskforce recently published its report on fund tokenisation. The report's blueprint recommends a staged approach and as a first stage to "establish the infrastructure for fund tokenisation in the UK funds market".

Q17: In your view, what are the advantages and disadvantages of investors posting and accepting MMF units as collateral for non-centrally cleared derivatives?

Q18: What specific barriers are there, if any, to posting and accepting MMF units as collateral for non-centrally cleared derivatives?

Q19: What do you see as the advantages and disadvantages of tokenisation in overcoming the operational barriers for use of MMF units as collateral?

Q20: How could MMF tokenisation in general interact with the proposals to increase MMF resilience?

Chapter 8

Smarter Regulatory Framework

8.1 This chapter explains our approach to the draft rules that deliver part of the SRF, the Government's programme to replace REUL. As part of this programme, areas currently regulated by REUL will be moved to the UK's domestic model of financial services regulation, as established by the Financial Services and Markets Act 2000. Under this model, the UK's independent regulators are responsible for setting detailed firm-facing requirements, within a framework set by the Government and Parliament.

8.2 We are proposing to create a new FCA Handbook sourcebook for MMF regulation, transferring the majority of requirements in the MMFR into the Handbook without changing their effect, aligning the text with Handbook style and making some small changes to fit the rules to a UK context. We also propose incorporating six guidelines covering the general features of stress test scenarios and the guidelines on particular hypothetical scenarios into the Handbook, until the UK authorities have determined a UK stress testing regime for MMFs.

Creating a new sourcebook

8.3 In order to create a central reference point for the rules on UK MMFs, we propose to create a Sourcebook on MMFs within the FCA Handbook. As MMF regulation is detailed and complex, we believe that creating this separate section from other fund regulation will support easier understanding of MMF requirements for fund managers, investors and other stakeholders.

8.4 Aside from the specific proposals noted in this CP, we propose a general approach of moving the requirements in the MMFR into the Handbook without changing their effect and aligning the text with Handbook style. Annex 7 sets out where provisions of the MMFR, the Commission Delegated Regulation (EU) (2018/990) and the Commission Implementing Regulation (EU) 2018/708 have been moved into the Handbook. There have been a few additional small policy changes set out below to tailor the regime to the UK context. There are also changes for clarification so the rules are as clear as possible for market participants. We are also making several other very minor policy changes as part of the SRF process, for example, on parts of UK MMFR Article 17. These are only set out in the derivation table in this CP.

Q21: Do you have any comments on the proposed drafting in MMFS? In light of the explanations given in Appendix 1, are there are any areas where you consider we may have inadvertently changed the policy?

Eligible assets and institutions

8.5 We are proposing minor changes to the MMF eligible assets regime for clarification and to ensure the framework functions as intended. This includes reversing a number of minor deletions and changes made during the onshoring of the EU MMFR. Any wider review of eligible assets will follow SRF reviews for the UK UCITS Directive and AIFMD.

Commodity derivatives

8.6 Under UK MMFR, MMFs are prohibited from taking direct or indirect exposure to commodities, including via derivatives. However, the term 'commodities' is not defined in the UK MMFR.

8.7 We do not believe that MMFs should take direct or indirect exposure to any commodities as they are volatile and do not fit into the general framework of safe, liquid assets that MMFs must invest in. Where replicating the MMFR prohibition on MMFs taking direct or indirect exposure to commodities in MMFS, we have set out a wide definition of commodities, using the same definition as is also used in UK MiFID/MiFIR. This includes energy such as electricity.

Q22: Do you have any feedback on our proposed drafting of MMFS with regard to the definition of 'commodities'?

Eligible money market instruments

8.8 To be eligible for investment by an MMF, under the EU MMFR, money market instruments (including financial instruments) must amongst other criteria be either admitted to or dealt on a regulated market, dealt on another regulated market in a Member State, or admitted to official listing on a stock exchange in a third country. Money market instruments other than those dealt on a regulated market are eligible if the issue or issuer of such instruments is regulated, provided that they are issued or guaranteed by a range of institutions and follow other requirements.

8.9 During onshoring, this requirement was replaced with a reference to COLL 5.2.8R which is broader than the original reference in the EU MMFR to the relevant provisions of the UCITS Directive and could be construed as allowing MMFs to invest up to 10% of their assets in non-listed securities and money market instruments.

8.10 In the Handbook we have reverted to the position under the EU MMFR.

Q23: Do you agree that the Handbook should revert to original intention of EU MMFR Article 10?

Eligible financial derivative instruments

8.11 Article 13 MMFR sets out that MMFs can invest in a financial derivative instrument provided that it is dealt in on a regulated market as set out in UCITS Article 50(1)(a)-(c). During onshoring these requirements were moved to UK MMFR Article 2a.

8.12 In the Handbook we propose to move these requirements back to the section on requirements for eligible financial instruments (i.e. the equivalent of Article 13) and rather than referring to EU legislation, refer to existing points in COLL which sets out our approval power. We do not believe this is a policy change.

Q24: Do you agree that these modifications do not make a material change to MMF rules?

Depositing cash with the Debt Management Office

8.13 MMFs have previously deposited cash overnight with the DMO and we now propose to regularise the position by explicitly permitting MMFs to deposit cash with public bodies charged with or intervening in the management of the public debt in the United Kingdom.

Q25: Do you agree that MMFs depositing cash with such public bodies should be regularised with explicit text in regulation?

Eligible reverse repurchase agreements - notice periods

8.14 MMFR Article 15(1)(a) allows MMFs to place cash out on reverse repurchase agreements that can be terminated by giving prior notice of no more than 2 days. **We propose changing rules** to extend this to 5 business days. We believe expanding the range of eligible reverse repurchase agreements will assist funds in reaching our proposed higher WLA thresholds - without harming financial stability, given that reverse purchase agreements are fully collateralised, and, subject to other conditions, funds receive their money back quickly. It also aligns with the definition of what constitutes a weekly liquid asset in MMFR Articles 24(e) and 25(d).

Q26: Do you agree that UK MMFs should be able to enter into reverse repurchase agreements that can be terminated by giving prior notice of no more than 5 days?

Requirements for eligible repurchase agreements

8.15 Article 15 sets out requirements for eligible reverse repurchase agreements. The final sentence of art 15(6) UK MMFR refers to the requirements in art 17(7). When drafting the draft instrument, this has been interpreted as a reference to the requirements set out in art 17(7)(a)-(d) only and therefore does not include the list of institutions that are required to issue or guarantee money market instruments for them to be eligible for an investment by an MMF. This is a separate list from 15(6) and it would not make sense to have two overlapping but distinct sets of institutions.

Q27: Does the Handbook drafting setting out the requirements of UK MMFR Articles 17(7)(a)-(d) represent a material change from the UK MMFR?

Fitting MMFR to the UK context

8.16 The EU MMFR harmonises MMF rules across the range of EU jurisdictions and has carve outs tailored to member state contexts which are not relevant to the UK. We propose to remove the following:

- **Exemptions for employee saving schemes from restrictions in investments in other MMFs.** The exemptions disapply rules that limit MMF investment to 5% in units or shares of a single MMF and 17.5% in aggregate units or shares of other MMFs subject to specified conditions. There are no such UK employee savings schemes.
- **Diversification exemptions for MMFs in states with small financial sectors.** Subject to regulatory approval, the exemptions raise the limit that MMFs can deposit with the same credit institution from 10% to 15% and raise the total exposure limit for a single body from 15% to 20% for investments in money market instruments, securitisations and ABCPs issued by that body, deposits made with that body and Over-the-Counter (OTC) financial derivative instruments giving counterparty risk exposure to that body. We consider the UK to have a sufficiently large financial market for this not to be necessary.

Q28: Do you agree that these provisions are not relevant to the UK financial sector and can be deleted without affecting the operation of MMFs in the UK?

Stress testing, reporting and supervisory requirements

8.17 **Stress testing.** Currently, FCA guidance sets out that firms should continue to apply European Securities and Markets Authority (ESMA) guidelines to the extent that they remain relevant (see 'Brexit: our approach to EU non-legislative materials'). Relevant EU Level 3 materials are published on the FCA website including a link to the 2019 version of the ESMA guidelines on stress testing for MMFs. There are eight ESMA MMF stress testing guidelines in total. The first seven cover the general features of stress test scenarios as well as guidelines on particular hypothetical scenarios. There is a further set of guidelines on the establishment of common reference stress test scenarios.

8.18 We propose to incorporate the seven guidelines covering the general features of stress test scenarios and the guidelines on particular hypothetical scenarios into our Handbook. These are set out in MMFS 5.6 in the draft instrument. When the MMFS comes into force this will supersede the FCA Guidance mentioned above (which sets out that the FCA expects firms to continue to apply ESMA Guidelines), in respect of UK MMF stress testing.

8.19 We are not however proposing to incorporate the Guidelines on common reference stress test scenarios into our Handbook as they are too detailed and time-specific to fit into regulations. Rather, in conjunction with other UK authorities, we will conduct a later consultation on where to put detailed guidelines setting out the technical parameters when stress testing an MMF.

8.20 We propose to set out in the Handbook that in any period after MMFS comes into force but prior to the introduction of such detailed guidelines, MMF managers could find it helpful to consult the latest ESMA 'Guidelines on the establishment of additional common reference stress test scenarios'.

8.21 Our proposals for enhancements to the stress tests that managers need to carry out for their stable NAV MMFs are set out in Chapter 5.

8.22 **Reporting.** We propose to incorporate the content of the European Commission Implementing Regulation MMF reporting template into the Handbook.

8.23 We propose to move other requirements for managers to provide information to the FCA, for example on credit quality as well as supervisory requirements more generally, from the UK MMFR to the Handbook essentially unchanged. Any review of MMF reporting will be addressed more holistically in line with other funds policy and supervisory reviews in due course.

8.24 However, one requirement that we consider disproportionately burdensome and that we propose can be modified now, is the requirement in UK MMFR Article 19 that MMF managers must transmit credit quality assessment methodology reviews annually to the FCA. We propose that the manager must still conduct the assessment review at least once per year as before, but that the manager must only notify the FCA immediately if it becomes aware of any errors in the credit quality assessment methodology or in the application of the credit quality assessment methodology, or if it considers that the credit quality assessment methodologies are not appropriate for the current portfolio. We also propose a new rule that the manager must review every internal credit quality assessment whenever there are changes to the procedure or to the factors and general principles set out in MMFS that could affect the outcome of the assessment.

Q29: Do you agree with the overall approach to stress testing, reporting and supervisory requirements? Please set out the reasons for your answer.

Annex 1

Cost Benefit Analysis

Introduction

1. The Financial Services and Markets Act 2000 (FSMA), as amended, requires us to publish a Cost Benefit Analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. We are consulting on proposals to enhance the resilience of Money Market Funds (MMFs) domiciled in the UK, mitigating risks to wider financial stability and reducing the need for central bank support in the future, while ensuring that MMFs can continue to provide sustainable and robust cash management financial services that meet the needs of investors. We are also consulting on small changes made under the Smarter Regulatory Framework (SRF), removing legacy EU rules which were appropriate to EU regulation but have become duplicative or are otherwise not necessary under the SRF, and removing ambiguity.

3. In this CBA, we set out our assessment of the impacts of our proposals. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where possible to do so. When in our opinion, these are not reasonably practicable to estimate, we provide a statement of our opinion and an explanation of it.

A brief description of the market

4. Among UK investors, MMFs are predominantly used by financial services firms - investment funds, pension funds and other non-bank financial institutions. They are also used widely by non-financial corporates, local authorities and charities. MMFs are an important cash management vehicle for investors to manage short-term liquidity and meet margin calls. Individual UK retail investors, by contrast, account for a small proportion of overall MMF shareholders by assets.

5. MMFs invest in short-term debt securities, such as government bills, commercial paper (CP), certificates of deposit (CD), reverse repurchase agreements and bank deposits.

6. By assets under management (AUM), around 90% of sterling MMFs marketed in the UK are currently domiciled in the EU and they are not directly subject to these proposals. All currently authorised UK domiciled MMFs are sterling denominated and are predominately used by UK investors. There are 17 UK domiciled MMF funds/sub-funds with a Net Asset Value (NAV) of around £27 billion. Of those, 3 are Low Volatility NAVs (LVNAVs) with around £9.9bn in NAV, and 14 are Variable NAV (VNAVs) with around £16.9bn (Q3 2023 figures, FCA analysis of reporting to FCA by MMF managers).

7. The table below gives a breakdown and brief description of different types of MMFs.

Table 1: Breakdown of UK MMFs

Type of MMF		Description of MMF	Number of MMFs
Stable NAV MMFs	**Low Volatility NAV (LVNAV)**	These are short-term MMFs, which have the ability to issue or redeem units at a constant NAV per unit (usually a par of £1 a unit) provided the floating/ variable valuation per unit (calculated by mark to market or model) does not deviate from this by more than 20 basis point (bps).	3
	Public Debt Constant NAV (PD CNAV)	These are short-term MMFs, which have the ability to issue or redeem units at a constant NAV per unit (usually par). Funds must invest at least 99.5% in government issued or backed assets.	0
Variable NAV MMFs	**Variable NAV (VNAV) – Short Term**	Units in the short-term VNAV MMFs are issued or redeemed at a variable price (marked to market or to model).	9
	Variable NAV (VNAV) – Standard	Units in the standard VNAV MMFs are issued or redeemed at a variable price (marked to market or to model). These funds can invest in assets of longer maturity than short-term MMFs and their portfolios are permitted to have, for example, longer Weighted Average Maturity.	5
TOTAL			17

SOURCE: FCA Supervisory Data

Problem and rationale for intervention

8. We describe the problem and rationale for intervention in CP Chapters 1 and 2. Overall, we are intervening to increase MMF resilience. The proposals are intended to mitigate risks to investors and wider financial stability during stress events and reduce the need for central bank support in the future, whilst maintaining cash management services that meet the needs of investors.

9. MMFs undertake liquidity transformation due to a mismatch between daily or sometimes intra-day redemption on the investor side, and often-illiquid secondary markets on the asset side. In contrast to most other open-ended funds (OEFs), MMFs usually hold their (short dated, thinly traded money market) assets to maturity and meet redemptions from a liquidity pool (liquidity buffer).

10. Under the way MMFs currently operate, the true costs of liquidity may not be passed on to redeeming investors, especially in a stress. Combined with the liquidity mismatch, this can lead to first mover advantage and the risk an MMF may need to suspend redemptions in a severe market stress. Early redeemers from the fund are more likely to receive their money back without delay or noticeable unanticipated losses. The behaviour of individual investors in redeeming, while optimal for them, can impose costs on other investors and the wider economy due to the current model of MMF operation.

11. Current regulation requires a stable NAV MMF to impose, or consider whether to impose, certain liquidity management tools (LMTs) such as redemption gates or even full fund suspension, when the MMF meets certain conditions including falling below the 30% Weekly Liquid Assets (WLA) minimum liquidity threshold. This can exacerbate first-mover advantage, driving additional investor redemptions during stress events. It is thought that in earlier stresses, investors monitored liquidity levels in stable NAV MMFs and redeemed ahead of the prospect of such LMTs possibly being imposed.

12. Stable NAV MMFs pose some additional risks to investor outcomes and financial stability. The way they operate creates a further threshold effect resulting in a first-mover advantage which could drive further withdrawals. For example, a LVNAV fund coming close to breaching its collar on the downside could drive redemptions. An actual breach and switch to dealing at floating NAV per unit could spark still further redemptions from the fund (as well passing on a capital loss to the investors), and contagion by sparking additional redemptions in other LVNAV MMFs. The switch could also lead to the loss of access to intra-day settlement.

13. If a stable NAV MMF, for example a LVNAV MMF, were not able to switch smoothly to redeeming and subscribing at the floating NAV per unit from an operational perspective, this could cause more investor and financial stability problems. If such managers fail to communicate effectively with investors in the event of such a switch, this could lead to investors making decisions, such as whether to make further redemptions or not, without being in receipt of relevant information.

14. In addition, a LVNAV MMF manager failing to communicate with investors before they invest about the consequences of a switch, including on whether intra-day settlement would still be available, could lead to investors being unprepared. This could cause investors problems later and could be a missed opportunity for them to consider at the outset whether a LVNAV MMF is the right vehicle for their needs.

15. The first-mover advantage and the liquidity mismatch can lead to harm to investors, money markets and the wider economy:

- Investors may suffer harm if they are unable to withdraw funds when needed during stress events as a result of funds being unable to sell assets quickly enough or the use of LMTs such as fund suspension. The harm could include costs from being unable to meet liabilities.
- Other money market participants may also suffer harm if the difficulties experienced by MMFs are transmitted to them through MMF investors being unable to meet wider financial sector commitments such as margin calls.
- The wider economy could suffer harm through MMF investors being unable to meet commitments such as payroll costs. These effects can risk good MMF investor outcomes and risk unfair outcomes between investors.

16. There are other ways that vulnerabilities that may exacerbate stresses in the underlying money markets, for example through an increase in bank funding costs as a result of MMFs becoming liquidity constrained or difficulties for banks in obtaining funding. If MMFs experience difficulties at scale, this can also negatively impact financial stability through harm to the solvency and the liquidity of money market participants.

17. These MMF vulnerabilities were seen during the March 2020 dash for cash and September 2022 LDI events, details of which are described in chapter 2 at paragraphs 2.7-2.14.

18. Financial stability events that could call into question the operation of MMFs are low probability, high impact events. We have taken that into account in weighing up the proportionality of interventions.

Summary of our proposed interventions

19. Our proposals aim to increase MMF resilience whilst retaining utility for end users. The way they aim to reduce harm is set out in the 'benefits' section of this CBA and in the causal chain below.

20. In chapter 3 of the CP, there are proposals to reduce MMF liquidity transformation and to make MMFs more liquid:

- Increasing the level of MMF liquidity resources available to meet redemption requests by introducing higher minimum liquidity buffers for all MMF types (**higher liquidity buffers**);
- Changes to the WLA derogations for VNAV MMFs (**optimised VNAV WLA derogation proposals**), to better balance flexibility for managers to build up WLA with WLA resilience in a stress. The proposal is to extend to VNAVs the derogation for public sector debt in WLA that stable NAV MMFs benefit from, but to remove the current VNAV derogation allowing them to use Money Market instruments and MMF units in WLA up to 7.5% of total assets; and
- Supporting the usability of liquidity resources and reducing threshold effects for stable NAV MMFs by removing the requirement for a manager to consider or activate LMTs when the MMF breaches regulatory thresholds relating to minimum liquidity levels (known as **'Stable NAV MMF delinking'**).

21. Additionally, we propose broadening the requirements for all MMF managers to consider all relevant investor concentration issues including the risks of correlated investor withdrawals (**enhanced 'know your customer', (KYC) requirements**). We propose that MMF managers must take 'appropriate actions' in respect of this broader consideration as necessary, which can include actions to reinforce the liquidity of the MMF.

22. In chapter 5, we propose the following enhancements to rules for stable NAV MMFs:

- Enhancements to the stress tests managers of stable NAV MMFs must already undertake: **'enhanced Stable NAV MMF stress tests'**. Stable NAV managers will need to consider in their scenarios factors specifically relevant to their funds' stable NAV operation, for example the redemption consequences of a LVNAV collar breach. This further consideration could help drive the manager to take appropriate action to support MMF resilience. Some factors complement our KYC proposals.

- Rules to ensure that a stable NAV switching to dealing at the floating NAV per unit (or also a Public Debt Constant NAV (PDCNAV) dealing at a changed constant NAV) would be operationally ready to do so, and that investors are adequately informed - **'Stable NAV MMF operational resilience'**. The rules are designed to address the risk of a market failure if, for example, an LVNAV MMF had to suspend dealing because it was not practically ready to switch dealing in the fund as above. This could cause further disruption, especially in a stress.

23. We also propose that a LVNAV manager must inform investors before they invest about the consequences of a switch, including the impact on intra-day settlement, so that investors are prepared and have an opportunity to consider whether a LVNAV MMF is the right vehicle for them.

24. In addition, we propose new rules requiring a stable NAV MMF manager to have in place a communication plan and strategy on how it would communicate to investors in the event of such switches. This is to help inform investors' subsequent decisions.

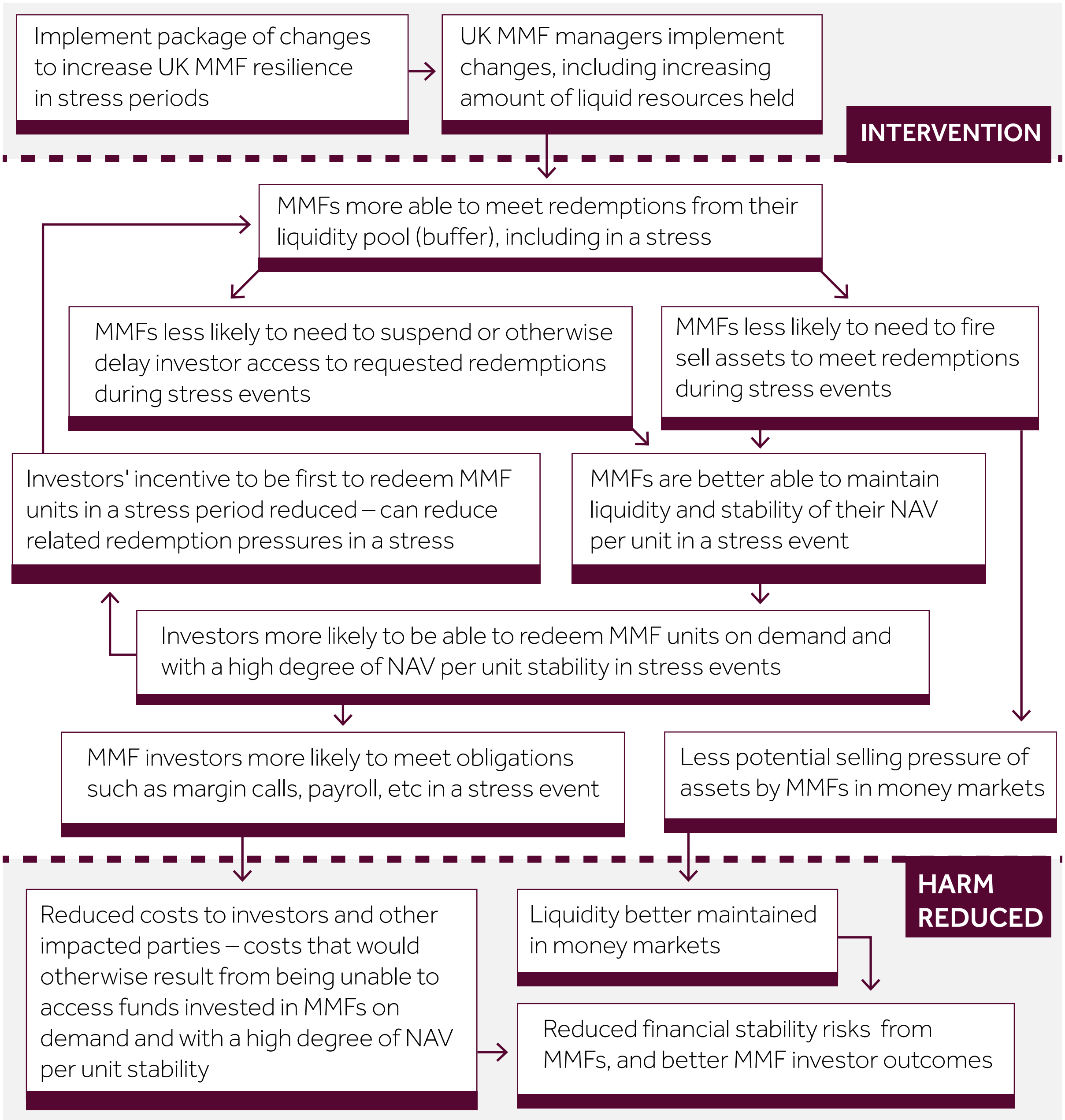
25. The manager must inform its board, the FCA and the depositary when certain scenarios occur, so that relevant bodies are aware.

26. Finally, this CBA briefly assesses the proposals found in Chapter 4 and 8, for which we consider there to be benefits and the costs to be immaterial.

27. We are not pursuing potential policy options that we consider may fundamentally affect the utility to end users (for example, see chapter 4). Other options discounted are also explained in this consultation.

28. The figure below sets out how our proposals lead to reduction in the harm set out in the section above. Our proposals will increase the amount of liquid assets that UK MMFs. During stress events, MMFs will have greater amounts of liquid assets to meet redemption requests, making it less likely the MMF will exhaust its liquidity. Investors will be able to withdraw funds when required and be able to meet their liabilities, and so avoid the cost of not meeting them, or of receiving the redemption with a material capital loss. This effect is reinforced by the reduction in the incentive to be the first-mover for investors. MMFs also are less likely to withdraw new asset purchases or engage in asset fire sales during stress events. There is consequently a reduction in financial stability risk from our proposals.

Figure 1: Causal chain



29. Note: A high degree of 'NAV per unit stability' refers to a MMF's dealing unit price varying either by very small amounts in the case of VNAV funds (low numbers of basis points, even in stresses) or not at all, in the case of stable NAV MMFs that are dealing at a constant NAV per unit (usually a 'par' price of £1 a unit).

Costs and benefits – all significant proposals

Number of firms affected

30. Of the policy proposals to increase MMF liquidity, **higher liquidity buffers** and **enhanced Know Your Customer proposals** apply to all UK MMFs and the firms that manage them

that are domiciled in the UK. FCA data, shows that there are currently 17 such MMFs, and 15 MMF managers (as 2 of these managers each manage 2 UK MMFs). Proposed changes to the WLA derogations for VNAV MMFs (**optimised VNAV WLA derogation proposals**) applies to the 14 UK VNAV MMFs and their 14 managers.

31. The **Stable NAV MMF delinking** proposal only applies directly to the three UK LVNAVs MMFs (managed by two separate UK manager firms) – as do the separate **enhanced Stable NAV MMF stress tests** and **Stable NAV MMF operational resilience** proposals.

Baseline and key assumptions

Baseline

32. To assess the impact of our proposed remedies we need to compare the remedies we are proposing with what would happen absent our proposals. We therefore need to consider the current state of the MMF market and how we think it may develop over time.

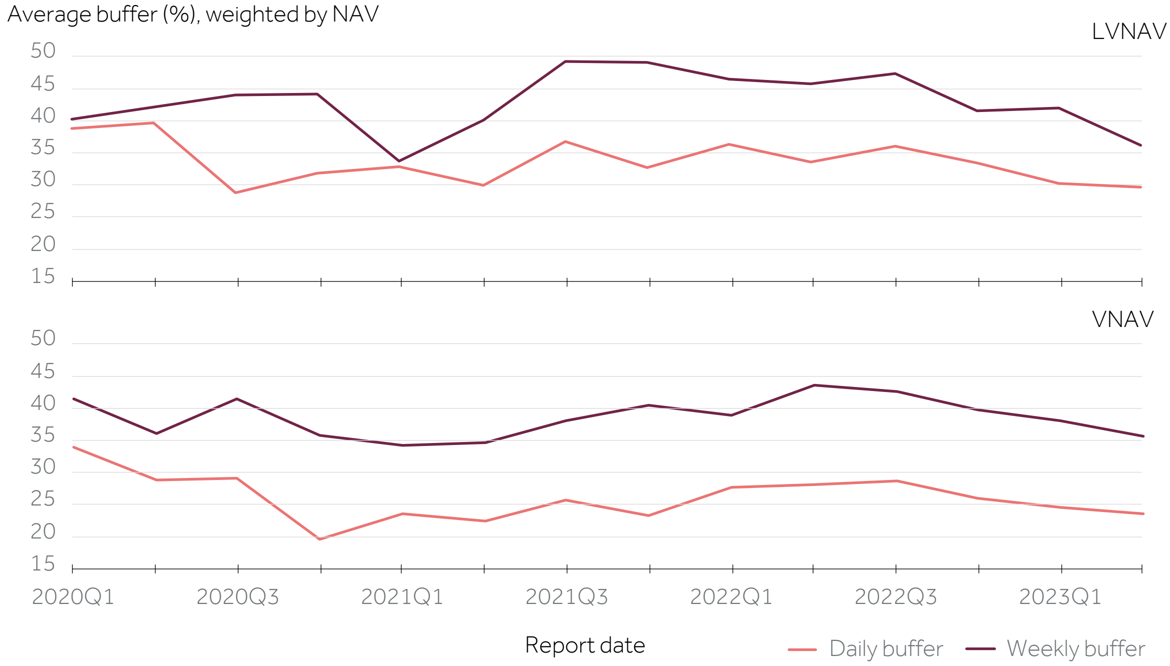
33. **Higher liquidity buffers**: The following table sets out the current minimum Daily Liquid Assets (DLA) and WLA for UK MMFs.

Table 2: Current DLA and WLA for UK MMFs

Requirement	Standard VNAV	Short term VNAV	LVNAV	Public Debt CNAV
DLA	7.5%	7.5%	10%	10%
WLA	15%	15%	30%	30%

34. While the UK Money Market Fund Regulation (MMFR) currently sets out minimums for DLA and WLA for UK MMFs, in practice regulatory reporting shows that, as seen in the graph below, managers of these MMFs usually choose to hold an amount above these minimums. Managers will do this for a mixture of reasons including: the desire to be prudent and to avoid worrying their investors and MMF ratings providers, other general decisions on portfolio construction, and for stable NAV MMFs, the regulatory problem our 'delinking' proposal will fully address.

Graph 1: All UK MMFs – asset weighted average DLA and WLA by MMF type



SOURCE: FCA Supervisory Data (MMFR)

35. Absent our proposals on DLA and WLA above, we expect that UK MMFs' WLA and DLA would continue to fluctuate in the range we have seen over the last few years.

36. **Optimised VNAV WLA derogation proposals**: we assume UK VNAV MMFs may be using the current VNAV WLA derogation up to its maximum permitted extent and would continue to do so in the absence of our proposals. VNAV funds cannot currently use the derogation for public sector debt in WLA that stable NAV MMFs benefit from.

37. **Enhanced Know Your Customer (KYC) proposals:** as above, we are proposing to broaden and strengthen existing UK MMFR KYC requirements. Under these existing provisions, managers are required to apply procedures to anticipate the effect of concurrent redemptions. As the CP sets out, the existing provisions' more detailed rules are focused on the impact of one or a few large holdings by single investors. The actions required by managers are also narrowly focused on ensuing the units held by a single investor do not materially impact the liquidity profile of the MMF. For the purposes of this analysis, we conservatively assume that all UK MMF managers are only currently compliant with the existing MMFR requirements – and will need to move to compliance with the new, broader ones.

38. **Stable NAV MMF Delinking:** without intervention, we assume that some MMF investors may continue to see minimum WLA levels as thresholds which, if crossed, come with an unacceptable risk of loss to MMF unit value or of MMF suspension. As noted in Chapter 3, the 'regulatory links' being removed for stable NAV MMFs do not currently mean that such MMFs dropping below the 30% minimum WLA must either have a LMT applied or suspend. However, our proposal above to entirely remove the problematic 'links' is designed to remove any remaining perception that this is the case.

39. **Enhanced Stable NAV MMF stress tests:** the baseline is the existing UK MMFR stress tests requirements. See chapter 5 for more on these existing requirements.

40. **Stable NAV MMF operational resilience:** Under current UK MMFR regulations, a stable NAV fund switching to dealing at the floating NAV per unit (or a PDCNAV to dealing at a changed constant NAV) is already envisaged, and it is implicit that firms should be prepared for this. There are no specific existing rules relating to preparedness for this. As above, we propose additional requirements around preparing for this switch, including preparing for communications with investors in the event of a switch. There is an existing MMFR requirement for LVNAV managers to warn investors, before they invest, about the circumstances in which a switch to floating NAV dealing will occur.

41. **Overall investment in MMFs:** We note that the current investment in UK MMFs has remained reasonably constant over the last couple of years, according to supervisory data reported to us by firms through MMFR. Absent our intervention, we believe the assets under management of UK MMFs would not move materially from current levels, at least in the medium term.

Key assumptions

42. With respect to our cost calculations, we rely on the following assumptions:

- The incremental implementation costs have been calculated using our standardised cost model (SCM) and its cost assumptions. The underlying assumptions remain the same as in Annex 1 of our How we analyse the costs and benefits of our policies document.
- Our estimates assume full compliance with our rules. We believe this is reasonable as it allows us to establish all potential costs and benefits.
- All cost estimates are in nominal terms.
- We use 2022 prices for our cost estimates as the salary information in the Standardised Cost Model is from 2022.

Summary of costs and benefits - all significant proposals

43. We have considered the costs and benefits of our proposed interventions to increase MMF resilience. On balance, we consider the benefits of intervening to more than offset the costs to firms of implementing our intervention. Breakdowns in financial stability – financial crises – are rare but when they do occur they are extremely disruptive to the market and inflict very high costs on the wider economy and on society. Our proposals should reduce the probability of MMF problems contributing to or even sparking a wider financial crisis. Whilst we cannot quantify the exact costs of a financial crisis, we know they are high. Our proposals should also improve outcomes for MMF investors in crisis periods. We have weighed these benefits up against the reduced yield an investor would experience if an MMF has to hold a greater proportion of liquid assets, which – whilst varying with the overall interest rate environment – is relatively low, and the modest increased compliance costs for MMF managers.

Table 3: Summary of costs and benefits

Group affected	Item description	Benefits (£)		Costs (£)	
		One off	Ongoing	One off	Ongoing
MMF managers	Direct			Familiarisation and gap analysis -£354,000 IT and governance changes - £860,000	KYC – £120,000 per annum
MMF investors	Direct		Improved MMF resilience, e.g. more liquidity available in time of stress – not quantified		Lower yield from higher liquidity – estimated at less than £12m annually across the UK MMFs which have £27 billion AuM (under ten basis points annually)
Other market participants and the wider economy	Indirect		Reduction in risks to financial stability – Not quantified		

44. We note that the 10-year net present values of the direct cost of our proposals is between £16.9-99.8m (Equivalent Annual Net Cost to Business £1.9-11.5m per year).

Benefits

45. In this section we set out our description of the benefits of our proposals. We do not think it is reasonably practicable to estimate the benefits of our proposals. This is because the benefits of our changes will be dependent on the frequency and size of stress events that affect money markets and investors in MMFs. We do not think it is possible to predict these events. Even if we could predict these events, it is challenging to predict how markets will be affected by our proposals and therefore to estimate benefits. For example, we do not think it is reasonably practicable or useful to try and estimate in money terms the benefits to both investors in UK MMFs (who are almost all UK persons) and to broader UK financial stability of UK MMFs not having to suspend in a stress, and of avoiding MMF-related contributions to a wider financial crisis. Nor is it possible to estimate the benefit to society of reduced moral hazard and reduced probability of extraordinary central bank interventions.

Benefits to investors of MMFs and to financial stability

46. **Higher liquidity buffers:** Given the way MMFs operate, significantly raising MMF minimum liquidity buffers means MMFs would be better able to meet redemption demands in severe but plausible stresses. Overall, investors should have more confidence that their MMF units can be redeemed - including with a large amount of stability in the NAV per unit - even in a stress event. MMF investors could then have greater confidence in their own ability to meet upcoming liabilities and in avoiding capital losses. MMFs should also be less vulnerable to perceptions on the part of investors of there being a first-mover advantage on making redemptions. This should make it less likely that an MMF faces escalating and self-reinforcing redemption demands. This could lead to lower peak redemption demands in a stress, and also a lower likelihood of the MMF running out of liquidity with which to meet redemptions.

47. Investors in MMFs benefit from the proposals as they will avoid the costs that arise when an MMF runs out of liquidity and becomes unable to meet redemptions, or can still do so only at the price of potentially significant capital losses resulting from fire sales of assets. The benefits arise from investors being able to withdraw funds with a high degree of NAV per unit stability to meet liabilities as and when required in stress events and therefore avoid the costs that arise from being unable to meet liabilities. This also provides benefits to those owed money by MMF investors. There are benefits to the wider economy from MMF investors being able to withdraw funds and therefore meet their liabilities.

48. It is highly likely that in the future some investors will still need to quickly raise liquidity in stresses, including from MMF units they hold. The evidence we present on the effectiveness of higher liquidity buffers is the Bank modelling cited in the CP (chapter 3), based on an ability to withstand maximum outflows in previous stresses over a certain time period. Note that our proposals here significantly reduce the chances of a MMF running out of liquidity. Therefore they reduce the related first mover advantage – they do not remove it.

49. In choosing to consult on 15% DLA and 50% WLA we are balancing costs and benefits. The Bank modelling in the CP helps show the benefits, as does discussion in the CP of the market impact, should these or similar changes be rolled out more widely to the EU MMFs too. The cost analysis below looks at the yield impact and therefore costs to MMF investors of forcing MMFs to hold more liquid assets.

50. We consider that there are enough WLA/DLA assets to be bought/invested in by MMFs to allow for these higher buffers for UK MMFs (and indeed that there would be enough such assets if these increases were scaled to, for example, all sterling MMFs).

51. Our **optimised VNAV WLA derogation proposals** should make VNAV funds more resilient, as their WLA will be more likely to deliver usable liquidity within five days. That is because the proportion of assets permitted to be in WLA that mature in more than five days (up to limits) will be those more likely to remain liquid in a stress – high quality public sector debt only. Assets less likely to remain liquid in a stress will no longer be permitted in WLA. This will benefit MMF investors in the same way as for higher liquidity buffers in general.

52. **Enhanced KYC proposals:** Our proposals may result in a manager deciding that it must hold liquidity even above the new minimums where this would have not been the case under the existing MMFR KYC requirements. This additional liquidity would help where there is a risk of higher outflows because of the type of investors in a fund including investors that may redeem at the same time in a correlated manner. Hence, any such increases would only be required where there are material benefits to investors from more liquidity as they will be able to withdraw funds in stress events, even though a significant proportion of other investors may also withdraw funds. Our KYC proposals may also lead to the manager taking other action to increase the robustness of the MMF, including in ways specific to stable NAV MMFs where applicable, with other benefits to users in MMF resilience terms.

53. **Enhanced Stable NAV MMF stress tests:** Our proposals may result in a manager deciding that it must hold liquidity even above the new minimums where this would have not been the case under the existing MMFR stress tests. This would ensure that MMFs hold additional liquid assets where there are greater risks to the fund. Consequently, this higher liquidity can be deployed to ensure investors can withdraw funds and avoid the costs of being unable meet liabilities. These proposals may also lead to the manager taking other action to increase the robustness of the MMF in ways specific to stable NAV MMFs, with benefits to users in resilience terms. These may include actions that lead to a reduced probability of LVNAV collar breach. A breach on the downside affects investors who redeem after the breach but before the fund recovers its NAV position. Avoiding a breach means investors avoid capital losses and other problems such as possible loss of access to intra-day settlement of redemptions, and potential contagion as above.

54. **Stable NAV MMF delinking:** this should make liquidity buffers for the relevant MMFs (stable NAV MMFs) even more usable in practice. This policy change should remove the additional first-mover advantage and potential for additional redemptions that is currently left in place even after our intervention in FG22/3. The effect of this change is to reduce the perceived incentive for investors to withdraw when a fund nears the liquidity threshold, when the MMF still has a lot of liquidity. This makes liquidity buffers more useable and could prevent an escalating spiral of redemptions, and therefore prevents the associated costs from MMFs running out of liquid assets during stress periods.

55. **Stable NAV MMF operational resilience:** Market participants will benefit from a reduced probability of, for example, an LVNAV MMF having to suspend dealing simply because it was not operationally prepared to switch to deliver dealing at the MMF's floating NAV per unit. The benefits of avoiding suspension are above. There is a further benefit in reducing the chances of any such unnecessary suspensions sparking contagion and further redemptions from other MMFs.

56. Our proposals for LVNAV fund managers to be required to also warn investors about the consequences of a switch to dealing at the floating NAV per unit, including the impact on intra-day settlement if applicable, should help investors be better prepared. This may help them avoid unexpected consequences and costs, and give them an opportunity to consider whether a LVNAV MMF is the right vehicle for them.

57. Our proposals for stable NAV fund managers to communicate to investors in the event of a switch to dealing at the floating NAV per unit (or also a PDCNAV fund dealing at a changed constant NAV) can also help investors best understand and deal with the situation and make informed choices about their next steps such as whether they wish to make new redemption requests. This information might give them the confidence not to make further redemptions in some cases, and may lead to a reduction in harm to their interests and that of other investors in the MMF.

58. Proposals for stable NAV managers to inform the depository, their own board and the FCA when certain scenarios occur gives the relevant parties an opportunity to take action to try to minimise harms that may follow.

59. All of these benefits also promote financial stability. Problems caused by the suspension of one or more UK MMFs could, if occurring at scale, cause problems for a large enough number of UK MMF users (who are almost all UK based) so as to lead to an overall threat to UK financial stability. Measures that make UK MMF suspension or capital losses less likely, and escalating and self-reinforcing redemption demands less likely, all support UK financial stability. Finally, MMFs that run out of liquidity are likely to stop lending in money markets or sell assets in the money markets. This will reduce the ability of money market participants to borrow short-term, causing harm to these participants through excess borrowing costs or inability to raise finance.

60. The broader financial stability benefits of our proposals include a reduced probability of extraordinary central bank interventions and reduced moral hazard. These benefits cannot be easily quantified but could be substantial over time. Our proposals should also reduce the probability of MMF problems contributing to, or even sparking, a wider financial crisis. Financial crises cause major costs for society.

Costs

61. In this section, we set out the costs of our proposals. We first assess the costs on MMF operators (managers). We then assess the costs on MMF investors.

Costs to MMF operators (managers)

62. There would be one-off costs to implement these proposals. These include costs around familiarisation and associated with changing systems and internal governance processes, updating legal documents, likely including the MMF prospectus, and contacting investors. Although, as above, not all of our proposals apply to all MMFs and their managers, the main ones - **higher liquidity buffers** and **enhanced KYC proposals** - do. We assume that the incremental additional one-off costs of the relevant managers taking into account most of our **optimised VNAV WLA derogation** and **delinking** proposals, on top of those set out above, would be immaterial. But we think that in the case of **Stable NAV MMF operational resilience** there would be material incremental one-off costs.

Familiarisation and legal analysis costs – all proposals

63. There will be one-off familiarisation costs for MMF managers firms subject to our proposals. Firms will also need to familiarise themselves with how previous EU MMFR rules have moved to our Handbook (and as applicable, changed), with for example possible updates in systems to reflect new Money Market Fund Sourcebook (MMFS) references, etc. In total, we assume that all 15 UK-domiciled MMF firms impacted by our proposed changes will incur costs understanding our proposals.

64. We use our Standardised Cost Model (SCM) to estimate the familiarisation costs for market participants based on assumptions on the time required to read the approximately 60 relevant pages in this Consultation Paper. We use the length of the Consultation Paper as an indication of the complexity of the proposals and the amount of time it would take someone with a firm to understand the proposals. We assume 300 words per page and a reading speed of 100 words per minute and estimate that it would take around 4 hours to read the document. It is further assumed that 20 staff at each firm will read the text. We convert this to a monetary value by applying an estimate of the cost of time to market participants, based on Willis Towers Watson 2022 salary data, including 30% overheads at a cost of £63 per hour.

65. We use our SCM to estimate salary costs. We use an average of the compliance function, although not all relevant staff (portfolio managers, senior staff) would come from this function.

66. Following familiarisation, we expect firms to conduct a legal review of the proposals and a gap analysis to check their current practices against expectations. We assume that firms use in-house counsel to understand these changes, rather than employing external legal advice. We estimate the legal costs for market participants based on assumptions on the time required to read the approximately 120 pages in the legal instrument. We assume that in house legal advice costs £74 per hour, again based on Willis Towers Watson 2022 salary data.

67. We estimate one-off familiarisation and legal analysis costs of £23,600 per MMF manager firm. In total, the costs of one-off familiarisation and legal analysis costs are £350,000 for the MMF managers.

Systems, governance processes, and IT costs – all proposals

68. MMF managers will need to change their systems and processes to comply with the package of measures that we are proposing. To estimate these costs, we have used our SCM again. Given the scope of changes we are proposing for MMFs here, we expect that firms will incur IT costs and governance costs to implement our proposals.

69. To estimate the IT costs, we assume that each MMF manager will need to undertake an IT project that will use 46 days of a project team's time at an average cost of £421 per day. This results in a cost of £19,000 per MMF manager and £290,000 overall for the 15 MMF managers.

70. We also expect that given the scope and potential impact on funds of our proposals, MMF managers will incur governance costs as they decide how they will implement and adjust their funds in light of our proposals. We also expect authorised fund managers of MMFs to need to adjust their fund documentation, likely including each fund's constituting instrument, prospectus and Key Investor Information Document (KIID) as a consequence of our proposals.

71. To estimate these costs, we assume that MMF managers use 86 days of staff time (including executive and board oversight) at average daily cost of £444. We therefore estimate costs of £38,000 per MMF manager and £570,000 overall for the 15 MMF managers.

72. On contacting investors, we assume no extra costs as we think this can be done in the normal round of communications with investors, given that there will be an implementation period for these proposals, once any final rules are made.

Higher liquidity buffers

73. By requiring MMFs to hold a higher proportion of liquid assets, MMFs will need to turn over their portfolio more frequently. This will increase costs for the MMF manager as they need to implement these additional transactions on an on-going basis. This will involve more staff time and trading time. However, we think these costs would be immaterial because we consider that the additional time required to undertake these additional transactions will not be material. We particularly welcome views on whether respondents agree with this or not.

Stable NAV MMF delinking, enhanced Stable NAV MMF stress tests and operational resilience

74. The one-off costs to MMF managers of Stable NAV MMF delinking, enhanced Stable NAV MMF stress tests and operational resilience proposals are captured in our estimates above. Here we consider the additional ongoing costs to firms of these specific proposals. We do not expect significant ongoing costs for these proposals because:

- Stable NAV MMF delinking - The change merely removes the requirement to consider using LMTs when crossing the WLA threshold and net daily redemptions on a single working day exceed 10% of total assets.
- Enhanced Stable NAV MMF stress tests – we note that managers are already required to undertake detailed stress tests and we consider that the ongoing costs of this enhanced requirement will be of minimal significance, especially as there will be some crossover to work carried out under our new KYC requirements.
- Operational resilience - We do not think there are additional ongoing costs for communication to investors (and readiness to communicate to investors) as we are adding to existing required pre-contractual disclosures, and for our other proposals we assume MMF managers would need to communicate with investors during an event in which the fund no longer deals at the constant NAV per unit (or a PDCNAV fund's constant NAV per unit changes) anyway.

Enhanced KYC proposals

75. Currently, there is a requirement in MMFR to 'know your customer'. Our proposals extend the requirements for MMF managers to consider wider investor concentration issues and the risks of correlated investor withdrawals. There will therefore be some ongoing extra KYC work that managers will need to carry out, focused on the broader factors they must consider under our proposals - such as whether a significant amount of the units in the MMF are held by investors who may redeem at once in reaction to specific events, etc.

76. We again assume that any additional one-off costs to MMF managers from implementing systems to monitor investor concentration and the likelihood of investor withdrawals are captured in the one-off costs above.

77. We do expect on-going costs from MMF managers monitoring and responding to MMF concentration and correlation of investors. We assume that each MMF manager incurs 20 person days, proportionally distributed among teams at a daily cost of £406. It is estimated that each MMF manager would have an on-going cost of £8,100 and the industry-wide cost for the 155 MMF managers would be £120,000.

78. We note that many MMF managers are likely to already be monitoring investor concentration and correlation in investor withdrawals. Hence, we expect that our cost estimates may be an overestimate of the actual costs imposed as a result of this proposal.

Costs to MMF investors

Higher liquidity buffers

79. The resulting change in the composition of MMFs' assets will impact investors in MMFs in two different ways on an ongoing basis.

80. Firstly, it could reduce the yield MMF investors earn. UK MMFs which must increase their holding of DLA- and WLA-compliant assets to meet the 15% and 50% minimum levels will have to divert more capital away from longer dated assets like CP or CD to assets such as overnight reverse repo. Longer-dated assets generally command a higher rate of return than shorter-dated assets. As such, this change can cause a reduction in the return an MMF investment provides. While it is not practicable to estimate the effect of this for each fund, one respondent to the Discussion Paper (DP22/1) estimated that a 10-percentage point increase in WLA would decrease yield by 2-3bps annually, and we do not think that this has changed materially since responses to DP22/1 closed in July 2022. So, for example, a fund raising its WLA by 20 percentage points might see a yield reduction of around 6 basis points annually due to this reason alone.

81. For the purposes of this analysis, we assume that the WLA is made up of assets that mature in 5 days or less (i.e., we ignore the availability of WLA derogations).

82. Using supervisory data reported to us by the funds, 14 of the 17 MMFs (all 3 LVNAV funds and 11 VNAV funds) would have had WLA below the 50% minimum threshold we are proposing, at end Q2 2023. Overall, £3.4bn of assets would have needed replacing with WLA-compliant assets. At the fund level, the largest proportional shortfall of WLA-compliant asset holdings represented at most 29.9% of a (VNAV) fund's assets.

83. We cannot say for certain which assets funds would divert their capital away from and in to, when making up for this combined £3.4bn shortfall. However, for illustrative purposes we estimate a collective loss of return on these assets. To calculate this, we assume this £3.4bn deficit is moved from assets yielding (as a proxy) the 3-month SONIA rate, as implied by Overnight Index Swaps, to the 1-week implied SONIA rate. At the end of Q2 2023, these annualised rates were 5.2745 and 4.9294, respectively (data from Bloomberg). The spread of 34.51 basis points (bps) implies a total loss of return on £3.4bn of approximately £11.7mn on an annualised basis. We note, however, that this number is highly dependent on prevailing market conditions and the difference between 1-week and 3-month rates at this time was somewhat elevated, due in large part to market expectations of a rise in short term interest rates. At the time of writing in early November – when expectations are for interest rates to be at, or very close to, peaks – the same calculation would give a much lower estimate for the implied loss of returns in the industry. The spread between 1-week and 3-month rates is closer to 5 bps, which would imply a total annualised loss of returns to MMF investors of around £1.7mn.

84. In addition to this, we note that 1 of the 17 MMFs would have had DLA below the 15% minimum threshold that we are proposing, at the end of Q2 2023. The proportional shortfall of DLA compliant asset holdings represented only 2.9% of this fund's assets. We note that this fund would also need to make a (proportionally larger) change to meet the proposed WLA requirement, and that in any case funds may choose to meet their WLA requirements by buying assets that are also eligible in DLA calculations. As such, when considering these costs, we do not make a distinction between lower returns and transaction costs incurred when dealing in daily assets as compared to weekly assets.

85. However, as outlined above, we expect the potential loss of returns that may result from higher minimum DLA and WLA to depend on financial market conditions. As such, even those UK MMFs which may be above 15% and 50% DLA and WLA levels presently, and therefore do not need to change their asset allocation, could see lower returns in future. During a period of falling or lower interest rates, MMFs may prefer to hold longer-dated assets like CP which lock in relatively higher rates than shorter term instruments. Higher minimum buffers limit MMF managers' ability to commit funds to the longer-dated assets which could offer higher returns.

86. By requiring MMFs to hold a higher proportion of liquid assets, MMFs will need to turn over their portfolio more frequently. That would also lead to lower returns for investors in MMFs as managers undertake more transactions, the costs of which are borne by the fund. It is not possible to quantify this, but we do not expect it to be more than a few basis points loss in yield annually.

87. Secondly, increasing the minimum DLA and WLA for funds could reduce the range of product offerings MMF managers might offer to clients. Our changes may result in MMFs' portfolios becoming more similar. This reduces the choice investors in MMFs have, potentially leading to sub-optimal portfolio allocations. We do not think it is reasonably practicable to calculate this potential effect for the same reasons we have not estimated the benefits.

Optimised VNAV WLA derogation proposals

88. Our optimised VNAV WLA derogation proposals may cause a minor further change in the make-up of VNAV MMFs' WLA and therefore overall portfolios. The incremental impact of this beyond that of the higher buffers, in terms of costs to MMFs and their investors, is not reasonably practicable to estimate. This is because it is incremental to the changes to the liquidity buffers that will have the more material effect.

Stable NAV MMF delinking, enhanced Stable NAV MMF stress tests and operational resilience

89. We do not expect that our Stable NAV MMF delinking, enhanced stress tests and operational resilience proposals will impose additional cost on investors in the relevant MMFs.

Enhanced KYC proposals

90. Our **enhanced KYC proposals** may at times results in a manager deciding that it must hold liquidity even above the new minimums where this would have not been the case under the existing MMFR KYC requirements. This would have the same benefits and costs set out above, as MMFs will hold more liquidity only where it is required to meet large withdrawals in times of stress. Consequently, the costs of holding any additional liquidity will be proportionate to the benefits arising from having more liquidity to meet outflows in stress periods. The KYC proposals may also at times result in a manager requiring one or more MMF investors to reduce the size of their holding in the MMF. This may impose costs for those MMF investors affected as they will need to find other providers with which to place their short term liquidity and this may be at the cost of lower yield, higher fees or reduced diversification. However, these investors would benefit from the reduced risk of not being able to access funds in stress periods. The overall cost to investors is expected to be of minimal significance.

MMF depositories and platform - All proposals

91. MMF depositories and platforms on which MMFs are available may incur some one-off costs in relation to these proposals. We do not think these would be of more than minimal significance.

Rejected alternative options

92. We have rejected policy options that would fundamentally change the current model of MMF operation, and in so doing remove features that give MMFs their key utility to users - in the absence of scalable non-MMF alternatives for cash management products. Such MMF features are high levels of liquidity availability and stability in the NAV per unit that the fund deals at, in both normal and stress periods.

93. The main alternative option rejected because of this is a fundamental change to the way that MMFs pass on the costs of liquidity, in an attempt to remove the current first mover advantage in MMFs (see CP chapter 4).

94. We are also not removing or changing stable NAV operation for LVNAV MMFs (the only stable NAV MMFs able to operate at scale), nor making any changes to PD CNAV MMFs' stable NAV operation. Removing stable NAV operation would severely reduce some important features of user utility that the relevant MMFs offer and would be disproportionate to the additional risks that stable NAVs pose in comparison to the risk associated with VNAVs. Such features offered include even higher levels of unit price stability (via constant NAV per unit dealing) and liquidity availability (including intraday settlement), and in many cases 'cash equivalent' status from auditors. Important classes of MMF investors would struggle to use MMFs for their cash management needs if a stable NAV option was not widely available. See chapter 5.

Costs and benefits - all other proposals

95. We are making many other smaller policy changes in our draft instrument. We believe all of these have benefits and immaterial costs:

- Passing on the cost of liquidity – our LMT availability proposals;
- Reverse repurchase agreements that can be terminated by giving prior notice of no more than 5 days - our proposal that MMFs be allowed to invest in these; and
- Other minor changes made as part of the SRF process.

96. In the case of the LMT proposals (chapter 4) we note that our rules changes simply reinforce or hardwire the availability of LMTs that are largely already in place for UK MMFs. Almost all UK MMFs already have the ability to suspend the fund if needed, or to deploy additional LMTs that can be used when the fund is still open for dealing. We do not envisage these new rules changing current industry practice. As such we do not think these proposals will cause material costs to UK MMF managers.

Competitiveness and growth

97. We have considered how we advance our Secondary International Competitiveness Growth Objective (SICGO). To inform this assessment we consider our 7 drivers of productivity. The drivers are operational efficiency, proportionate regulation, trust and reputation, innovation, effective competition, market stability and international markets. Not all these drivers are relevant for our proposals, but we discuss the ones that are relevant here.

98. The key objective of our proposals is the market stability and by extension financial stability of the UK financial system. While our proposals may depress MMF yields to some extent and therefore possibly reduce the incentive to invest in UK-domiciled MMFs, these measures will increase market stability in stress periods. Avoiding market instability and reducing the effect of stress periods on UK financial markets is conducive to longer term growth. They will also increase reliability to end-users, as users can have greater confidence that the cash they hold in MMFs is readily accessible even in times of stress, while also retaining the high degree of NAV per unit stability that is normal for MMFs.

99. Our proposals will also build trust and the reputation of UK financial markets as investors can have confidence in the resilience of UK domiciled funds and their ability to meet redemption requests.

100. The SRF process of transforming the retained UK MMFR into simpler, clearer FCA rules aligns with the SICGO. Also, that process contributes to the SICGO by eliminating requirements not relevant to the UK market which would make this market more proportionate regulation.

101. International markets: our proposals reflect the UK's support of the FSB's ongoing work to address MMF vulnerabilities. International work in this space continues.

Monitoring and evaluation

102. **Monitoring:** We will monitor firms' compliance with the new rules.

103. **Evaluation:** If we implement these proposals, a key measure of success will be the strengthening of the resilience of the UK MMF sector – in business-as-usual circumstances and in times of stress – which will be evidenced by the funds being able to meet the liquidity demands of their investors (with a high degree of NAV per unit stability) during periods of market stress without the need for extraordinary central bank intervention.

104. We believe the strengthened resilience of UK MMFs will provide greater confidence to investors over their use for short term cash management and to raise cash to meet margin calls. A further measure of success will be maintenance and of, and possibly growth in, investment in UK MMFs.

Q30: Do you have any comments on our cost benefit analysis?

Annex 2

Questions in the text

Q1: What, if anything, do you consider to be unintended consequences of this intervention?

Q2: Do you agree with our proposal to 'delink' stable NAV MMFs' liquidity buffers? Please give your reasons.

Q3: Do you agree that we should revoke FG22/3, but retain its guidance on managers returning the fund to the relevant regulatory minimums as Handbook guidance in MMFS?

Q4: Do you have any overall comments on our policy position on other options to increase the usability of MMF liquidity resources?

Q5: Do you agree with the proposed increases in minimum daily and weekly liquidity to 15% and 50% of assets respectively for all UK MMF types? Please explain your reasoning.

Q6: Do you agree with our assessment of the market impact? Are there other factors we should consider?

Q7: Do you agree with the resulting balance between daily and weekly liquidity requirements? How does the balance between these elements impact resilience?

Q8: Do you agree that the stable NAV MMF WLA derogation (to include highly liquid government debt as WLA up to a limit of 17.5 % of total assets) should be extended to VNAVs? Please give reasons for your answer. Do you have views on what public sector debt should be permitted in this derogation?

Q9: Do you agree that the WLA derogation allowing VNAV MMFs to include money market instruments or units of other MMFs within their WLA up to a limit of 7.5 % of total assets should be removed?

Q10: Do you agree with our proposed rules changes to strengthen and broaden the existing MMFR KYC requirements for managers of all MMFs?

Q11: What do you see as the advantages and disadvantages of a commercial borrowing facility for MMF liquidity during a stress? How likely would you be to use such a facility?

Q12: **Do you have any comments on our overall policy approach to the issue of passing on the costs of liquidity to redeeming MMF investors?**

Q13: **Do you agree with our proposed rules on requirements for liquidity management procedures and tools for UK MMFs?**

Q14: **Do you agree with our proposed rules on the enhancing stress testing for stable NAV MMFs?**

Q15: **Do you agree with our proposed rules on the enhancing operational resilience for stable NAV MMFs?**

Q16: **Do you have any comments on our overall policy approach to stable NAV operation in the UK MMF regime?**

Q17: **In your view, what are the advantages and disadvantages of investors posting and accepting MMF units as collateral for non-centrally cleared derivatives?**

Q18: **What specific barriers are there, if any, to posting and accepting MMF units as collateral for non-centrally cleared derivatives?**

Q19: **What do you see as the advantages and disadvantages of tokenisation in overcoming the operational barriers for use of MMF units as collateral?**

Q20: **How could MMF tokenisation in general interact with the proposals to increase MMF resilience?**

Q21: **Do you have any comments on the proposed drafting in MMFS? In light of the explanations given in Appendix 1, are there are any areas where you consider we may have inadvertently changed the policy?**

Q22: **Do you have any feedback on our proposed drafting of MMFS with regard to the definition of 'commodities'?**

Q23: **Do you agree that the Handbook should revert to original intention of EU MMFR Article 10?**

Q24: **Do you agree that these modifications do not make a material change to MMF rules?**

Q25: **Do you agree that MMFs depositing cash with such public bodies should be regularised with explicit text in regulation?**

Q26: **Do you agree that UK MMFs should be able to enter into reverse repurchase agreements that can be terminated by giving prior notice of no more than 5 days?**

Q27: Does the Handbook drafting setting out the requirements of UK MMFR Articles 17(7)(a)-(d) represent a material change from the UK MMFR?

Q28: Do you agree that these provisions are not relevant to the UK financial sector and can be deleted without affecting the operation of MMFs in the UK?

Q29: Do you agree with the overall approach to stress testing, reporting and supervisory requirements? Please set out the reasons for your answer.

Q30: Do you have any comments on our cost benefit analysis?

Annex 3

Compatibility Statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by HM Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation aim to advance the FCA's strategic objective of ensuring that markets function well. They are relevant to the FCA's operational objectives of market integrity and securing an appropriate degree of protection for consumers.

8. Our changes aim to promote UK financial stability (as part of our market integrity objective) by addressing vulnerabilities in UK MMFs. Our proposals also aim to directly improve investor outcomes for users of UK MMFs, who are overwhelmingly UK based users.

9. For example, by increasing the available liquidity for all MMF types, as well as enhancing stress testing and operational resilience for stable NAV MMFs, our proposals will increase the financial stability of the MMF sector in normal times as well as in times of stress. As MMFs perform a vital cash management role for both financial institutions and the real economy as whole, this would thereby enhance the resilience of the larger UK economy. MMFs that are more resilient will also directly help secure an appropriate protection for consumers who invest in MMFs.

10. When discharging our general functions we must also, so far as reasonably possible, act in a way which, as a secondary objective, advances the competitiveness and growth objective. While our proposals may depress MMF yields to some extent and therefore possibly reduce the incentive to invest in UK-domiciled MMFs, these measures will increase market stability in stress periods. Reducing the effect of stress periods on UK financial markets is conducive to longer term UK growth. Our proposals will increase the reliability of UK MMFs to end-users, as users can have greater confidence that the money they hold in MMFs will be accessible even in times of stress, while also retaining the high degree of NAV per unit stability user expect.

11. Our proposals reflect the UK's support of the FSB's ongoing work to address MMF vulnerabilities across jurisdictions. International work in this space continues.

12. In formulating our proposals we have had regard to the recommendations made by HMT in the 'remit letter' of 8 December 2022. Firstly, we have had regard to the Government's desire to swiftly implement the outcomes of the Smarter Regulatory Framework Review, in a planned and sequenced way, through enacting the repeal of retained EU law with rules designed for the UK. This CP is a core part of this process for the on-shored UK MMFR. Those MMF rules being transferred to the FCA Handbook will also be found in one place, to help with transparency and usability. The contribution of these proposals to the government's commitment to ensuring that the UK is attractive to internationally active financial services firms and activity is set out above in relation to the secondary competitiveness and growth objective.

13. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s 3B FSMA.

The need to use our resources in the most efficient and economic way

14. The proposals set out in this consultation are consistent with an efficient and economic use of our resource. Note that, as an example of this, we have proposed changes to the on-shored UK MMFR to remove some existing unduly burdensome detailed requirements on firms, including where such requirements are for firms to send the FCA information that we do not need.

Our proposals are concerned with the principle that a burden or restriction should be proportionate to the benefits

15. As set out in the cost benefit analysis we are satisfied that the likely benefits of these proposals outweigh and justify the likely costs.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

16. We have had regard to this principle. We set out above, in relation to the secondary competitiveness and growth objective, why we think our proposals promote this.

The general principle that consumers should take responsibility for their decisions

17. The proposals do not depart from the general principle that investors take responsibilities for their decisions. This principle is already embedded in the substantive content of parts of UK MMFR (such as on warnings that must be given to investors, including that MMF units are not guaranteed investments), and we are retaining and in some areas proposing to build on this approach.

The responsibilities of senior management

18. It will be the responsibility of relevant Senior Managers (for example, in MMF managers) to ensure that their firms comply with the rules changes that we are proposing, if made. Senior Managers must have regard to their responsibilities under the Senior Managers and Certification Regime.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation.

19. We do not consider that our proposals are inconsistent with this principle.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

20. We have had regard to this principle and do not believe that our proposals undermine it. Our proposals contain no material changes on this. The CP explains why we have, for example, not proposed new obligatory public reporting by MMF managers on the investor concentration in their funds. We have left existing MMFR requirements for MMF managers to publish certain fund information materially unchanged.

The principle that we should exercise of our functions as transparently as possible

21. Our consultation processes are intended to ensure that we are transparent about the thinking behind our proposals and clearly explain what we expect to achieve. We believe that this consultation does this. We have spoken to a wide range of market participants and stakeholders in developing these proposals and this CP also feeds back on the input we obtained from stakeholders in relation to the MMF resilience Discussion Paper (DP22/1) that has helped inform these proposals.

22. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA). Proposed new Handbook guidance for MMFs in MMFS (which replaces the previous UK MMFR reference to these matters) reminds firms of their need to comply with the requirements of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

Expected effect on mutual societies

23. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

Compatibility with the duty to promote effective competition in the interests of consumers

24. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. We do not think that our proposals will materially harm competition within the UK MMF industry. We note in the CBA that increasing the minimum DLA and WLA for funds could reduce the range of product offerings MMF managers might offer to clients or result in MMFs' portfolios becoming more similar. If this happened it would reduce the choice investors have in UK MMFs, although we do not think this effect, even if it occurred, would have a significant impact on overall competition in this market. We also note the increased costs for UK MMF managers of these proposals. Some could exit the market as a result, although we think this unlikely. Even if some managers exited, we don't think there would be a significant impact on overall competition in this market, which currently has 15 managers despite its relatively small size overall.

Equality and diversity

25. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

26. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in Chapter 2 of the Consultation Paper.

Legislative and Regulatory Reform Act 2006 (LRRA)

27. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance. We believe that they are proportionate and promote our statutory objectives of consumer protection and market integrity and our strategic objective to ensure that markets function well, without creating undue burdens on the UK MMF industry, nor adversely impacting competition.

28. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider the proposals are proportionate to the potential harm to consumers or risks to our statutory objectives identified.

Annex 4

Bank of England modelling – liquid asset levels and MMF resilience

1. This annex provides more detail on Bank of England staff modelling referred to in chapter 3, which assesses the resilience of MMFs with different levels of weekly liquid assets (WLA). The results suggested that total WLA levels in the region of 50-60% would give a suitably high level of assurance around financial stability, in the event of MMFs facing severe but plausible stresses.

2. The model was based on monthly sterling MMF portfolios since early 2020 and comparisons to observed outflows in stressed periods.

3. The model estimated the maximum average daily redemption that MMFs could withstand over different periods before their daily liquid assets (DLA) dropped below 10%. This level of DLA was judged to be the level at which funds would be more likely to consider applying liquidity management tools or suspending the fund.

4. The modelling took a prudent approach and did not assume MMFs sell any assets to meet redemptions, including public debt with a maturity greater than one week that can be counted as WLA. Although we understand some assets were sold during March 2020, generally MMFs reported difficulty in selling assets. Given the infrequency with which many MMF assets trade and the potential one-way flow in times of stress, we do not think widespread asset sales across the sector can be relied on during stressed periods.

5. For MMFs with the same starting level of WLA, differences in the maximum level of redemptions they could withstand were driven by variations in the starting level of DLA, the maturity profile of other assets over the stressed period, or the level of longer-dated WLA eligible public debt, which the model did not assume could be sold.

6. For varying levels of WLA, the least resilient funds were identified, i.e. the funds that could withstand the smallest maximum redemption for a given level of WLA. The least resilient funds were used given potential contagion risks. Specifically, this is the risk that the failure of a single fund could lead to wider concerns or confidence effects in the sector more widely. This could increase the stress on other MMFs and the risk of widespread fund suspensions, which could have a significant impact on financial stability.

7. The maximum level of redemptions was compared with the largest redemptions observed in sterling MMFs (including non-UK domiciled MMFs) during the dash for cash in March 2020 and the Liability-Driven Investment (LDI) stress in September 2022. The results were also compared with the largest outflows in EU domiciled MMFs denominated in other currencies, with the biggest flows occurring in US dollar denominated MMFs. Although some structural differences exist between these different MMF sectors and the wider markets they invest in, these flows can illustrate the potential stresses that MMFs may be subject to in different circumstances.

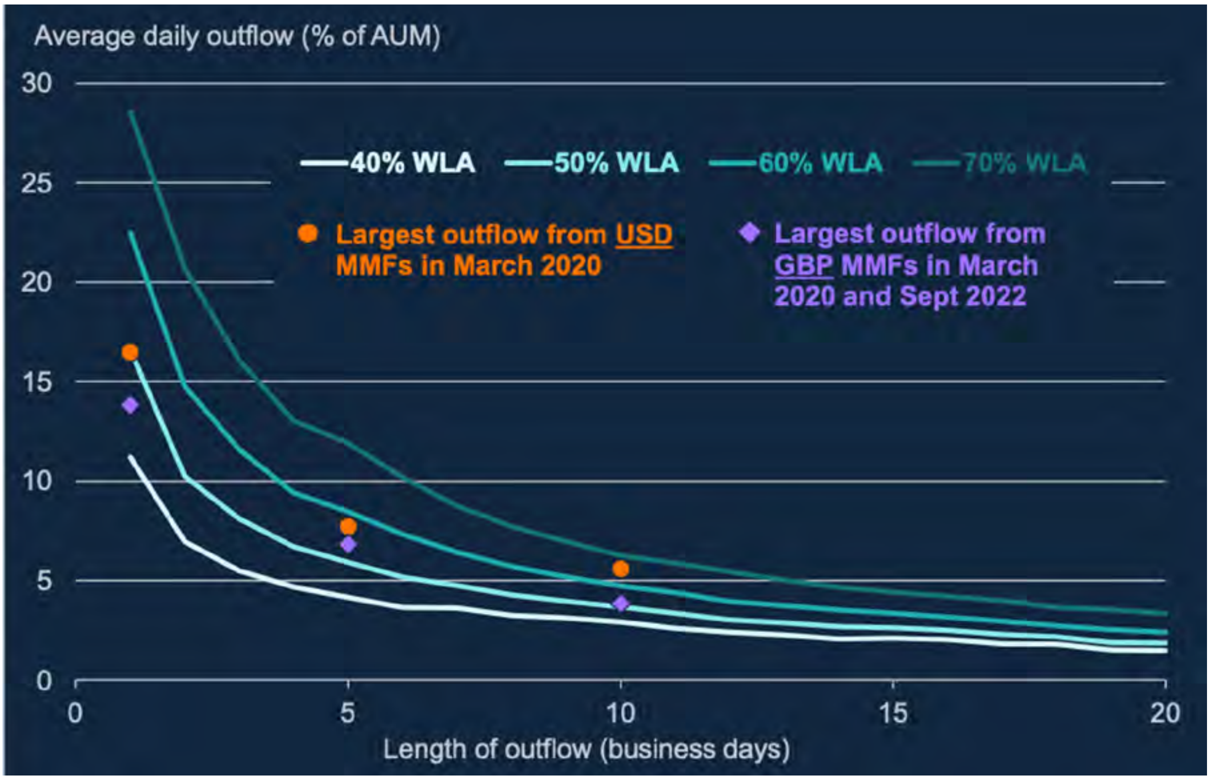
8. Much of the modelling focused on minimum WLA levels in order to look at the ability of MMFs to withstand stresses over extended periods, for example 1 week and 2 weeks, and to ensure a stream of maturing assets to replenish DLA.

9. The lines in the chart below show the average daily level of outflows MMF were resilient to (on the y-axis) over different time periods, ranging from 1 day to four weeks (plotted along the x-axis). These levels are shown in comparison with the largest outflows experienced by sterling and EU domiciled US dollar MMFs in March 2020 and September 2022, represented by circles and diamonds, respectively.

10. The results showed:

- Holding 40% WLA would be insufficient to provide resilience against the largest recent historical outflows in sterling without resorting to what could be fire sales of assets e.g. of short-term commercial paper or government debt.
- 50% WLA provides resilience to the largest recent sterling MMF flows, for almost all funds without asset sales. However, it would be insufficient to cover the largest outflows seen in EU domiciled US dollar denominated funds in the dash for cash without asset sales.
- With 60% WLA, asset sales would likely not be needed, when comparing against sterling MMF flows. 60% provides resilience against the largest weekly flows observed in EU domiciled USD funds over a week, but not a two-week period.
- 70% WLA comfortably provides resilience against the largest dash for cash outflows seen by UK and EU domiciled funds in any currency, without the need for asset sales, even if the outflows were more persistent.

Chart: Resilience given by varying levels of WLA, and the biggest recent historical outflows



Source: Crane Data, Bank of England modelling

Annex 5

Abbreviations in this document

Abbreviation	Description
ABCP	Asset-backed Commercial Paper
AIFMD	Alternative Investment Fund Managers Directive
AUM	Assets under Management
bps	Basis points
CBA	Cost Benefit Analysis
CD	Certificates of Deposit
CNAV	Constant Net Asset Value
COLL	Collective Investment Schemes sourcebook
CP	Commercial Paper or Consultation Paper, depending on context
DMO	Debt Management Office
DLA	Daily Liquid Assets
DP	Discussion Paper
ESG	Environmental, social and governance
ETF	Exchange Traded Fund
EU MMFR	EU Money Market Fund Regulation
FMSA	Financial Services and Markets Act 2000
FPC	Financial Policy Committee
FSB	Financial Stability Board
FSMA	Financial Services and Markets Act
FTSE	Financial Times Stock Exchange

Abbreviation	Description
HMT	His Majesty's Treasury
IOSCO	International Organisation of Securities Commissions
KYC	Know your customer
LDI	Liability-Driven Investment
LIBOR	London Inter-Bank Offered Rate
LMT	Liquidity Management Tool
LVNAV	Low Volatility Net Asset Value
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MMF	Money Market Funds
NAV	Net Asset Value
NBFIs	Non-bank financial institutions
OEF	Open-Ended Fund
OTC	Over-the-counter
PD CNAV	Public Debt Constant Net Asset Value
Repo	Repurchase agreement
REUL	Retained EU law
Reverse repo	Reverse repurchase agreement
SI	Statutory Instrument
SICGO	Secondary international competitiveness and growth objective
SMC	Standardised Cost Model
SONIA	Sterling Overnight Index Average
SRF	Smarter Regulatory Framework
STFM	Short-Term Funding Market

Abbreviation	Description
UCITS	Undertakings for the Collective Investment in Transferable Securities
UK MMFR	UK Money Market Fund Regulation
VNAV	Variable Net Asset Value
WLA	Weekly Liquid Assets

Annex 6

Key terms used in this document

Term	Definition
Counter-cyclical buffers	MMF minimum liquidity buffers that could be increased or decreased by the authorities in light of the authorities' views on market conditions.
Delinking	The removal of the regulatory link between liquidity levels in stable NAV MMFs and the need for the manager to consider or impose certain liquidity management tools.
Dilution	If investors leave an MMF with a valuation for their redeemed units that is too high, in that it does not reflect the true cost of liquidity, this disadvantages continuing or subscribing investors and dilutes their position.
First mover-advantage	The advantage given to investors in a fund who redeem early and are therefore more likely to receive their money back without delay or unanticipated noticeable losses.
Gating	Placing a limit on the amount an investor or investors can redeem from a fund in a certain time period.
Liquidity buffer	The level of liquid assets in a fund - both those maturing in the near future and certain highly liquid other assets. Generally used to pay redeeming MMF investors.
Liquidity fees	Liquidity fees are also known as anti-dilution levies and apply to individual transactions, rather than the NAV of the whole fund (as with swing pricing, see below).
Liquidity transformation	MMFs perform liquidity transformation as the redemption terms of their units (daily, or even intraday) are not matched by the liquidity of the assets they hold.
Stress testing	Assesses how resilient funds are to economic scenarios.
Swing pricing	This is also known as an anti-dilution adjustment, where the price of a single-priced fund is modified, either upwards in the case of a net inflow, or downwards in the case of a net outflow, to reflect the actual or estimated level of dilution (the swing factor).

Annex 7

Derivation and Changes Table

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
UK Money Market Funds Regulation (Regulation (EU) 2017/1131)			
Article 1 UK MMFR, first sentence (Subject matter and scope)	MMFS 1.1.1R	Application	Transferred to HMT SI and FCA Handbook with HSD changes.
Article 1(a) UK MMFR	Not transferred to FCA Handbook	Legal form of a UK MMF	See HMT SI. As explained in MMFS 1.2.1G and 1.2.2G, under the HMT SI, it will not be possible for a UK MMF to be authorised as an MMF if it is an unauthorised AIF i.e. only funds authorised under Part 17 FSMA or the OEIC Regulations can be authorised as MMFs by the FCA once HMT's SI comes into force. HMT's SI contains transitional provisions that apply to an existing [regulation [12]] MMFs.
Article 1(b) UK MMFR	New definition for 'money-market fund' in the Glossary of definitions	N/A	In the UK MMFR, this provision relies on the definition of 'short-term assets' (article 2(2)(a)). Transferred to FCA Handbook in definition of 'money market fund' in the Glossary. No policy change intended.

17 "HSD" means handbook style drafting. The term is used to denote instances where retained EU law has been transferred to the handbook with minor drafting changes that do not amount to a change in policy.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 1(b) UK MMFR	New definition for 'money-market fund' in the Glossary of definitions	N/A	In the UK MMFR, this provision relies on the definition of 'short-term assets' (article 2(2)(a)). Transferred to FCA Handbook in definition of 'money market fund' in the Glossary. No policy change intended.
Article 1(c) UK MMFR	New definition for 'money market fund' in the Glossary of definitions	N/A	Transferred to FCA Handbook. No policy change intended.
Article 2 UK MMFR (Definitions)			
Article 2(1) UK MMFR	New definition for 'money market fund' in Glossary of definitions	short-term assets	See also entry for article 1(b) above. No policy change intended.
Article 2(2) UK MMFR	Amendment to definition for 'money market instrument' in Glossary of definitions and MMFS 2.3.1R to 2.3.4R (Meaning of 'money market instrument')	Money market instruments	Transferred to FCA Handbook. The definition incorporates relevant provisions of the UCITS Directive and the UCITS Eligible Assets Directive. There are also some HSD changes. No policy change intended.
Article 2(3) UK MMFR	Amendment to definition for 'transferable security' in Glossary of definitions	transferable securities	Transferred to FCA Handbook with HSD changes. No policy change intended. See also the entry for article 2a(4), (5) and (6) below.
Article 2(4) UK MMFR	New definition for 'repurchase agreement' in Glossary of definitions	repurchase agreement	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(5) UK MMFR	New definition for 'reverse repurchase agreement' in Glossary of definitions	reverse repurchase agreement	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 2(6) UK MMFR	MMFS 2.2.4R(2) and (3) (Eligible assets)	securities lending and securities borrowing	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(7) UK MMFR	Amendment to definition for 'securitisation' in Glossary of definitions	securitisation	Transferred to FCA Handbook with HSD changes (definition of 'securitisation'). This refers to the definition in HMT's draft Securitisation Regulations. No policy change intended.
Article 2(8) UK MMFR	New definition for 'mark-to-market' in Glossary of definitions	mark-to-market	Transferred to FCA Handbook with no changes. No policy change intended.
Article 2(9) UK MMFR	New definition for 'mark-to-model' in Glossary of definitions	mark-to-model	Transferred to FCA Handbook with no changes. No policy change intended.
Article 2(10) UK MMFR	New definition for 'amortised cost method' in Glossary of definitions	amortised cost method	Transferred to FCA Handbook with no changes. No policy change intended.
Article 2(11) UK MMFR	New definition for 'public debt CNAV MMF' and 'public debt constant NAV MMF' in Glossary of definitions; also MMFS 1.2.7R (Meaning of 'public debt constant NAV MMF')	public debt constant net asset value MMF / public debt CNAV MMF	Transferred to HMT SI and FCA Handbook with HSD drafting. No policy change intended. As explained in the CP, some changes to the applicable requirements for public debt CNAV MMFs are being proposed.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 2(12) UK MMFR	New definition for 'LVNAV MMF' and 'low volatility NAV MMF' in Glossary of definitions; also MMFS 1.2.5R (Meaning of 'low volatility VAV MMF')	low volatility net asset value MMF / LVNAV MMF	Transferred to HMT SI and FCA Handbook with HSD drafting. No policy change intended. As explained in the CP, some changes to the applicable requirements for low volatility NAV MMFs are being proposed.
Article 2(13) UK MMFR	New definition for 'variable NAV MMF' and 'VNAV MMF' in Glossary of definitions; also MMFS 1.2.4R (Meaning of 'variable NAV MMF')	variable net asset value MMF or VNAV MMF	Transferred to HMT SI and FCA Handbook with HSD drafting. No policy change intended. As explained in the CP, some changes to the applicable requirements for VNAV MMFs are being proposed.
Article 2(14) UK MMFR	Amendment to definition for 'short-term MMF' in Glossary of definitions	short-term MMF	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(15) UK MMFR	New definition for 'standard MMF' in Glossary of definitions	standard MMF	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(16) UK MMFR	Existing definition for 'credit institution' in Glossary of definitions	credit institution	No transfer necessary as relying on existing FCA Handbook definition for 'credit institution'. No policy change intended.
Article 2(17) UK MMFR	Amendments to definition for 'competent authority' in Glossary of definitions	competent authority of the MMF	The reference to 'competent authority of the MMF' has not been transferred to the Handbook at this insofar as it relates to non-EEA AIFs (art. 2(17(c)) as this is not relevant at the current time. Art. 2(17)(a) and (b) have been transferred to the FCA Handbook. No policy change intended for these limbs of the definition.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 2(18) UK MMFR	New definition for 'legal maturity' in Glossary of definitions	legal maturity	Transferred to FCA Handbook with no changes. No policy change intended.
Article 2(19) UK MMFR	New definitions for 'weighted average maturity' and 'WAM' in Glossary of definitions	weighted average maturity/ WAM	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(20) UK MMFR	New definitions for 'weighted average life' and 'WAL' in Glossary of definitions	weighted average life/ WAL	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(21) UK MMFR	New definition for 'residual maturity' in Glossary of definitions	residual maturity	Transferred to Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(22) UK MMFR	Definition for 'short sell' in MMFS 2.2.4R(1)	short sale	Transferred to FCA Handbook in relation to the relevant rule with HSD changes. No policy change intended.
Article 2(23) UK MMFR	New definition for 'MMF manager' in Glossary of definitions and MMFS 1.3.1R	manager of an MMF	Transferred to FCA Handbook in relation to MMF managers of UK MMFs only with HSD changes. No policy change intended in relation to part of definition transferred.
Article 2(24) UK MMFR	Existing definition for 'AIF' in Glossary of definitions	AIF	No transfer necessary as relying on existing FCA Handbook definition for 'AIF'. No policy change intended.
Article 2(25) UK MMFR	Existing definition for 'AIFM' in Glossary of definitions	AIFM	No transfer necessary as relying on existing FCA Handbook definition for 'AIF'. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 2(26) UK MMFR	Existing definition for 'UK AIF' in Glossary of definitions	UK AIF and EEA AIF	No transfer necessary as relying on existing FCA Handbook definition for 'UK AIF'; 'EEA AIF' is not used in the new rules. No policy change intended.
Article 2(27) UK MMFR	Existing definition for 'UCITS' in Glossary of definitions	UCITS	No transfer necessary as relying on existing FCA Handbook definition for 'UCITS'. No policy change intended.
Article 2(28) UK MMFR	Existing definitions for 'UK UCITS' and 'UCITS scheme' in Glossary of definitions	UK UCITS	No transfer necessary as relying on existing FCA Handbook definition for 'UK UCITS' and 'UCITS scheme'. No policy change intended.
Article 2(29) UK MMFR	Existing definitions for 'EEA UCITS scheme' in Glossary of definitions	EEA UCITS	No transfer necessary as relying on existing FCA Handbook definition for 'UK UCITS' and 'UCITS scheme'. No policy change intended.
Article 2(30) UK MMFR	New definition for 'EU MMF' in Glossary of definitions	EU MMF	Transferred to FCA Handbook with HSD changes. The new definition also covers AIFs or EEA UCITS that have been authorised under the EU MMF Regulation since exit day.
Article 2(31) UK MMFR	Transferred to the extent necessary through the definition of 'temporary recognised EU MMF' in the Glossary of definitions and the HMT SI	temporary marketing permission	Transferred to the FCA Handbook to the extent necessary, and through the HMT SI. No policy change intended through the new definition. Some changes to the regime for temporary recognised EU MMFs are being made by the HMT SI.
Article 2(32) UK MMFR	Existing definition for 'UK MiFIR'	Regulation (EU) 600/2014	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 2(33) UK MMFR	New definition for 'EU MMF Regulation' in Glossary of definitions	EU MMF Regulation	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(34) UK MMFR	Not used.	Directive 2011/61/EU (AIFMD)	Not transferred as not used.
Article 2(35) UK MMFR	Existing definition for 'UCITS Directive'	Directive 2009/65/EC (UCITS Directive)	To the extent used, relying on existing definition for the Directive. No policy change intended.
Article 2(36) UK MMFR	Existing definition for the 'Act'	FSMA	Relying on existing Handbook definition for 'Act'. No policy change intended.
Article 2(37) UK MMFR	Not used.	AIFM Regulations	Relying on existing Handbook definition for 'OEIC Regulations'. No policy change intended.
Article 2(38) UK MMFR	Existing definition for the 'OEIC Regulations'	OEIC Regulations	Not transferred.
Article 2(39) UK MMFR	Existing definition for 'FCA'	FCA	Relying on existing Handbook definition for 'FCA'. No policy change intended.
Article 2(40) UK MMFR	Existing definition for 'PRA'	PRA	Relying on existing Handbook definition for 'PRA'. No policy change intended.
Article 2, final paragraph UK MMFR	Not transferred to the FCA Handbook	A reference in the UK MMFR to an FCA sourcebook is a reference to that sourcebook as in force on exit day	Not transferred to FCA Handbook, but see regulation [2] of the HMT SI.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 2a(1)(a) UK MMFR	MMFS 2.3.1R(1) and (1)(a) (Meaning of 'money market instrument'), and MMFS 2.3.6R (Conditions for eligible money market instruments)	Conditions for money market instruments	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2a(1)(b) UK MMFR	MMFS 2.3.2R (Meaning of 'money market instrument')	Conditions for money market instruments	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2a(2) UK MMFR	MMFS 2.3.1R(1) and (1)(b) (Meaning of 'money market instrument'), MMFS 2.3.6R (Conditions for eligible money market instruments)	Conditions for money market instruments	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2a(3) UK MMFR	MMFS 2.3.2R (Meaning of 'money market instrument')	Conditions for money market instruments	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2a(4), (5) and (6) UK MMFR	Amendments to definition for 'transferable security', incorporating COLL 5.2.7R, COLL 5.2.7AR(1)(a) to (f), and COLL 5.2.8R(3)(e).	Conditions for money market instruments	Transferred to FCA Handbook. The definition will not apply solely to UCITS but will also apply to UK MMFs that are AIFs. The reference to precious metals and certificates representing them in article 2a(6)(b) has not been transferred. This does not reflect the original cross-references to the UCITS Directive.
Article 3 UK MMFR	Not transferred to FCA Handbook	Types of UK MMF which can be authorised by the FCA	Transferred by HMT SI. See also MMFS 1.2.3G.
Article 4(1) – (1C) UK MMFR	Not transferred to FCA Handbook	Authorisation as an MMF / Equivalence	See HMT SI. See also MMFS 1.1.4G

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 4(2) – (2B) UK MMFR	Not transferred to FCA Handbook	Authorisation of MMFs	Not transferred given existing provisions in FSMA re authorisation of MMFs that are AUTs, ACSs, OEICs.
Article 4(3) UK MMFR	Not transferred to FCA Handbook	Authorisation of MMFs	See HMT SI. It will no longer be possible for an AIF other than an AUT, ACS or authorised OEIC to be authorised as a UK MMF. The HMT SI contains transitional provisions. See the definition for regulation [12] MMF in the Glossary.
Article 4(4) UK MMFR	Not transferred to FCA Handbook	Authorisation of MMFs	Transferred in part by HMT SI. Otherwise, reliance on existing provisions in FSMA re authorisation of MMFs that are AUTs, ACSs, OEICs.
Article 4(5) UK MMFR	Not transferred to FCA Handbook	Authorisation of MMFs	Transferred by HMT SI and FCA Handbook with HSD changes.
Article 4(7) UK MMFR	Not transferred to FCA Handbook	Public record	Transferred by HMT SI.
Article 4A UK MMFR	Not transferred to FCA Handbook	Equivalence	See HMT SI.
Article 5(1) UK MMFR	MMFS 1.3.1R	Managers of UK MMFs that are AIFs	Transferred by HMT SI and FCA Handbook. Clarification of policy that only full-scope UK AIFMs should be able to manage UK MMFs.
Article 5(2) UK MMFR	Not transferred to FCA Handbook	Authorisation of MMFs that are AIFs	Reliance on existing provisions in FSMA re authorisation of AIFs that are AUTs, ACSs, OEICs. See HMT SI and art. 4(3) above in relation to MMFs that are AIFs and not AUTs, ACSs or authorised OEICs.
Article 5(3) UK MMFR	MMFS 1.3.3R	Notification requirements for MMFs that are AIFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 5(4) to 5(8) UK MMFR	Not transferred to FCA Handbook	Procedure for authorising MMFs that are AIFs	Reliance on existing provisions in FSMA re authorisation of AIFs that are AUTs, ACSs, OEICs. See HMT SI and art. 4(3) above in relation to MMFs that are AIFs and not AUTs, ACSs or authorised OEICs.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 6 UK MMFR	Not transferred to FCA Handbook	Prohibition on marketing and use of designation for MMFs that are not authorised or approved	See HMT SI.
Article 7(1) UK MMFR	MMFS generally	Liability and compliance with other requirements	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 7(1A) UK MMFR	MMFS generally	Liability and compliance with other requirements	See HMT SI.
Article 7(2) UK MMFR	MMFS 1.3.2R(1)(a)	Liability and compliance with other requirements	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 7(2A) UK MMFR	Not transferred to FCA Handbook	Liability and compliance with other requirements	See HMT SI.
Article 7(3)	MMFS 1.3.2R(1)(b)	Liability and compliance with other requirements	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 7(3A) UK MMFR	Not transferred to FCA Handbook	Liability and compliance with other requirements	See HMT SI.
Article 7(4) UK MMFR	Not transferred to FCA Handbook	Liability and compliance with other requirements	See HMT SI.
Article 7(5) UK MMFR	Not transferred to FCA Handbook	Liability and compliance with other requirements	See HMT SI.
Article 7(6) UK MMFR	Not transferred to FCA Handbook	Liability and compliance with other requirements	See HMT SI.
Article 8(1) UK MMFR	MMFS 1.1.2R	Application to sub-funds	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 8(2) and (3) UK MMFR	MMFS 1.3.2R	Compliance with other requirements	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 9(1) UK MMFR	MMFS 2.2.1R(1) and MMFS 2.3.1R	Eligible assets	Transferred to FCA Handbook with policy changes in relation to certain eligible assets.
Article 9(2) UK MMFR	MMFS 2.2.1R, MMFS 2.2.3R and MMFS 2.2.4R	Ineligible assets	Transferred to FCA Handbook with HSD changes. No policy change intended
Article 9(3) UK MMFR	MMFS 2.2.1R(2)	Eligible assets	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 10(1)(a) UK MMFR	MMFS 2.3.6R	Conditions for eligible money market instruments	Transferred to FCA Handbook with policy changes. The UK MMFR refers to COLL 5.2.8R which was used to transpose article 50(1)(a) to (d) and (h), and article 50(2)(a) of the UCITS Directive, and article 3(1) of the UCITS Eligible Assets Directive. We have reverted to the original MMFR text which refers to article 50(1)(a), (b), (c) and (h) only, reflecting how those provisions were transposed into FCA rules in COLL.
Article 10(1)(b) UK MMFR	MMFS 2.3.7R(1) – (2)	Conditions for eligible money market instruments	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 10(1)(c) UK MMFR	MMFS 2.3.8R(1)	Conditions for eligible money market instruments	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 10(1)(d) UK MMFR	MMFS 2.3.9R	Conditions for eligible money market instruments	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 10(2) UK MMFR	MMFS 2.3.7R(3)	Conditions for eligible money market instruments	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 10(3) UK MMFR	MMFS 2.3.8R(2)	Conditions for eligible money market instruments	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 11(1) UK MMFR	MMFS 2.4.2R	Conditions for securitisations and ABCP	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 11(2) UK MMFR	MMFS 2.4.3R	Additional conditions for short-term MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 11(3) UK MMFR	MMFS 2.4.4R	Additional conditions for standard MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 12 UK MMFR	MMFS 2.5	Eligible deposits with credit institutions	Transferred to FCA Handbook with policy changes. The proposed rules clarify that a deposit with a public body responsible for the management of debt in the UK will be an 'eligible deposit'.
Article 13 UK MMFR	MMFS 2.6	Eligible derivatives	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 14 UK MMFR	MMFS 2.7	Eligible repurchase agreements	Transferred to FCA Handbook with policy changes. The proposed rules clarify that a repurchase agreement can be used for liquidity management purposes (including redemptions) and allow money received under an eligible repurchase agreement to be placed on deposit with a public body responsible for the management of public debt in the United Kingdom.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 15 UK MMFR	MMFS 2.8	Eligible reverse repurchase agreements	Transferred to FCA Handbook with policy changes. The proposed rules will require MMFs to be able to terminate reverse repurchase agreements by giving notice of no more than 5 business days, up from 2 business days in article 15(1)(a) UK MMFR. MMFS 2.8 also incorporates relevant requirements from articles 2 and 9 of Commission Delegated Regulation (EU) 2018/990.
Article 16(1) to (4), and (6) and (7) of, and the Schedule to, the UK MMFR	MMFS 2.9	Eligible MMF units	Transferred to FCA Handbook with policy changes. Article 16(5) and the Schedule to the UK MMFR have not been transferred (MMFs marketed through employee savings schemes).
Article 17(1)(a) and (b) UK MMFR	MMFS 3.2.1R and MMFS 3.2.2R	Diversification requirements	Transferred to FCA Handbook with policy changes. The derogation in article 17(1)(b) UK MMFR that allows up to 15% of assets to be deposited with the same credit institution in the event that there are insufficient viable credit institutions has not been transferred.
Article 17(2) UK MMFR	MMFS 3.2.3R	Diversification requirements	Transferred to FCA Handbook with HSD. No policy change intended.
Article 17(3) UK MMFR, second sub-paragraph	MMFS 3.2.4R	Diversification requirements	Transferred to FCA Handbook with HSD. No policy change intended.
Article 17(4) and (5) UK MMFR	MMFS 3.2.5R and MMFS 3.2.6R	Diversification requirements	Transferred to FCA Handbook with HSD. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 17(6) UK MMFR	MMFS 3.2.7R	Diversification requirements	Transferred to FCA Handbook with HSD. The derogation in the second sub-paragraph of article 17(6) allowing an MMF to combine the investments in article 17(6)(a) –(c) UK MMFR up to a maximum investment of 20% of assets in a single body has not been transferred. This is no longer permissible.
Article 17(7) UK MMFR	MMFS 3.2.8R and MMFS 3.2.9R	Diversification requirements	Transferred to FCA Handbook with HSD. The requirement to obtain approval from the FCA in article 17(7) UK MMFR has not been transferred as it is considered unnecessary. The FCA will review and approve the prospectus and any changes thereto concerning investment objectives and policy, which constitutes an approval in principle. Article 17(7)(c) UK MMFR has not been transferred. Article 17(7)(d) UK MMFR has been tran sferred with amendment (see MMFS 3.2.9R(4)). The prospectus must indicate categories of issuer and marketing communications are not required.
Article 17(8) UK MMFR	MMFS 3.2.11R	Diversification requirements	Transferred to FCA Handbook with HSD. No policy change intended.
Article 17(9) UK MMFR	MMFS 3.2.12R	Diversification requirements	Transferred to FCA Handbook with HSD. No policy change intended.
Article 17(10) UK MMFR	MMFS 3.1.3R	Diversification requirements	Transferred to FCA Handbook with HSD. The proposed draft rules clarify that the references to the same or single body apply both in relation to article 17 and article 18 UK MMFR.
Article 18 UK MMFR	MMFS 3.3.1R and 3.3.2R	Concentration	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 19(1) UK MMFR	MMFS 4.2.1R	Internal credit quality assessment procedure	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 19(2) UK MMFR	MMFS 4.2.2R(1)	Internal credit quality assessment procedure	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 19(3) UK MMFR	MMFS 4.2.2R(6), MMFS 4.2.3R, MMFS 4.2.4R(1)	Internal credit quality assessment procedure	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 19(4)(a) UK MMFR	MMFS 4.2.2R(2)	Internal credit quality assessment procedure	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 19(4)(b) UK MMFR	MMFS 4.2.2R(3)	Internal credit quality assessment procedure	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 19(4)(c) UK MMFR	MMFS 4.2.2R(4) and (5)(c)	Internal credit quality assessment procedure	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 19(4)(d) UK MMFR	MMFS 4.2.6R(3) and MMFS 4.2.7R	Internal credit quality assessment procedure	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 19(4)(e) UK MMFR	MMFS 4.2.3R(3)	Internal credit quality assessment procedure	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 19(4)(f) UK MMFR	MMFS 4.2.6R(1)(a)	Internal credit quality assessment procedure	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 20(1) UK MMFR	MMFS 4.3.1R	Internal credit quality assessment	Transferred to FCA Handbook with policy changes. MMFS 4.3.1R(3)(a) (Requirement for an internal credit quality assessment) is a new provision, building on the requirements of article 19(4)(d) UK MMFR and article 8(5) of Commission Delegated Regulation (EU) 2018/990. This provision also transfers article 7 of Commission Delegated Regulation (EU) 2018/990.
Article 20(2)(a) UK MMFR	MMFS 4.3.2R(1)(a)	Internal credit quality assessment	Transferred to FCA Handbook with HSD. No policy change intended. This provision also transfers article 4 of Commission Delegated Regulation (EU) 2018/990.
Article 20(2)(b) UK MMFR	MMFS 4.3.2R(1)(b)	Internal credit quality assessment	Transferred to FCA Handbook with HSD. No policy change intended. This provision also transfers articles 5 and 6 of Commission Delegated Regulation (EU) 2018/990.
Article 20(2)(c) UK MMFR	MMFS 4.3.2R(1)(c)	Internal credit quality assessment	Transferred to FCA Handbook with HSD. No policy change intended.
Article 20(2)(d) UK MMFR	MMFS 4.3.2R(1)(d)	Internal credit quality assessment	Transferred to FCA Handbook with HSD. No policy change intended.
Article 20(2)(e) UK MMFR	MMFS 4.3.2R(1)(e)	Internal credit quality assessment	Transferred to FCA Handbook with HSD. No policy change intended.
Article 20(2)(f) UK MMFR	MMFS 4.3.2R(1)(f)	Internal credit quality assessment	Transferred to FCA Handbook with HSD. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 20(2)(g) UK MMFR	MMFS 4.3.2R(1)(g)	Internal credit quality assessment	Transferred to FCA Handbook with HSD. No policy change intended.
Article 20(2), last paragraph, UK MMFR	MMFS 4.3.2R(2)	Internal credit quality assessment	Transferred to FCA Handbook with HSD. No policy change intended.
Article 21(1), first sentence, UK MMFR	MMFS 4.4.1R	Records relating to the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 21(1)(a) UK MMFR	MMFS 4.4.2R(1)	Records relating to the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 21(1)(b) UK MMFR	MMFS 4.4.2R(2)	Records relating to the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 21(1)(c) UK MMFR	MMFS 4.4.2R(3)	Records relating to the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 21(1)(d) UK MMFR	MMFS 4.4.2R(4)	Records relating to the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 21(1)(e) UK MMFR	MMFS 4.4.2R(5)	Records relating to the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 21(1)(f) UK MMFR	MMFS 4.4.2R(6)	Records relating to the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 21(2) UK MMFR	MMFS 4.4.3R	Records relating to the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 21(3) UK MMFR	MMFS 4.4.4R and MMFS 4.4.5R	Records relating to the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 23(1) UK MMFR	MMFS 4.5.1R	Governance for the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 23(2) UK MMFR	MMFS 4.5.2R	Governance for the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 23(3) UK MMFR	MMFS 4.5.3R	Governance for the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 23(4) UK MMFR	MMFS 4.5.4R	Governance for the internal credit quality assessment	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 24(1) UK MMFR	MMFS 5.2.3R(1) and (2)	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. Subject to the specific policy changes referred to below, no policy change intended.
Article 24(1)(a) UK MMFR	MMFS 5.2.4R(1)	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 24(1)(b) UK MMFR	MMFS 5.2.4R(2)	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 24(1)(c) UK MMFR	MMFS 5.2.5R(1) and (2)	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. The percentage of public debt CNAV MMFs and LVNAV MMF's assets that must be comprised of daily maturing assets etc. (in article 24(1)(c) UK MMFR) has been changed from 10% to 15% (see MMFS 5.2.5R(1) and (2)).

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 24(1)(d) UK MMFR	MMFS 5.2.6R(1) and (2)	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. The percentage figure of short-term VNAV MMF's assets that must be comprised of daily maturing assets etc. (in article 24(1)(d) UK MMFR) has been changed from 7.5% to 15% (see 5.2.6R(1) and (2)).
Article 24(1)(e) UK MMFR	MMFS 5.2.5R(2)	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. The percentage of public debt CNAV MMFs and LVNAV MMF's assets that must be comprised of weekly maturing assets etc. (in article 24(1)(e) UK MMFR) has been changed from 30% to 50% (see MMFS 5.2.5R(2)).
Article 24(1)(f) UK MMFR	MMFS 5.2.6R(2)	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. The percentage of short-term VNAV MMF's assets that must be comprised of weekly maturing assets etc. (in article 24(1)(f) UK MMFR) has been changed from 30% to 50% (see MMFS 5.2.6R(2)).
Article 24(1)(g) UK MMFR	MMFS 5.2.5R(3)	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 24(1)(h) UK MMFR	Not transferred to FCA Handbook	Portfolio rules for short-term MMFs	Not transferred to FCA Handbook. However, for the purposes of the calculation referred to in article 24(1)(f) above, the figure of 7.5% included in article 24(1)(h) UK MMFR has been changed to 17.5% (see MMFS 5.2.6R(3)). The conditions attached have been aligned with the conditions for PD CNAV MMFs and LV NAV MMFs as set out in article 24(1)(g) UK MMFR.
Article 24(1), second and third sub-paragraphs, UK MMFR	MMFS 5.2.4R(3), (4) and (5)	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 24(2) UK MMFR	MMFS 5.2.7R	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 24(3) UK MMFR	Definition of 'short-term MMF' in Glossary of definitions	Portfolio rules for short-term MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 25(1) UK MMFR	MMFS 5.3.3R	Portfolio rules for standard MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 25(1)(a) UK MMFR	MMFS 5.3.4R	Portfolio rules for standard MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 25(1)(b) UK MMFR	MMFS 5.3.5R(1)	Portfolio rules for standard MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 25(1)(c) UK MMFR	MMFS 5.3.6R	Portfolio rules for standard MMFs	Transferred to FCA Handbook with HSD and policy changes. The percentage of the standard MMF's assets that must be comprised of daily maturing assets etc. (in article 25(1)(c) UK MMFR) has been changed from 7.5% to 15% (see 5.3.6R(1)-(2) MMFS).
Article 25(1)(d) UK MMFR	MMFS 5.3.7R(1) and (2)	Portfolio rules for standard MMFs	Transferred to FCA Handbook with HSD changes. The percentage of the standard MMF's assets that must be comprised of weekly maturing assets etc. (in article 25(1)(d) UK MMFR) has been changed from 15% to 50% (see 5.3.7R(1)-(2) MMFS).

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 25(1)(e) UK MMFR	Not transferred, but see MMFS 5.3.7R(3)	Portfolio rules for standard MMFs	Not transferred to FCA Handbook. However, for the purposes of the calculation referred to in article 25(1)(d) UK MMFR (MMFS 5.3.7R(1) and (2)) the rules have been aligned to the corresponding rules for PD CNAV MMFs and LV NAV MMFs as set out in article 24(1)(g) UK MMFR (MMFS 5.2.6R(3)).
Article 25(1), second and third sub-paragraphs, UK MMFR	MMFS 5.3.5R(2) and (3)	Portfolio rules for standard MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 25(2) UK MMFR	MMFS 5.3.8R	Portfolio rules for standard MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 25(3) UK MMFR	Definition of 'standard-term MMF' in Glossary of definitions	Portfolio rules for standard MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 26 UK MMFR	MMFS 5.4	MMF credit ratings	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 27(1) and (2) UK MMFR	MMFS 5.5.2R(1), (2) and MMFS 5.5.7G	Liquidity risk profile of the MMF / 'Know your customer policy'	Transferred to FCA Handbook with HSD and policy changes. Article 27(1) and (2) has been simplified; MMFS 5.5.2R(2) includes additional factors that must be taken into account when carrying out due diligence on unitholders.
Article 27(3) UK MMFR	MMFS 5.5.4R	Liquidity risk profile of the MMF / 'Know your customer policy'	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 27(4) UK MMFR	MMFS 5.5.5R	Liquidity risk profile of the MMF / 'Know your customer policy'	Transferred to FCA Handbook with policy changes. MMFS 5.5.5R(2) and (3) set out additional actions that an MMF manager must take if it determines that there is a risk that simultaneous redemptions could materially adversely affect the operation of the MMF.
Article 28(1), first and second sub-paragraphs, UK MMFR	MMFS 5.6.2R	Stress testing	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 28(1)(a) to (f) UK MMFR	MMFS 5.6.3R(1)	Stress testing	Transferred to FCA Handbook with HSD changes. No policy change intended. However, MMFS 5.6.3R(2) converts para. 13 of the ESMA stress testing Guidelines into rules.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 28(2) UK MMFR	MMFS 5.6.4R(1)	Stress testing	Transferred to FCA Handbook with HSD changes. No policy change intended. However, MMFS 5.6.4R(2) to (6) set out a number of other considerations and factors that MMF managers of PD CNAV MMFs and LVNAV MMFs will need to include in their stress tests. These include: • requirements that the MMF manager of an LVNAV MMF assess the impact of unitholder redemptions on its ability to price units at the constant NAV per unit, the impact of pricing changes on unitholder redemptions, the risks of contagion, and assessment of whether the WAM of the portfolio at the start of the scenario would be sufficient to ensure good outcomes; • a requirement that the MMF manager of a PD CNAV MMF assesses the impact of a change to the price used to issue and redeem units, and whether such pricing could lead to further redemptions. • Additional guidance on stress tests for PD CNAV and LVNAV MMFs has also been added (see 5.6.6G(1), paragraphs 7-8).
Article 28(3) UK MMFR	MMFS 5.6.7R	Stress testing	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 28(4) UK MMFR	MMFS 5.6.8R	Stress testing	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 28(5) UK MMFR	MMFS 5.6.10R	Stress testing	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 28(7) UK MMFR	Not transferred to FCA Handbook, but see guidance in MMFS 5.6.6G.	Stress testing Guidelines	The FCA has incorporated the principles-based ESMA Stress Testing Guidelines in sections 4.1 to 4.7 of ESMA's Final Report from November 2022 into MMFS 5.6.6G.
Article 29(1) UK MMFR	MMFS 6.2.2R	Valuation of MMFs	Transferred to FCA Handbook with HSD changes. The rule makes clear that daily valuation must take place on business days.
Article 29(2) UK MMFR	MMFS 6.2.3R(1)	Valuation of MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 29(3) UK MMFR	MMFS 6.2.3R(2)	Valuation of MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 29(4) UK MMFR	MMFS 6.2.4R	Valuation of MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 29(5) UK MMFR	MMFS 6.2.7R	Valuation of MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 29(6) UK MMFR	MMFS 6.2.5R	Valuation of MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 29(7) UK MMFR	MMFS 6.2.6R	Valuation of MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 30(1) UK MMFR	MMFS 6.3.2R(1)	General rules for calculating the NAV per unit of an MMF	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 30(2) UK MMFR	MMFS 6.3.2R(3)	General rules for calculating the NAV per unit of an MMF	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 30(3) UK MMFR	MMFS 6.3.5R	General rules for calculating the NAV per unit of an MMF	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 31(1) UK MMFR	MMFS 6.3.3R(1) and (2)	Calculation of constant NAV for public debt CNAV MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 31(2) UK MMFR	MMFS 6.3.3R(3)	Calculation of constant NAV for public debt CNAV MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 31(3) UK MMFR	MMFS 6.3.3R(4)	Calculation of constant NAV for public debt CNAV MMFs	Transferred to FCA Handbook with HSD changes. The rule makes clear that daily valuation must take place on business days.
Article 31(4) UK MMFR	MMFS 6.3.5R	Calculation of constant NAV for public debt CNAV MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 32(1) UK MMFR	MMFS 6.3.4R(1) and (2)	Calculation of constant NAV for LVNAV MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 32(3) UK MMFR	MMFS 6.3.4R(4)	Calculation of constant NAV for public debt CNAV MMFs	Transferred to FCA Handbook with HSD changes. The rule makes clear that daily valuation must take place on business days.
Article 32(4) UK MMFR	MMFS 6.3.5R	Calculation of constant NAV for public debt CNAV MMFs	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 33(1) UK MMFR	MMFS 6.4.2R(1)	Issue and redemption pricing	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 33(2)(a) UK MMFR	MMFS 6.4.2R(2)	Issue and redemption pricing	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 33(2)(b) and second sub-paragraph, UK MMFR	MMFS 6.4.2R(3)	Issue and redemption pricing	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 33(2), third sub-paragraph, UK MMFR	MMFS 6.4.3R	Issue and redemption pricing	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 33 UK MMFR (generally)	MMFS 6.4.5R to MMFS 6.4.9G	Issue and redemption pricing for PD CNAV MMFs and LVNAV MMFs	MMFS 6.4.5R introduces a requirement for MMF managers of PD CNAV MMFs and LVNAV MMFs to have in place strategies, processes and systems to enable them to issue and redeem units at different prices. MMF managers are required to document the information relating to the strategies, processes and systems (MMFS 6.4.6R). MMFS 6.4.8R requires the MMF manager of an LVNAV MMF or a PD CNAV MMF to have a communication strategy, and to communicate to unitholders and other stakeholders in the event of a change in the issue or redemption price. MMFS 6.4.9R requires MMF managers of PD CNAV MMFs and LVNAV MMFs to inform its governing body and the FCA and depositary on the occurrence of certain events relating to valuation and pricing.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 34 UK MMFR	6.5 MMFS	Liquidity management procedures for public debt CNAV MMFs and LVNAV MMFs	The requirements in Article 34 UK MMFR, which are linked to compliance with weekly liquidity thresholds, have not been transferred. Note: The MMFS provides that liquidity management procedures must allow the MMF manager to suspend dealings and make provision for the use of at least one additional liquidity management tool ('LMT') which will enable the MMF manager to mitigate the effects of dilution. Provisions in relation to the power to suspend dealings are included at MMFS 6.5.5G and 6.5.6R and provisions in relation to the use of additional liquidity management tools are included at MMFS 6.5.7R, MMFS 6.5.8G and MMFS 6.5.9R. MMFS 6.5.10R sets out requirements relating to unitholder information about LMTs. The MMFS provides that the interests of unitholders must be taken into account before utilising an LMT (MMFS 6.5.11R).

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 34(1), (2) and (3) UK MMFR	MMFS 6.5.2R, MMFS 6.5.3R, MMFS 6.5.4R, MMFS 6.5.6R, MMFS 6.5.7R, MMFS 6.5.9R, MMFS 6.5.10R, MMFS 6.5.11R	Liquidity management procedures for public debt CNAV MMFs and LVNAV MMFs	Partially transferred to FCA Handbook with HSD and policy changes. Article 34(1) requires MMF managers to take certain action where the proportion of weekly maturing assets falls below specified thresholds. These requirements have not been transferred. MMFS 6.5.2R and MMFS 6.5.3R provide that the MMF manager have in place liquidity management procedures and tools which can be put into operation during stressed market conditions. MMFS 6.5.4R provides that these must allow the MMF manager to suspend dealings and must include one further liquidity management tool to mitigate the effects of material dilution in the value of the MMF's assets resulting from the issue or cancellation of units. MMF managers need to take the interests of all unitholders into account before putting the tool into operation. MMFS 6.5.10R requires MMF managers to detail information about the liquidity tools in the fund's prospectus. MMFS 6.5.11R requires MMF managers to take reasonable care to ensure that all unitholders are treated fairly in the event that a dilution levy or dilution adjustment is applied.
Article 35 UK MMFR	MMFS 2.2.5R	External support	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 36(1) UK MMFR	MMFS 7.2.1R	Transparency requirements	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 36(2) UK MMFR	MMFS 7.2.3R	Transparency requirements	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 36(3) UK MMFR	MMFS 7.2.4R	Transparency requirements	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 36(4) UK MMFR	MMFS 7.2.5R	Transparency requirements	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 36(5) UK MMFR	MMFS 7.2.6R	Transparency requirements	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 37(1), first sub-paragraph, UK MMFR	MMFS 8.2.1R	Reporting to the FCA	Transferred to FCA Handbook with HSD with policy changes. The thresholds have been converted from EUR to GBP.
Article 37(1), second sub-paragraph, UK MMFR	MMFS 8.2.2R	Reporting to the FCA	Transferred to FCA Handbook with HSD with policy changes. The threshold has been converted from EUR to GBP.
Article 37(1), third sub-paragraph, UK MMFR	Not transferred to FCA Handbook	Reporting to the FCA	Not transferred.
Article 37(2) UK MMFR	MMFS 8.2.1R(1) to (6)	Reporting to the FCA	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 37(3) UK MMFR	MMFS 8.2.3R	Reporting to the FCA	Transferred to FCA Handbook with HSD and policy changes. The rules in MMFS are consistent with the wider policy changes made to MMFRS and so do not refer to the requirements of article 34 UK MMFR (see above).

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 37(4) UK MMFR and Commission Implementing Regulation (EU) 2018/708	MMFS 8.3 and MMFS Annex 1R	Reporting to the FCA	Transferred to FCA Handbook with HSD and policy changes. Commission Implementing Regulation (EU) 2018/708 is being revoked (see instrument coversheet). However, the reporting template from that regulation has been incorporated into the MMFS with certain policy changes e.g. cross-referencing MMFS provisions and converting currency units from EUR to GBP.
Article 38 UK MMFR	Not transferred to the FCA Handbook	Supervision by the FCA	Not transferred.
Article 39 UK MMFR	Not transferred to the FCA Handbook	Powers of competent authorities	Not transferred to FCA Handbook, but see HMT SI.
Article 40 UK MMFR	N/A – deleted during onshoring		
Article 41 UK MMFR	Not transferred to the FCA Handbook	Specific measures	Not transferred.
Article 42 UK MMFR	N/A – deleted during onshoring		
Article 43 UK MMFR	N/A – deleted during onshoring		
Article 44 UK MMFR	N/A – deleted during onshoring		
Article 45 UK MMFR	Not transferred to the FCA Handbook	Specific measures	Not transferred.
Article 46 UK MMFR	N/A – deleted during onshoring		
Article 47 UK MMFR	Not transferred to the FCA Handbook	Specific measures	Not transferred

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Schedule 1 UK MMFR	Not transferred to the FCA Handbook	Eligible units or shares	Not transferred. This schedule is only relevant to the derogation in article 16(5) UK MMFR relating to investment in units or shares where the MMF is marketed solely through an employee savings scheme governed by national law. This derogation has not been retained.
Commission Delegated Regulation (EU) 2018/990			
Article 1 Commission Delegated Regulation (EU) 2018/990	N/A		
Article 2(1) Commission Delegated Regulation (EU) 2018/990	MMFS 2.8.8R(1), (2) and (3)	Quantitative and qualitative liquidity requirements for the assets that can be received by way of reverse repurchase agreement.	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(2) Commission Delegated Regulation (EU) 2018/990	MMFS 2.8.8R(4)(a) and (b)	Quantitative and qualitative liquidity requirements for the assets that can be received by way of reverse repurchase agreement.	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(3) Commission Delegated Regulation (EU) 2018/990	MMFS 2.8.8R(5)(a) and (b)	Quantitative and qualitative liquidity requirements for the assets that can be received by way of reverse repurchase agreement.	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 2(4) Commission Delegated Regulation (EU) 2018/990	MMFS 2.8.8R(6)	Quantitative and qualitative liquidity requirements for the assets that can be received by way of reverse repurchase agreement.	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(5) Commission Delegated Regulation (EU) 2018/990	MMFS 2.8.8R(4)(c) and (5)(c)	Quantitative and qualitative liquidity requirements for the assets that can be received by way of reverse repurchase agreement.	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(6) Commission Delegated Regulation (EU) 2018/990	MMFS 2.8.7R(5)	Quantitative and qualitative liquidity requirements for the assets that can be received by way of reverse repurchase agreement.	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 2(7) Commission Delegated Regulation (EU) 2018/990	Not transferred into FCA Handbook.	Quantitative and qualitative liquidity requirements for the assets that can be received by way of reverse repurchase agreement.	Not expressly transferred.
Article 3(1) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.3R(1), MMFS 4.2.3R(2) and MMFS 4.2.4R(1)	Criteria for validating the internal credit quality assessment methodologies	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 3(2) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.4R(3)	Criteria for validating the internal credit quality assessment methodologies	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 3(3) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.4R(2)	Criteria for validating the internal credit quality assessment methodologies	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 3(4) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.3R(4)	Criteria for validating the internal credit quality assessment methodologies	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 3(5) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.5R	Criteria for validating the internal credit quality assessment methodologies	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 3(6) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.1R(2)(b)	Criteria for validating the internal credit quality assessment methodologies	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 4(1) Commission Delegated Regulation (EU) 2018/990	MMFS 4.3.3R(1) and (2)	Criteria for quantifying credit risk, and the relative risk of default of the issuer and of the instrument	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 4 Commission Delegated Regulation (EU) 2018/990	MMFS 4.3.3R(3)	Criteria for quantifying credit risk, and the relative risk of default of the issuer and of the instrument	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 5(1) Commission Delegated Regulation (EU) 2018/990	MMFS 4.3.4R(1) and (2)	Criteria for establishing qualitative indicators in relation to the issuer of the instrument	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 5(2) Commission Delegated Regulation (EU) 2018/990	MMFS 4.3.4R(3)	Criteria for establishing qualitative indicators in relation to the issuer of the instrument	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 6 Commission Delegated Regulation (EU) 2018/990	MMFS 4.3.5R	Criteria for establishing qualitative credit risk indicators in relation to the issuer of the instrument	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 7(1) Commission Delegated Regulation (EU) 2018/990	MMFS 4.3.1R(5)	Overrides	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 7(2) Commission Delegated Regulation (EU) 2018/990	MMFS 4.3.1R(6)	Overrides	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 8(1) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.2R(5)(b); MMFS 4.2.6R(1)(b) and (2)(a) and (b)	Material changes impacting existing credit quality assessment of an instrument	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 8(2) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.7R(1)	Material changes impacting existing credit quality assessment of an instrument	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 8(3) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.7R(2)(a)	Material changes impacting existing credit quality assessment of an instrument	Transferred to FCA Handbook with HSD changes. No policy change intended.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[17]/other comment
Article 8(4) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.7R(2)(b)	Material changes impacting existing credit quality assessment of an instrument	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 8(5) Commission Delegated Regulation (EU) 2018/990	MMFS 4.2.6R(2)©	Material changes impacting existing credit quality assessment of an instrument	Transferred to FCA Handbook with HSD changes. No policy change intended.
Article 9 Commission Delegated Regulation (EU) 2018/990	MMFS 2.8.7R(1)(b) MMFS	Receiving assets that are not eligible money market instruments	Transferred to FCA Handbook with HSD changes. No policy change intended.
Commission Implementing Regulation (EU) 2017/708			
Article 1 Commission Implementing Regulation (EU) 2017/708	MMFS 8.3.1R	Reporting template	Transferred to FCA Handbook with HSD changes. No policy change intended.
Annex Commission Implementing Regulation (EU) 2017/708	MMFS Annex 1R	Reporting template	Transferred to FCA Handbook with HSD and policy changes. Some of the template has been removed as it would not be relevant, and other sections have been updated to reflect the rules in MMFS. References to EUR have also been changed to GBP.

Annex 8

List of non-confidential respondents to DP22/1

Abrdn

Association of Corporate Treasurers

BNY Mellon

CCLA Investment Management

Federated Hermes

Financial Services Consumer Panel

HSBC

Insight

International Capital Markets Association

International Money Market Funds Association

The Investment Association

JP Morgan Asset Management

Legal & General Investment Management

London Stock Exchange Group

M|E|W Consul

State Street Corporation

Vanguard

Appendix 1

Draft Handbook text

MONEY MARKET FUNDS SOURCEBOOK (SMARTER REGULATORY FRAMEWORK) INSTRUMENT 2024

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers);
(c) section 138D (Actions for damages);
(d) section 139A (Power of the FCA to give guidance);
(e) section 242 (Applications for authorisation of unit trust schemes);
(f) section 243A (Authorisation orders: authorised money market funds);
(g) section 247 (Trust scheme rules);
(h) section 248 (Scheme particulars rules);
(i) section 261C (Applications for authorisation of contractual schemes);
(j) section 261EA (Authorisation orders: authorised money market funds);
(k) section 261I (Contractual scheme rules); and
(l) section 261J (Contractual scheme particulars rules);

(2) the following regulations of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228):

(a) regulation 6 (FCA rules);
(b) regulation 12 (Applications for authorisation); and
(c) regulation 14 (Authorisation);

(3) the following regulations of the [Money Market Funds (Provisions for General SI) Regulations 2024]:

(a) regulation [12] [(Treatment of certain AIFs)]; and
(b) regulation [15] [(Reporting to the FCA)]; and

(5) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex B
Fees Manual (FEES)	Annex C
Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)	Annex D
Collective Investment Schemes sourcebook (COLL)	Annex E

Making the Money Market Funds sourcebook (MMFS)

E. The FCA makes the rules and gives the guidance in Annex A to this instrument.

F. The Money Market Funds sourcebook (MMFS)[1] is added to the Specialist sourcebooks block within the Handbook, immediately after the Recognised Investment Exchanges sourcebook (REC).

Revocation of FG22/3: Finalised Guidance on parts of the UK MMF Regulation

G. The FCA revokes FG22/3: Finalised Guidance on parts of the UK MMF Regulation.

Revocation of technical standard

H. The FCA revokes the following technical standard:

Commission Implementing Regulation (EU) 2018/708 of 17 April 2018 laying down implementing technical standards with regard to the template to be used by managers of money market funds when reporting to competent authorities as stipulated by Article 37 of Regulation (EU) 2017/1131 of the European Parliament and of the Council.

Notes

I. In the Annexes to this instrument, the notes (indicated by "*Editor's note*:") are included for the convenience of readers but do not form part of the legislative text.

Citation

J. This instrument may be cited as the Money Market Funds Sourcebook (Smarter Regulatory Framework) Instrument 2024.

[1] The sourcebook includes material adapted from the European Institutions © European Union, 1998-2022 and re-used and adapted under the terms of the Commission Decision 2011/833/EU.

K. The sourcebook in Annex A to this instrument may be cited as the Money Market Funds sourcebook (or MMFS).

By order of the Board
[*date*]

Annex A

Amendments to the Money Market Funds sourcebook (MMFS)

In this Annex, all of the text is new and is not underlined.

[*Editor's note*: This Annex takes into account the changes proposed by the Securitisation (Smarter Regulatory Framework) Instrument 2023 as if they were made final.]

1 Introduction

1.1 Application and purpose

Application

1.1.1 R The application of this sourcebook is set out in the following table.

Type of firm	**Type of MMF**	**Applicable chapters**
UK MMF manager	*UK MMF*	Chapters 1, 2, 3, 4, 5, 6, 7, 8
Any *firm* intending to *market* or to *approve* or *communicate* a *financial promotion* relating to an *MMF*	Any *MMF*	Chapter 1

Application to sub-funds

1.1.2 R Where a *UK MMF* has more than one *sub-fund*, the *rules* in this sourcebook apply to each *sub-fund* as if it were a separate *UK MMF*.

Purpose

1.1.3 G This chapter helps in achieving the *statutory objectives* of securing an appropriate degree of protection for *consumers* and protecting and enhancing the integrity of the *UK* financial system, including its soundness, stability and resilience.

Prohibition on marketing unapproved MMFs

1.1.4 G Regulation [4] of the [*MMF (Restatement) Regulations*] provides that no *person* may *market* or *communicate* a *financial promotion* relating to an *MMF* to investors or potential investors in the *United Kingdom* unless it is a *UK MMF* or an approved overseas *MMF*. Regulation [20] makes similar provision in relation to a *temporary recognised EU MMF*.

1.2 Requirements for UK MMFs

Legal form of a UK MMF

1.2.1 G Under the [*MMF (Restatement) Regulations*], a *UK MMF* must take the form of a *collective investment scheme* which is:

(1) a *UK UCITS*; or

(2) a *UK AIF*.

1.2.2 G Under the [*MMF (Restatement) Regulations*], only an *authorised AIF* can be authorised as a *UK MMF*.

Types of UK MMF which can be authorised by the FCA

1.2.3 G (1) Under the [*MMF (Restatement) Regulations*], a *UK MMF* must be set up as one of the following types:

(a) a *VNAV MMF*;

(b) an *LVNAV MMF*; or

(c) a *public debt CNAV MMF*.

(2) The authorisation for a *UK MMF* must state the type.

Meaning of 'variable NAV MMF'

1.2.4 R A 'variable NAV MMF' is a *UK MMF* which satisfies the following conditions:

(1) The *MMF* complies with *MMFS* 6.3.2R (General rules for calculating the NAV per unit of an MMF).

(2) The *MMF issues* or *redeems units* at a price that is equal to the *NAV per unit* in accordance with *MMFS* 6.4.2R(1) (Calculation of prices for units in an MMF).

Meaning of 'low volatility NAV MMF'

1.2.5 R A 'low volatility NAV MMF' is a *UK MMF* which satisfies the following conditions:

(1) complies with *MMFS* 6.2 (Valuation of MMFs);

(2) complies with *MMFS* 6.3.2R (General rules for calculating the NAV per unit of an MMF);

(3) complies with *MMFS* 6.3.4R (Calculation of constant NAV for LVNAV MMFs); and

(4) operates, or is intended to operate, so that it can *issue* or *redeem units* at a price that is equal to the *constant NAV per unit* in accordance with *MMFS* 6.4.2R(3) (Calculation of prices for units in an MMF).

1.2.6 G An *LVNAV MMF* which satisfies the conditions in *MMFS* 1.2.5R(1) to (3) but which is temporarily unable to *issue* or *redeem units* at a price that is equal to the *constant NAV per unit* in accordance with *MMFS* 6.4.2R(3) (Calculation of prices for units in an MMF) remains an *LVNAV MMF*.

Meaning of 'public debt constant NAV MMF'

1.2.7 R A 'public debt constant NAV MMF' is a *UK MMF* which satisfies the following conditions:

(1) The *MMF* operates or is intended to operate so that it can *issue* or *redeem units* at a price that is equal to the *constant NAV per unit* in accordance with *MMFS* 6.4.2R(2) (Calculation of prices for units in an MMF).

(2) The income generated by the assets held by the *MMF* is accrued daily and can either be paid out to the *unitholder* or used to purchase more *units* in the *MMF*.

(3) The *MMF's* assets are generally valued according to the *amortised cost method* (see *MMFS* 6.2.5R (Public debt CNAV MMF use of amortised cost method)).

(4) The *constant NAV per unit* is rounded to the nearest percentage point or its equivalent.

(5) The *MMF's instrument constituting the fund* and its *prospectus* provide that its investment objective and policy is to invest at least 99.5% of its assets in:

(a) *eligible money market instruments* within *MMFS* 3.2.8R to *MMFS* 3.2.9R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations);

(b) *eligible reverse repurchase agreements* secured with government debt within (a); and

(c) *money*.

1.2.8 G A *public debt CNAV MMF* which satisfies the conditions in *MMFS* 1.2.7(2) to (5) but which temporarily *issues* or *redeems units* at a price that is equal to the *NAV per unit* in accordance with *MMFS* 6.4.2R(1) (Calculation of prices for units in an MMF) remains a *public debt CNAV MMF*.

1.3 Requirements for UK MMF managers

Managers of UK MMFs

1.3.1 R The *MMF manager* of a *UK MMF* must be either:

(1) a *UK UCITS management company*, where the *UK MMF* is a *UK UCITS*; or

(2) a *full-scope UK AIFM*, where the *UK MMF* is a *UK AIF*.

Compliance with other requirements

1.3.2 R (1) Subject to (2), the *MMF manager* of a *UK MMF* must ensure that the *MMF* is managed in accordance with the *rules* in this sourcebook and, as applicable:

(a) where the *MMF* is a *UK UCITS*, the *rules* and other requirements that apply to a *UK UCITS*;

(b) where the *MMF* is a *UK AIF*, the *rules* and other requirements that apply to the *full-scope UK AIFM* when managing such a *fund*.

(2) The following *rules* in *COBS* and *COLL* do not apply in relation to a *UK MMF* unless otherwise stated in this sourcebook:

(a) *COLL* 3.2.6R (Table: contents of the instrument constituting the fund), paragraph (8) (Government and public securities: investment in one issuer);

(b) *COLL* 4.2.5R (Table: contents of the prospectus), paragraph (3)(i) (Investment objectives and policy);

(c) *COLL* 4.2.5R (Table: contents of the prospectus), paragraph (3)(q) (Investment objectives and policy);

(d) *COLL* 4.5.9R(12) (Authorised fund manager's report);

(e) *COLL* 5.2.3R(2) (Prudent spread of risk);

(f) *COLL* 5.2.6AR (UCITS schemes: permitted types of scheme property);

(g) *COLL* 5.2.8R (Transferable securities and money-market instruments generally to be admitted to or dealt in on an eligible market);

(h) *COLL* 5.2.11R (Spread: general);

(i) *COLL* 5.2.12R (Spread: government and public securities);

(j) *COLL* 5.2.13R (Investment in collective investment schemes);

(k) *COLL* 5.2.15R (Investment in associated collective investment schemes);

(l) *COLL* 5.2.16R (Investment in other group schemes);

(m) *COLL* 5.2.17AR (Investment in securitisation positions);

(n) *COLL* 5.2.27R (Significant influence for ICVCs);

(o) *COLL* 5.2.28R (Significant influence for authorised fund managers of AUTs or ACSs);

(p) *COLL* 5.2.29R (Concentration);

(q) *COLL* 5.2.30R (UCITS schemes that are umbrellas);

(r) *COLL* 5.2.31R (Schemes replicating an index);

(s) *COLL* 5.4.3R (Stock lending: general);

(t) *COLL* 6.6.14R(3), (5) and (6) (Duties of the depositary and the authorised fund manager: investment and borrowing powers); and

(u) *COBS* 4.13.2R(2) (Marketing communications relating to UCITS schemes).

Notification requirements for MMF managers of MMFs that are AIFs

1.3.3 R The *MMF manager* of an *MMF* that is an *AIF* must notify the *FCA* of any changes to:

(1) the written agreement with the *MMF's depositary*;

(2) the delegation arrangements relating to *AIFM investment management functions*; and

(3) the investment strategies, the risk profile and other characteristics of any *MMFs* that are *AIFs* that the *MMF manager* either manages or intends to manage.

1.3.4 G In addition to the notification requirement in *MMFS* 1.3.3R, *MMF managers* are subject to a number of notification requirements, including those in *SUP* 15 (Notifications to the FCA), in *FUND* (for guidance on these requirements, see *FUND* Schedule 2 (Notification requirements)) and under the *AIFMD UK regulation*.

2 Eligible assets for UK MMFs

2.1 Application and purpose

Application

2.1.1 R This chapter applies to:

(1) the *MMF manager* of a *UK MMF*;

(2) the *depositary* of a *UK MMF*; and

(3) an *ICVC* which is a *UK MMF*.

Purpose

2.1.2 G This chapter helps in achieving the *statutory objectives* of securing an appropriate degree of protection for *consumers* and protecting and enhancing the integrity of the *UK* financial system, including its soundness, stability and resilience, by specifying the particular *investments* that are eligible for *UK MMFs* to invest in.

2.2 General principles

Eligible assets

2.2.1 R (1) Subject to (2), a *UK MMF* must only enter into or invest in one or more of the following categories of eligible financial assets:

(a) *eligible money market instruments*;

(b) *eligible securitisations*;

(c) *eligible ABCP*;

(d) *eligible deposits*;

(e) *eligible derivatives*;

(f) *eligible repurchase agreements*;

(g) *eligible reverse repurchase agreements*; and

(h) *eligible MMF units*.

(2) A *UK MMF* may hold ancillary liquid assets.

2.2.2 G For the purposes of *MMFS* 2.2.1R(2), ancillary liquid assets may include *money* in a bank account that is accessible at any time, in addition to investment in *eligible deposits* in accordance with the *prospectus*. Holding ancillary liquid assets may be justified, for example, to cover current or exceptional payments or, in relation to the *issue* of *units*, for the time that it takes to invest the *money* received in eligible financial assets (see *MMFS* 2.2.1R(1)).

2.2.3 R A *UK MMF* must not:

(1) agree or undertake to 'short sell' any of the following instruments:

(a) *money market instruments*;

(b) *securitisations*;

(c) *ABCP*; or

(d) *units* of other *MMFs*;

(2) take direct or indirect exposure to:

(a) *equity shares*;

(b) *securities* convertible into *equity shares*;

(c) commodities, being goods of a fungible nature that are capable of being delivered, including metals and their ores and alloys, agricultural products, and energy such as electricity; or

(d) *derivatives*, certificates, indices or any other instruments which give exposure to, represent or are based on (a) to (c);

(3) enter into a 'securities lending agreement' or a 'securities borrowing agreement', or any other agreement that would encumber the assets held by the *MMF*; or

(4) borrow or lend *money*, except insofar as such borrowing or lending forms part of an *eligible repurchase agreement* or an *eligible reverse repurchase agreement*.

2.2.4 R For the purpose of *MMFS* 2.2.3R:

(1) The reference to an agreement to 'short sell' an instrument in *MMFS* 2.2.3R(1):

(a) means any agreement to *sell*, for or on behalf of an *MMF*, an instrument which the *MMF* does not own at the time of entering into the agreement;

(b) includes any agreement where, at the time of entering it, the *MMF* has borrowed or agreed to borrow the instrument for delivery at settlement; and

(c) excludes:

(i) an agreement to *sell* by either party under a *repurchase agreement* or a *reverse repurchase agreement*; and

(ii) an agreement to *sell* as part of a *futures* or other *derivative* where it is agreed to *sell securities* at a specified price at a future date.

(2) The reference to a 'securities lending agreement' in *MMFS* 2.2.3R(3) means any transaction in which a *UK MMF*, or an *MMF manager* for, or on behalf of, a *UK MMF*, transfers *securities* to a borrowing institution subject to a commitment that the borrowing institution will return equivalent *securities* at some future date or when requested to do so by the transferring *MMF manager*.

(3) The reference to a 'securities borrowing agreement' in *MMFS* 2.2.3R(3) means any transaction in which a *UK MMF*, or an *MMF manager* for, or on behalf of, a *UK MMF*, receives *securities* from a transferring institution, subject to a commitment that it will return equivalent *securities* at some future date or when requested to do so by the transferring institution.

Prohibition on external support

2.2.5 R (1) A *UK MMF* or an *MMF manager* (for, or on behalf of, a *UK MMF*) must not receive any external support.

(2) For the purposes of (1), external support:

(a) means direct or indirect support offered to the *MMF* by a third party, including a sponsor of the *MMF*, that is intended for or in effect would result in guaranteeing the liquidity of the *MMF* or stabilising the *NAV per unit* of the *MMF*; and

(b) includes the following:

(i) injections of *money* from a third party;

(ii) the purchase by a third party of the *MMF's* assets at an inflated price;

(iii) the purchase by a third party of *units* in the *MMF* in order to provide liquidity to the *scheme*;

(iv) the issuance by a third party of any kind of explicit or implicit guarantee, warranty or letter of support for the benefit of the *MMF*; and

(v) any action by a third party the direct or indirect objective of which is to maintain the liquidity profile and the *NAV per unit* of the *MMF*.

2.2.6 G (1) External support provided to an *MMF* with a view to maintaining either liquidity or stability increases the contagion risk between *MMFs* and the rest of the financial sector. Third parties that provide such support, such as *credit institutions*, other *financial institutions* or *persons* in the same *group* as an *MMF*, could have an interest in doing so, either because they have an economic interest in the *MMF manager* of the *MMF* or because they want to avoid any reputational damage.

(2) Because those third parties do not always commit explicitly to providing or guaranteeing the support, there is uncertainty about whether such support will be granted should the *MMF* need it. In those circumstances, the discretionary nature of sponsor support contributes to uncertainty among market participants about who will bear losses. That uncertainty likely makes *MMFs* more vulnerable to runs during periods of financial instability, when broader financial risks are most pronounced and when concerns arise about the health of the sponsors and their ability to provide support to affiliated *MMFs*. As a result, external support is generally prohibited.

2.3 Eligible money market instruments

Meaning of 'money market instrument'

2.3.1 R (1) An instrument is a 'money market instrument' if it is a *financial instrument* which:

(a) is normally *dealt* in on the money market (see *MMFS* 2.3.2R);

(b) is liquid (see *MMFS* 2.3.3R); and

(c) has a value which can be accurately determined at any time (see *MMFS* 2.3.4R).

(2) The reference to a 'money market instrument' in (1) includes a *financial instrument* which is issued or guaranteed separately or jointly by:

(a) the national, regional and local administrations of the *United Kingdom*;

(b) a central authority of the *United Kingdom*;

(c) the Bank of England;

(d) the *EU*, or the national, regional and local administrations of a country in the *EU*;

(e) the European Investment Bank, the European Investment Fund, the European Stability Mechanism, or the European Financial Stability Facility;

(f) an *overseas* central authority;

(g) an *overseas central bank*;

(h) the International Monetary Fund, or the International Bank for Reconstruction and Development;

(i) the Council of Europe Development Bank, or the European Bank for Reconstruction and Development;

(j) the Bank for International Settlements; or

(k) any other international financial institution or organisation to which the *United Kingdom* or a country in the *EU* belongs.

2.3.2 R A *financial instrument* is normally *dealt* in on the money market if it:

(1) has a *legal maturity* at issuance of up to and including 397 *days*;

(2) has a *residual maturity* of up to and including 397 *days*;

(3) undergoes regular yield adjustments in line with money market conditions at least every 397 *days*; or

(4) has a risk profile, including credit and interest rate risks, corresponding to that of a *financial instrument* which has a maturity as set out in (1) or (2), or is subject to a yield adjustment as set out in (3).

2.3.3 R A *financial instrument* is liquid if it can be sold at limited cost in an adequately short time frame, taking into account the obligation of the *MMF manager* to *redeem units* at the request of any qualifying *unitholder*.

2.3.4 R A *financial instrument* is to be regarded as having a value which can be accurately determined at any time if accurate and reliable valuation systems are available, which:

(1) enable the *MMF manager* to calculate a net asset value in accordance with the value at which the instrument held in the portfolio could be exchanged between knowledgeable willing parties in an arm’s length transaction; and

(2) are based either on market data or on valuation models, including systems based on amortised costs.

Meaning of 'eligible money market instrument'

2.3.5 R An 'eligible money market instrument' is a *money market instrument* which satisfies the conditions in *MMFS* 2.3.6R to *MMFS* 2.3.9R (Conditions for eligible money market instruments).

Conditions for eligible money market instruments

2.3.6 R The *money market instrument* must:

(1) be admitted to or *dealt* in on:

(a) a *UK RIE*; or

(b) an *EU regulated market*;

(2) be *dealt* in on a market in the *United Kingdom* or in the *EU* which is regulated, operates regularly and is open to the public;

(3) be admitted to or *dealt* in on a market within *COLL* 5.2.10R(2) which is considered appropriate under *COLL* 5.2.10R(3); or

(4) if not within (1) to (3) above:

(a) be within *COLL* 5.2.10AR (Money-market instruments with a regulated issuer);

(b) be issued or guaranteed in accordance with *COLL* 5.2.10BR (Issuers and guarantors of money-market instruments); and

(c) satisfy the conditions relating to appropriate information in *COLL* 5.2.10CR (Appropriate information for money-market instruments), and

for the purposes of *MMFS* 2.3.6(4)(a) to (c), *COLL* 5.2.10R(2) and (3), *COLL* 5.2.10AR, *COLL* 5.2.10BR and *COLL* 5.2.10CR are to be construed as if they applied to the *MMF manager* and, where relevant, the *depositary* of a *UK MMF* that is a *UK AIF*.

2.3.7 R The *money market instrument* must:

(1) have a *legal maturity* at issuance of 397 *days* or less;

(2) have a *residual maturity* of 397 *days* or less; or

(3) where the *MMF* is a *standard MMF*, have a *residual maturity* of 2 years or less, provided that:

(a) the time remaining until the next interest rate reset date is 397 *days* or less; and

(b) where the *money market instrument* has a floating rate or a fixed rate hedged by a swap arrangement, the rate is reset in accordance with (3)(a) to a money market rate or index.

2.3.8 R Either:

(1) the issuer of the *money market instrument* and the quality of the *money market instrument* must have received a favourable assessment pursuant to the *rules* in *MMFS* 4 (Credit quality of money market instruments, securitisations and ABCP); or

(2) the *money market instrument* must be issued or guaranteed by:

(a) a central authority of the *United Kingdom* or the Bank of England;

(b) a central authority or *central bank* of a country in the *EU*; or

(c) the European Central Bank, the European Investment Bank, the European Stability Mechanism or the European Financial Stability Facility.

2.3.9 R Where the *money market instrument* is an *investment* in a *securitisation* or *ABCP*, the *money market instrument* must be an *eligible securitisation* or an *eligible ABCP* (see *MMFS* 2.4 (Eligible securitisations and eligible ABCP)).

2.4 Eligible securitisations and eligible ABCP

Meaning of 'eligible securitisation' and 'eligible ABCP'

2.4.1 R (1) A *securitisation* is an 'eligible securitisation' if it satisfies:

(a) all the conditions in *MMFS* 2.4.2R; and

(b) as applicable, the conditions in either:

(i) *MMFS* 2.4.3R (Additional conditions for short-term MMFs); or

(ii) *MMFS* 2.4.4R (Additional conditions for standard MMFs).

(2) *ABCP* is 'eligible ABCP' if it satisfies:

(a) all the conditions in *MMFS* 2.4.2R; and

(b) as applicable, the conditions in either

(i) *MMFS* 2.4.3R (Additional conditions for short-term MMFs); or

(ii) *MMFS* 2.4.4R (Additional conditions for standard MMFs).

Conditions for securitisations and ABCP

2.4.2 R The conditions referred to in *MMFS* 2.4.1R(1) and (2) are as follows:

(1) The *securitisation* or *ABCP* must:

(a) be sufficiently liquid;

(b) have received a favourable assessment pursuant to the *rules* in *MMFS* 4 (Credit quality of money market instruments, securitisations and ABCP); and

(c) be an instrument within (2).

(2) The instrument must be one of the following:

(a) a *securitisation* referred to in Article 13 of Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA Rulebook*;

(b) an *ABCP* issued by an *ABCP programme* which:

(i) is fully supported by a *credit institution* that covers all liquidity, credit and material dilution risks, as well as ongoing transaction costs and ongoing costs related to the *ABCP programme*, if necessary to guarantee the investor the full payment of any amount under the *ABCP*;

(ii) is not a *re-securitisation*, and where the exposures underlying the *securitisation* at the level of each *ABCP transaction* do not include any *securitisation* position; and

(iii) does not include a *synthetic securitisation*;

(c) an *STS securitisation*; or

(d) an *STS ABCP*.

Additional conditions for short-term MMFs

2.4.3 R (1) Where the *MMF* investing in a *securitisation* or *ABCP* is a *short-term MMF*:

(a) the *securitisation* is an 'eligible securitisation'; and

(b) the *ABCP* is 'eligible *ABCP*',

only if at least one of the conditions in (2) is satisfied.

(2) (a) In relation to a *securitisation* within *MMFS* 2.4.2R(2)(a):

(i) the *legal maturity* at issuance of the *securitisation* must be 2 years or less; and

(ii) the time remaining until the next interest rate reset date must be 397 *days* or less.

(b) In relation to:

(i) *ABCP* within *MMFS* 2.4.2R(2)(b); and

(ii) *STS ABCP* within *MMFS* 2.4.2R(2)(d),

the *legal maturity* at issuance or the *residual maturity* of the *ABCP* or the *STS ABCP* must be 397 *days* or less.

(c) In relation to an *STS securitisation* within *MMFS* 2.4.2R(2)(c), the *legal maturity* at issuance or *residual maturity* of the *STS securitisation* must be 397 *days* or less.

(d) In relation to:

(i) a *securitisation* within *MMFS* 2.4.2R(2)(a); or

(ii) an *STS securitisation* within *MMFS* 2.4.2R(2)(c),

the relevant *securitisation* or *STS securitisation* must be an amortising instrument with a *WAL* of 2 years or less.

Additional conditions for standard MMFs

2.4.4 R (1) Where the *MMF* investing in a *securitisation* or *ABCP* is a *standard MMF*:

(a) the *securitisation* is an 'eligible securitisation'; and

(b) the *ABCP* is 'eligible *ABCP*',

only if at least one of the applicable conditions in (2) is satisfied.

(2) (a) In relation to:

(i) a *securitisation* within *MMFS* 2.4.2R(2)(a); and

(ii) an *STS securitisation* within *MMFS* 2.4.2R(2)(c),

the *legal maturity* at issuance, or the *residual maturity* of the *securitisation* or *STS securitisation* must be 2 years or less and the time remaining until the next interest rate reset date must be 397 *days* or less.

(b) In relation to:

(i) *ABCP* within *MMFS* 2.4.2R(2)(b); and

(ii) *STS ABCP* within *MMFS* 2.4.2R(2)(d),

the *legal maturity* at issuance of the *ABCP* or *STS ABCP*, or the *residual maturity* of such *ABCP* or *STS ABCP* must be 2 years or less, and in either case the time remaining until the next interest rate reset date must be 397 *days* or less.

(c) In relation to:

(i) a *securitisation* within *MMFS* 2.4.2R(2)(a); and

(ii) an *STS securitisation* within *MMFS* 2.4.2R(2)(c),

the *securitisation* or *STS securitisation* must be an amortising instrument and have a *WAL* of 2 years or less.

2.5 Eligible deposits

Meaning of 'eligible deposit'

2.5.1 R A *deposit* is an 'eligible deposit' if either:

(1) the *deposit*:

(a) is with a *credit institution*; and

(b) satisfies all of the conditions in *MMFS* 2.5.3R(2) to (4) (Conditions for eligible deposits with credit institutions); or

(2) the *deposit* is with a public body responsible for the management of public debt in the *United Kingdom*.

2.5.2 G The *United Kingdom* Debt Management Office, an executive agency of HM Treasury, is the public body responsible for the management of public debt in the *United Kingdom*.

Conditions for eligible deposits with credit institutions

2.5.3 R (1) The following conditions apply where the *deposit* is with a *credit institution*.

(2) The *deposit* must be repayable on demand or be capable of being withdrawn at any time.

(3) The *deposit* must mature in no more than 12 *months*.

(4) The *credit institution* must have its registered office:

(a) in the *United Kingdom*;

(b) in a country in the *EU*; or

(c) if not in (a) or (b), in a country in which the *credit institution* would be subject to prudential supervisory and regulatory requirements that are considered at least equivalent to those laid down:

(i) in *EU* law, in accordance with a decision adopted before *exit day* by the European Commission under the procedure laid down in Article 107(4) of the *EU CRR*; or

(ii) in the law of the *United Kingdom*, in accordance with regulations made on or after *exit day* by HM Treasury under Article 107(4) of the *UK CRR*.

2.6 Eligible derivatives

Meaning of 'eligible derivative'

2.6.1 R A *derivative* is an 'eligible derivative' if it falls within *MMFS* 2.6.2R and satisfies all of the conditions in *MMFS* 2.6.3R.

Conditions for eligible derivatives

2.6.2 R A *derivative* falls within this *rule* if it is:

(1) admitted to trading or *dealt* in on:

(a) a *UK RIE*; or

(b) an *EU regulated market*;

(2) *dealt* in on a market in the *United Kingdom* or in the *EU* which is regulated, operates regularly, is recognised and open to the public;

(3) admitted to official listing on a stock exchange in a country other than the *UK* or a country in the *EU*;

(4) admitted to or *dealt* in on a market within *COLL* 5.2.10R(2) which is considered appropriate under *COLL* 5.2.10R(3) (Eligible markets: requirements) (construing *COLL* 5.2.10R(2) and (3) as if they applied to the *MMF manager* and, where relevant, the *depositary*, of a *UK MMF* that is a *UK AIF*); or

(5) an *OTC derivative*.

2.6.3 R A *derivative* must satisfy all of the following conditions:

(1) The underlying of the *derivative* must consist of interest rates, foreign exchange rates, currencies or indices representing interest rates, foreign exchange rates or currencies.

(2) The *derivative* must be held only for the purpose of hedging the interest rate or exchange rate risks inherent in the other assets held by the *MMF*.

(3) Where the *derivative* is an *OTC derivative*:

(a) the counterparty to the *OTC derivative* transaction must be subject to prudential regulation and supervision and be an approved counterparty within *COLL* 5.2.23R(1);

(b) the *OTC derivative* must be subject to reliable and verifiable valuation on a daily basis; and

(c) the *OTC derivative* must be capable of being sold, liquidated or closed by an offsetting transaction at any time at its fair value at the *MMF manager's* initiative.

2.7 Eligible repurchase agreements

Meaning of 'eligible repurchase agreement'

2.7.1 R A *repurchase agreement* is an 'eligible repurchase agreement' if it satisfies all of the conditions in *MMFS* 2.7.2R.

Conditions for eligible repurchase agreements

2.7.2 R The conditions referred to in *MMFS* 2.7.1R are as follows:

(1) The *repurchase agreement* must:

(a) be used on a temporary basis, for no more than 7 *business days*; and

(b) be used only for liquidity management purposes (including meeting *redemptions*); and

(c) not be used for investment purposes other than as referred to in (3) below.

(2) The counterparty receiving the assets transferred by the *MMF* as *collateral* under the *repurchase agreement* must be prohibited from *selling*, investing, pledging or otherwise transferring those assets without the *MMF's* prior consent or, where relevant, the prior consent of the *MMF manager* for, and on behalf of, the *MMF*.

(3) To the extent that the *money* received by the *MMF* as part of the *repurchase agreement* is used for investment purposes, it may be:

(a) deposited with a *credit institution* which is an *approved bank* on such terms that:

(i) it is repayable on demand or has a right to be withdrawn; and

(ii) it matures in no more than 12 *months*;

(b) deposited with a public body responsible for the management of public debt in the *United Kingdom*; or

(c) invested in assets within *MMFS* 2.8.7R or *MMFS* 2.8.8R (Receiving assets that are not eligible money market instruments), but must not otherwise be invested in the assets referred to in *MMFS* 2.2.1R(1) (Eligible assets), transferred or otherwise reused.

(4) The *money* received by the *MMF* as part of the *repurchase agreement* must not exceed 10% of the value of the *MMF's* assets.

(5) The *MMF* must have the right to terminate the agreement at any time on no more than 2 *business days'* notice.

2.8 Eligible reverse repurchase agreements

Meaning of 'eligible reverse repurchase agreement'

2.8.1 R A *reverse repurchase agreement* is an 'eligible reverse repurchase agreement' if it satisfies all of the conditions set out in this section.

Conditions for eligible reverse repurchase agreements

2.8.2 R (1) The *MMF* (or the *MMF manager* for, or on behalf of, the *MMF*) must have the right to terminate the *reverse repurchase agreement* at any time on giving notice of no more than 5 *business days*.

(2) The market value of the assets received as part of the *reverse repurchase agreement* must at all times be at least equal to the value of the *money* paid out by the *MMF* under the agreement.

2.8.3 R Subject to *MMFS* 2.8.7R and *MMFS* 2.8.8R (Receiving assets that are not eligible money market instruments), the assets received by the *MMF* as part of a *reverse repurchase agreement*:

(1) must be *eligible money market instruments* (see *MMFS* 2.3 (Eligible money market instruments)); and

(2) must not be sold, reinvested, pledged or otherwise transferred.

2.8.4 R The *MMF* must not receive *securitisations* or *ABCP* as part of the *reverse repurchase agreement*.

2.8.5 R (1) The assets received by an *MMF* as part of the *reverse repurchase agreement* must be:

(a) sufficiently diversified, with a maximum exposure to a single issuer of 15% of the value of the *MMF's* assets; and

(b) issued by an entity that is independent from the counterparty, the performance of which is not expected to display a high correlation with the performance of the issuer.

(2) Paragraph (1) does not apply where the assets received by the *MMF*:

(a) take the form of *eligible money market instruments* within *MMFS* 3.2.8R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations); and

(b) satisfy the conditions in *MMFS* 3.2.9R.

2.8.6 R (1) An *MMF* that enters into a *reverse repurchase agreement* must ensure that it is able to request the full amount of *money* at any time on:

(a) an accrued basis; or

(b) a *mark-to-market* basis.

(2) When the *money* in (1) is recallable on a *mark-to-market* basis (see (1)(b)), the *mark-to-market* value of the *reverse repurchase agreement* must be used for the calculation of the *NAV* of the *MMF*.

Receiving assets that are not eligible money market instruments

2.8.7 R As part of a *reverse repurchase agreement*, an *MMF* may receive assets that are not *eligible money market instruments* provided that:

(1) the assets received:

(a) are liquid *transferable securities* or *money market instruments*; and

(b) have received a favourable internal credit quality assessment pursuant to *MMFS* 4.2 (Internal credit quality assessment procedure) to *MMFS* 4.4 (Records relating to the internal credit quality assessment), reading those sections as if they applied to the instruments referred to in (1)(a);

(2) the assets received are issued or guaranteed by:

(a) a central authority of the *United Kingdom* or the Bank of England;

(b) a central authority or the *central bank* of a country in the *EU*, the *EU*, the European Central Bank, the European Investment Bank, the European Stability Mechanism or the European Financial Stability Facility; or

(c) a central authority or the *central bank* of a country or territory *overseas* which is not in (b);

(3) all of the assets received during the relevant *annual accounting period* or *half-yearly accounting period* are disclosed to *MMF unitholders* (as applicable):

(a) in the half-yearly and annual reports referred to in *COLL* 4.5 (Reports and accounts);

(b) in the half-yearly and annual reports referred to in *COLL* 8.3 (Investor relations); or

(c) in the annual report referred to in *FUND* 3.3 (Annual report of an AIF);

(4) the conditions in *MMFS* 3.2.9R(1) to (4) (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations) are satisfied; and

(5) either:

(a) the counterparty to the *reverse repurchase agreement* is:

(i) a *credit institution* that is a ‘CRR firm’ as defined in Article 4(1)(2A) of the *UK CRR*;

(ii) a *MiFID investment firm*;

(iii) the Bank of England;

(iv) a *central counterparty* authorised under *EMIR*;

(v) an *insurance undertaking* supervised under the *Solvency 2 Regulations 2015*;

(vi) a *recognised third country credit institution*;

(vii) a *third country investment firm*, where, under article 107 of the *UK CRR*, the relevant *third country* has been determined by HM Treasury to apply prudential supervisory and regulatory requirements that are at least equivalent to those applied in the *United Kingdom*;

(viii) a *third country insurance undertaking*, provided that the prudential supervisory and regulatory requirements are equivalent to those applied in the *United Kingdom*; or

(ix) an *overseas central bank*, provided that the prudential supervisory and regulatory requirements applied in that country have been recognised as equivalent to those applied in the *United Kingdom* in accordance with Article 114(7) of the *UK CRR*; or

(b) the conditions in *MMFS* 2.8.8R are satisfied.

2.8.8 R For the purpose of *MMFS* 2.8.7R(5)(b), the conditions are as follows:

(1) The *reverse repurchase agreement* must meet established market standards.

(2) The terms and conditions of the *reverse repurchase agreement* must enable the *MMF manager* to fully enforce its rights in the case of the default of the counterparty to the agreement or early termination of the agreement.

(3) The *MMF manager* must have an unrestricted right to *sell* any assets received as *collateral* as part of the *reverse repurchase agreement*.

(4) (a) The assets received as *collateral* for the *reverse repurchase agreement* must be subject to a haircut (in this *rule*, a 'haircut').

(b) The haircut in (4)(a) must be equal to the volatility adjustment figure referred to in Table 1 or Table 2 of Article 224(1) of the *UK CRR* for a given *residual maturity*, in respect of a 5-*day* liquidation period and the highest assessment in terms of credit quality step.

(c) The *MMF manager* must regularly revise the haircut in (4)(a), taking into account changes in the *residual maturity* of the assets used as *collateral*.

(5) (a) Where it determines it to be necessary, the *MMF manager* must also apply an additional adjustment to the haircut in (4)(a) (in this *rule*, an 'additional adjustment').

(b) To determine whether an additional adjustment in (5)(a) is necessary, the *MMF manager* must take into account each of the following:

(i) the credit quality assessment of the counterparty to the *reverse repurchase agreement*;

(ii) the 'margin period of risk', as defined in Article 272(9) of the *UK CRR*;

(iii) the credit quality assessment of the issuer or of the asset that is used as *collateral*;

(iv) the remaining maturity of the assets used as *collateral*; and

(v) the volatility of the price of the assets used as *collateral*.

(c) Whenever the factors set out in (5)(b) change, the *MMF manager* must revise the additional adjustment.

(6) (a) The *MMF manager* must establish and operate a clear policy adapted to each asset received as *collateral* as part of the *reverse repurchase agreement* for the purpose of the additional adjustment.

(b) The policy referred to in (6)(a) must:

(i) be documented; and

(ii) substantiate each decision to apply a specific adjustment to the value of the asset.

2.9 Eligible MMF units

Meaning of 'eligible MMF unit'

2.9.1 R A *unit* in another *MMF* (the 'targeted *MMF*') is an 'eligible MMF unit' if:

(1) the targeted *MMF* falls within *MMFS* 2.9.2 (Conditions applicable to the targeted MMF); and

(2) the *UK MMF* investing in such *units* (the 'acquiring *MMF*') complies with the conditions in *MMFS* 2.9.3R (as applicable).

Conditions applicable to the targeted MMF

2.9.2 R A targeted *MMF* falls within this *rule* if:

(1) the targeted *MMF* is a *qualifying money market fund*;

(2) the *instrument constituting the fund* of the targeted *MMF* does not allow it to invest more than 10% of the value of its assets in *units* of one or more other *MMFs*;

(3) the targeted *MMF* does not hold *units* of the acquiring *MMF*;

(4) the targeted *MMF* does not invest in *units* of the acquiring *MMF* during the period in which the acquiring *MMF* holds *units* of the targeted *MMF*; and

(5) where the targeted *MMF* is managed, whether directly or under a delegation arrangement, by:

(a) the same *MMF manager* as that of the acquiring *MMF*; or

(b) another company to which the *MMF manager* of the acquiring *MMF* is linked by common management or control, or by a substantial direct or indirect holding,

the *MMF manager* of the targeted *MMF*, or that other company, must be prohibited from charging subscription or *redemption* fees on account of the investment by the acquiring *MMF* in the *units* of the targeted *MMF*.

General conditions for the acquiring MMF

2.9.3 R (1) The acquiring *MMF* must not invest:

(a) more than 5% of the value of its assets in the *units* of a single targeted *MMF*; and

(b) more than 17.5% of the value of its assets in the *units* of other targeted *MMFs*.

(2) The acquiring *MMF* may invest 10% or more of the value of its assets in *units* of other *MMFs* provided that:

(a) the *prospectus* of the acquiring *MMF* discloses the maximum level of fees and charges payable by the acquiring *MMF* and by the targeted *MMFs* in which the acquiring *MMF* invests; and

(b) the annual report of the acquiring *MMF* details the maximum proportion of fees and charges payable by the acquiring *MMF* and by the targeted *MMFs* in which it invests.

(3) Where the acquiring *MMF* is a *short-term MMF*, it may invest only in *units* of:

(a) another *short-term MMF*; or

(b) a *qualifying money market fund* that is authorised as a 'short-term MMF' under the *EU MMF Regulation*.

(4) Where the acquiring *MMF* is a *standard MMF*, it may invest in *units* of:

(a) a *short-term MMF*;

(b) a *standard MMF*; or

(c) a *qualifying money market fund* that is authorised as a 'short-term MMF' or a 'standard MMF' under the *EU MMF Regulation*.

3 Investment policies

3.1 Introduction

Application

3.1.1 R This chapter applies to:

(1) the *MMF manager* of a *UK MMF*;

(2) the *depositary* of a *UK MMF*; and

(3) an *ICVC* which is a *UK MMF*.

Purpose

3.1.2 G (1) This chapter helps in achieving the *statutory objectives* of securing an appropriate degree of protection for *consumers* and protecting and enhancing the integrity of the *UK* financial system, including its soundness, stability and resilience.

(2) The *rules* in this chapter specify the diversification and concentration requirements that apply to *UK MMFs* so that they are more resilient to difficulties which may affect the issuers of instruments in which they invest, and to avoid an *MMF* exercising significant influence over the management of an issuing body.

References to the same or a single body, etc.

3.1.3 R For the purpose of calculating the relevant limits referred to in this chapter, any company which is included in the same group for the purposes of consolidated accounts under the Companies Partnerships and Groups (Accounts and Reports) Regulations 2015 or in accordance with recognised international accounting rules is to be regarded as being the 'same body', a 'single body', the 'same *credit institution*', a 'single *credit institution*', or the 'same counterparty', and references to those terms are to be construed accordingly.

3.2 Diversification requirements

General diversification requirements

3.2.1 R (1) A *UK MMF* must not invest more than 5% of the value of its assets in the instruments in (2) where they are issued by the same body.

(2) The instruments are:

(a) *eligible money market instruments*;

(b) *eligible securitisations*; and

(c) *eligible ABCP*.

(3) This *rule* is subject to:

(a) *MMFS* 3.2.3R (Derogation for VNAV MMFs relating to money market instruments, securitisations and ABCP);

(b) *MMFS* 3.2.7R (Overriding limits where investments are combined);

(c) *MMFS* 3.2.8R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations);

(d) *MMFS* 3.2.11R (Overall limits relating to bonds issued by credit institutions in the UK or EU); and

(e) *MMFS* 3.2.12R (Overall limits to high-quality covered bonds issued by a single credit institution).

3.2.2 R (1) An *MMF* must not place more than 10% of the value of its assets in *eligible deposits* with the same *credit institution*.

(2) This *rule* is subject to:

(a) *MMFS* 3.2.7R (Overriding limits where investments are combined);

(b) *MMFS* 3.2.11R (Overall limits relating to bonds issued by credit institutions in the UK or EU); and

(c) *MMFS* 3.2.12R (Overall limits to high-quality covered bonds issued by a single credit institution).

Derogation for VNAV MMFs relating to money market instruments, securitisations and ABCP

3.2.3 R (1) Where the condition in (2) is satisfied:

(a) a *VNAV MMF* may invest up to 10% of the value of its assets in instruments within *MMFS* 3.2.1R(2) issued by the same body; and

(b) the limit in *MMFS* 3.2.1R(1) does not apply.

(2) The total value of the assets held in instruments issued by all the bodies with which the *VNAV MMF* has invested more than 5% of the value of its assets, in accordance with (1), must not exceed 40% of the total value of the *MMF's* assets.

Overall limit for investment in securitisations and ABCP

3.2.4 R (1) The total exposure of an *MMF* to *eligible securitisations* and *eligible ABCP* must not exceed 20% of the value of the assets of the *MMF*.

(2) Up to 15% of the value of the assets of the *MMF* may be invested in *securitisations* and *ABCP* that are not *STS securitisations* or *STS ABCP* (see *SECN* 2 (Requirements on STS securitisations)).

Overall limit for investment in OTC derivatives

3.2.5 R (1) This *rule* applies to the risk exposure arising from *OTC derivatives* which are *eligible derivatives*.

(2) An *MMF* must not have a total risk exposure of more than 5% of the value of its assets where the transactions and instruments in (1) are with the same counterparty.

(3) This *rule* is subject to *MMFS* 3.2.7R (Overriding limits where investments are combined).

Overall limits relating to reverse repurchase agreements

3.2.6 R The total amount of *money* provided to the same counterparty of an *MMF* in *eligible reverse repurchase agreements* must not exceed 15% of the value of the *MMF's* assets.

Overriding limits where investments are combined

3.2.7 R An *MMF* must not hold:

(1) *eligible money market instruments*, *eligible securitisations* and *eligible ABCP* issued by a single body;

(2) *eligible deposits* within *MMFS* 2.5.1R(1) made with that body; or

(3) *OTC derivatives* that are *eligible derivatives* giving counterparty risk exposure to that body,

if doing so would result in an investment of more than 15% of the value of the *MMF's* assets in or with that body.

Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations

3.2.8 R Where all the conditions in *MMFS* 3.2.9R are satisfied, an *MMF manager* may invest up to 100% of the value of the *MMF's* assets in *eligible money market instruments* issued or guaranteed by one or more of the following:

(1) a national, regional or local administration of the *United Kingdom*;

(2) the Bank of England;

(3) a national, regional or local administration of a country in the *EU*;

(4) the *EU*, the European Investment Bank, the European Investment Fund, the European Stability Mechanism or the European Financial Stability Facility;

(5) an *overseas* central authority or an *overseas central bank*;

(6) the International Monetary Fund or the International Bank for Reconstruction and Development;

(7) the Council of Europe Development Bank or the European Bank for Reconstruction and Development;

(8) the Bank for International Settlements; or

(9) another relevant international financial institution or organisation to which the *United Kingdom* belongs.

3.2.9 R The conditions referred to in *MMFS* 3.2.8R are as follows:

(1) The *MMF's* investment must be made in accordance with the aim of providing a prudent spread of risk.

(2) The *eligible money market instruments* must be from at least 6 different issues by the issuer.

(3) The *MMF* must not invest more than 30% of the value of its assets in *eligible money market instruments* from the same issue.

(4) The *MMF's prospectus* indicates the categories of issuer that issue or guarantee separately or jointly the *eligible money market instruments* in which it invests or intends to invest more than 5% of the value of its assets.

3.2.10 G For the purpose of indicating 'categories of issuer' in *MMFS* 3.2.9R(4), the *prospectus* should identify at least whether the issuer is a local, regional, or national or international authority or organisation, and the country and region in which that authority or organisation is based.

Overall limits relating to bonds issued by credit institutions in the UK or EU

3.2.11 R (1) Where the conditions in (2) are satisfied:

(a) an *MMF* may invest up to 10% of the value of its assets in bonds issued by a single *credit institution*; and

(b) (where applicable) the limits in *MMFS* 3.2.1R and *MMFS* 3.2.2R do not apply.

(2) The conditions referred to in (1) are as follows:

(a) The *credit institution* has its registered office in the *United Kingdom* or a country in the *EU*.

(b) The *credit institution* is subject by law to special public supervision designed to protect bondholders.

(c) The law referred to in (b) must require that sums deriving from the issue of those bonds are invested, in accordance with the law, in assets which have the effect that:

(i) during the period of validity of the bonds, those sums are capable of covering claims attaching to the bonds; and

(ii) in the event of failure of the issuer, those sums will be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

(d) Where an *MMF* invests more than 5% of the value of its assets in bonds issued by a single *credit institution*, the total value of those *investments* does not exceed 40% of the value of the assets of the *MMF*.

Overall limits to high-quality covered bonds issued by a single credit institution

3.2.12 R (1) Where the conditions in (2) are satisfied:

(a) an *MMF* may invest up to 20% of the value of its assets in bonds issued by a single *credit institution*; and

(b) (where applicable) the limits in *MMFS* 3.2.1R and *MMFS* 3.2.2R do not apply.

(2) The conditions referred to in (1) are as follows:

(a) The bonds must satisfy the requirements for:

(i) extremely high-quality covered bonds which meet the requirements of paragraph 1(f) of Article 10 of Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA Rulebook*; or

(ii) high-quality covered bonds which meet the requirements of paragraph 1(c) of Article 11 of Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA Rulebook*.

(b) An *MMF* that invests more than 5% of the value of its assets in bonds issued by a single *credit institution* must not invest more than 60% of the total value of the assets of the *MMF* in such bonds.

(c) The 20% limit in (1)(a) includes investment in bonds that fall within *MMFS* 3.2.11R (Overall limits relating to bonds issued by credit institutions in the UK or EU) issued by the same *credit institution*.

(d) Where the assets in (1) include investments made in accordance with *MMFS* 3.2.11R, any investment in those assets must comply with the limits specified in that *rule*.

3.3 Concentration

3.3.1 R An *MMF* must not hold more than 10% of the *money market instruments*, *securitisations* and *ABCP* issued by a single body.

3.3.2 R *MMFS* 3.3.1R does not apply to holdings of *money market instruments* issued or guaranteed by:

(1) a national, regional or local administration of the *United Kingdom*;

(2) the Bank of England;

(3) a national, regional or local administration of a country in the *EU*;

(4) the *EU*, the European Investment Bank, the European Investment Fund, the European Stability Mechanism or the European Financial Stability Facility;

(5) an *overseas* central authority or an *overseas central bank*;

(6) the International Monetary Fund or the International Bank for Reconstruction and Development;

(7) the Council of Europe Development Bank or the European Bank for Reconstruction and Development;

(8) the Bank for International Settlements; or

(9) another relevant international financial institution or organisation to which the *United Kingdom* or one or more countries in the *EU* belong.

4 Credit quality of money market instruments, securitisations and ABCP

4.1 Introduction

Application

4.1.1 R This chapter applies to:

(1) the *MMF manager* of a *UK MMF*;

(2) the *depositary* of a *UK MMF*; and

(3) an *ICVC* which is a *UK MMF*.

4.1.2 R To the extent that they would not otherwise do so, the *rules* in *MMFS* 4.2 (Internal credit quality assessment procedure) to *MMFS* 4.4 (Records relating to the internal credit quality assessment) are to be read as if they apply to assets received by an *MMF* as part of a *reverse repurchase agreement* by virtue of *MMFS* 2.8.7R(1)(b) (Receiving assets that are not eligible money market instruments).

Purpose

4.1.3 G (1) The *rules* in this chapter require *MMFs* to invest in high-quality eligible assets by having internal assessment procedures for prudently determining the credit quality of the *money market instruments*, *securitisations* and *ABCP* in which they intend to invest.

(2) The *rules* are also intended to ensure that *MMFs* do not mechanistically rely – or overly rely – on credit ratings issued by ratings agencies. Under the *rules*, *MMFs* are expected to use ratings as a complement to their own assessment of the quality of eligible assets.

(3) The *rules* in sections *MMFS* 4.2 to *MMFS* 4.4 also apply to assets received by an *MMF* as part of a *reverse repurchase agreement* under the *rules* in *MMFS* 2.8.7R and *MMFS* 2.8.8R (Receiving assets that are not eligible money market instruments).

4.2 Internal credit quality assessment procedure

Establishment of internal credit quality assessment procedure

4.2.1 R (1) An *MMF manager* must establish, implement and consistently apply an internal assessment procedure for prudently determining the credit quality of:

(a) *money market instruments*;

(b) *securitisations*; and

(c) *ABCP*.

(2) The procedure must:

(a) take into account:

(i) the issuer of the instrument; and

(ii) the characteristics of the instrument; and

(b) specify in advance the situations where an internal credit quality assessment will be deemed to be favourable.

General principles for the internal credit quality assessment procedure

4.2.2 R The internal credit quality assessment procedure must:

(1) ensure that all information used to carry out an internal credit quality assessment is of sufficient quality, is up to date and comes from reliable sources;

(2) use an effective process to obtain and update relevant information on the relevant issuer and the instrument's characteristics;

(3) incorporate adequate measures to ensure that the internal credit quality assessment:

(a) is based on a thorough analysis of the information that is available and pertinent; and

(b) includes all relevant factors that influence the creditworthiness of the issuer and the credit quality of the instrument;

(4) be monitored on an ongoing basis;

(5) ensure the assessments remain up to date – in particular:

(a) all internal credit quality assessments must be reviewed in accordance with *MMFS* 4.2.6R(1)(a) (Requirement to review and undertake a new credit quality assessment of an instrument));

(b) new assessments must be carried out in accordance with *MMFS* 4.2.6R(1)(b) where there is a material change that could have an impact on an assessment; and

(c) each internal credit quality assessment must be reviewed at least annually (see *MMFS* 4.3.1R(3)(b) (Requirement for an internal credit quality assessment)); and

(6) be based on prudent, systematic and continuous assessment methodologies (see *MMFS* 4.2.3R (Methodologies used in the internal credit quality assessment procedure) to *MMFS* 4.2.5R (Improvements to the internal credit quality assessment methodologies)).

Methodologies used in the internal credit quality assessment procedure

4.2.3 R (1) An *MMF manager* must ensure that the methodologies used in the internal credit quality assessment procedure:

(a) are applied in a systematic way with respect to different issuers and instruments;

(b) are supported by a sufficient number of relevant qualitative and quantitative criteria;

(c) use qualitative and quantitative inputs that are reliable, with data samples of an appropriate size;

(d) contain controls and processes for the methodologies' development and related approvals that allow for suitable challenge;

(e) incorporate factors that the *MMF manager* deems to be relevant to determining the credit quality of an issuer or an instrument;

(f) unless there is an objective reason not to do so, apply key credit quality assumptions and supporting criteria to produce all credit quality assessments; and

(g) contain procedures to ensure that the criteria referred to in (b), (c) and (f) supporting the relevant factors in the internal credit quality assessment methodologies are of a reliable quality and relevant to the issuer or instrument being assessed.

(2) The *MMF manager* must ensure that past internal credit quality assessments produced using the methodologies are properly reviewed to determine whether they are a suitable indicator of credit quality.

(3) (a) The methodologies must be reviewed at least annually by the *MMF manager* to determine whether they remain appropriate for the current portfolio of assets held by the *MMF* and external conditions.

(b) If the *MMF manager* becomes aware of errors in the methodologies or in their application, it must immediately correct those errors.

(4) The *MMF manager* must also:

(a) continue to use the methodologies, unless there are objective reasons to conclude that they need to be changed or their use discontinued;

(b) ensure that the methodologies are capable of promptly incorporating any finding from ongoing monitoring or a review – in particular, where changes in structural macroeconomic or financial market conditions would potentially affect an assessment produced using the methodologies; and

(c) ensure that the methodologies make it possible to compare past internal credit quality assessments.

(5) The *MMF manager* must immediately notify the *FCA* if it:

(a) becomes aware of any errors in the credit quality assessment methodology;

(b) becomes aware of any errors in the application of the credit quality assessment methodology; or

(c) considers that the credit quality assessment methodologies are not appropriate for the current portfolio or external conditions.

Validation of the methodologies by the MMF manager

4.2.4 R (1) An *MMF manager* must validate the internal credit quality assessment methodologies using:

(a) historical experience;

(b) empirical evidence; and

(c) back testing.

(2) Any anomalies or deficiencies highlighted by back testing must be identified and addressed.

(3) As part of the validation process, the *MMF manager* must assess the sensitivity of the methodologies to changes in any underlying credit quality assumptions and criteria.

Improvements to the internal credit quality assessment methodologies

4.2.5 R If any review or validation process shows that the methodologies are not appropriate to ensure a systematic internal credit quality assessment, they must be revised as soon as reasonably practicable.

Requirement to review and undertake a new credit quality assessment of an instrument

4.2.6 R (1) The internal credit quality assessment procedure must require an *MMF manager* to:

(a) review all affected internal credit quality assessments as soon as possible if the methodologies, models or key assumptions used in the internal credit quality assessment procedure are changed; and

(b) undertake a new credit quality assessment for a *money market instrument*, *securitisation* or *ABCP* whenever there is a 'material change' that could have an impact on the existing assessment of the relevant instrument.

(2) A change is a 'material change' for the purposes of (1)(b) whenever:

(a) there is a significant change in relation to:

(i) bond pricing information, including credit spreads and the pricing of comparable fixed income instruments and related securities;

(ii) credit default-swap pricing information, including credit default-swap spreads for comparable instruments;

(iii) default statistics relating to the issuer or instrument;

(iv) financial indices relating to the geographic location, industry sector or asset class of the issuer or instrument;

(v) the analysis of underlying assets, in particular for structured instruments;

(vi) the analysis of the relevant markets, including their volume and liquidity;

(vii) the analysis of the structural aspects of the relevant instruments;

(viii) securities-related research;

(ix) the financial situation of the issuer;

(x) the sources of liquidity of the issuer;

(xi) the ability of the issuer to react to future market-wide or issuer-specific events, including the ability to repay debt in a highly adverse situation;

(xii) the strength of the issuer's industry within the economy relative to economic trends and the issuer's competitive position in its industry; or

(xiii) the analysis of the credit ratings or rating outlook given to the issuer or instrument by a *credit rating agency* or *credit rating agencies* selected by the *MMF manager* as being suited to the specific investment portfolio of the *MMF*;

(b) a *money market instrument*, *securitisation* or *ABCP* is downgraded below the 2 highest short-term credit ratings provided by any *credit rating agency* regulated and certified in accordance with the *CRA Regulation* (see *MMFS* 4.2.7R(2)); or

(c) there is a change to the internal credit quality assessment methodology, unless the *MMF manager* can demonstrate that the change is not a material change.

(3) The *MMF manager* must not mechanistically rely on external ratings in accordance with Article 5a of the *CRA Regulation* when considering whether there is a material change.

4.2.7 R (1) The *MMF manager* must assess the materiality of a change within *MMFS* 4.2.6R(2)(a) by considering risk factors and the results of the stress test scenarios referred to in *MMFS* 5.6 (Stress testing).

(2) (a) For the purpose of assessing the materiality of changes within *MMFS* 4.2.6R(2)(b), the *MMF manager* must establish an internal procedure for:

(i) the selection of *credit rating agencies* suited to the specific investment portfolio of the *MMF*; and

(ii) determining the frequency with which the *MMF manager* must monitor the ratings of those *credit rating agencies*.

(b) If the credit rating of an instrument is downgraded, the *MMF manager* must promptly carry out an assessment in accordance with the internal credit quality assessment methodologies referred to in *MMFS* 4.2.3R and the other *rules* in this section.

4.3 Internal credit quality assessment

Requirement for an internal credit quality assessment

4.3.1 R (1) An *MMF manager* must carry out an internal credit quality assessment to determine whether the credit quality of the *money market instrument*, *securitisation* or *ABCP* can be given a favourable assessment.

(2) The assessment must be carried out in accordance with the procedure in *MMFS* 4.2 (Internal credit quality assessment procedure) and the requirements of the *rules* in this section.

(3) (a) The *MMF manager* must review every internal credit quality assessment whenever there are changes to the procedure or to the factors and general principles set out in this section that could affect the outcome of the assessment.

(b) A review of each assessment must be carried out at least annually (see *MMFS* 4.2.2R(5)(c) (General principles for the internal credit quality assessment procedure)).

(4) Where a *credit rating agency* registered and certified in accordance with the *CRA Regulation* has provided a rating for a *money market instrument* in (1), the *MMF manager* may have regard to the rating and supplementary information and analysis in its internal credit quality assessment, but must not solely or mechanistically rely on a rating (see article 5a of the *CRA Regulation*).

(5) An *MMF manager* must not override the outputs of an internal credit quality assessment methodology except:

(a) in exceptional circumstances (including stressed market conditions); and

(b) where there is an objective reason for doing so.

(6) If the output of a methodology is overridden under (5), the decision must be recorded in writing, detailing:

(a) the *person* responsible for taking the decision; and

(b) the objective reason for it.

General principles for the internal credit quality assessment

4.3.2 R (1) The credit quality assessment must take into account at least the following factors and general principles:

(a) the quantification of:

(i) the credit risk of the issuer; and

(ii) the relative risk of default of the issuer and of the instrument,

determined in accordance with *MMFS* 4.3.3R (Quantifying credit risk, and the relative risk of default of the issuer and instrument);

(b) qualitative indicators on the issuer of the instrument (including in the light of the macroeconomic and financial market situation), determined in accordance with:

(i) *MMFS* 4.3.4R (Establishing qualitative indicators in relation to the issuer of the instrument); and

(ii) *MMFS* 4.3.5R (Criteria for establishing qualitative credit risk indicators in relation to the issuer of the instrument);

(c) the short-term nature of *money market instruments*;

(d) the asset class of the instrument;

(e) the type of issuer, distinguishing at least between the following types:

(i) national administrations;

(ii) regional and local administrations;

(iii) financial corporations; and

(iv) non-financial corporations;

(f) for structured *financial instruments*, the operational and counterparty risk inherent within the structured financial transaction and, in the case of exposure to *securitisations*, the credit risk of the issuer, the structure of the *securitisation* and the credit risk of the underlying assets; and

(g) the liquidity profile of the instrument.

(2) The *MMF manager* may, in addition to the factors and general principles referred to in (1), take into account warnings and indicators when determining the credit quality of a *money market instrument* in *MMFS* 3.2.8R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations).

Quantifying credit risk, and the relative risk of default of the issuer and instrument

4.3.3 R (1) For the purpose of *MMFS* 4.3.2R(1)(a) (General principles for the internal credit quality assessment), an *MMF manager* must use the criteria referred to in (2) to quantify:

(a) the credit risk of the issuer of the instrument being assessed; and

(b) the relative risk of default of the issuer and the instrument being assessed.

(2) The criteria are:

(a) bond pricing information, including credit spreads and the pricing of comparable fixed income instruments and related securities;

(b) the pricing of *money market instruments* relating to the issuer, the instrument or the industry sector;

(c) credit default-swap pricing information, including credit default-swap spreads for comparable instruments;

(d) default statistics relating to the issuer, the instrument or the industry sector;

(e) financial indices relating to the geographic location, the industry sector or the asset class of the issuer or instrument; and

(f) financial information relating to the issuer, including profitability ratios, interest coverage ratio, leverage metrics and the pricing of new issues, including the existence of more junior securities.

(3) The *MMF manager* must apply additional criteria to those in (2) where necessary and relevant.

Establishing qualitative indicators in relation to the issuer of the instrument

4.3.4 R (1) For the purpose of *MMFS* 4.3.2R(1)(b)(i) (General principles for the internal credit quality assessment), an *MMF manager* must use the criteria referred to in (2) to establish qualitative indicators in relation to the issuer of the instrument being assessed.

(2) The criteria referred to in (1) are:

(a) an analysis of any underlying assets, which for exposure to *securitisation* must include the credit risk of the issuer and the credit risk of the underlying assets;

(b) an analysis of any structural aspects of the relevant instruments issued by an issuer, which for structured *finance instruments* must include an analysis of the inherent operational and counterparty risk of the structured finance instrument;

(c) an analysis of the relevant market(s), including the degree of volume and liquidity of those markets;

(d) a sovereign analysis, including the extent of explicit and contingent liabilities and the size of foreign exchange reserves compared with foreign exchange liabilities;

(e) an analysis of governance risk relating to the issuer, including frauds, conduct fines, litigation, financial restatements, exceptional items, management turnover, borrower concentration and audit quality;

(f) securities-related research on the issuer or market sector; and

(g) where relevant, an analysis of the credit ratings or rating outlook given to the issuer of an instrument by a *credit rating agency* registered or certified with the *FCA* and selected by the *MMF manager* if suited to the specific investment portfolio of the *MMF*.

(3) An *MMF manager* must apply additional criteria to those in (2) where necessary and relevant.

Criteria for establishing qualitative credit risk indicators in relation to the issuer of the instrument

4.3.5 R (1) For the purpose of *MMFS* 4.3.2R(1)(b)(ii) (General principles for the internal credit quality assessment), an *MMF manager* must assess, to the extent possible, the qualitative credit risk criteria in (2) in relation to the issuer of the instrument being assessed.

(2) The criteria referred to in (1) are:

(a) the financial situation of the issuer, or, where applicable, of the guarantor;

(b) the sources of liquidity of the issuer, or, where applicable, of the guarantor;

(c) the ability of the issuer to react to future market-wide or issuer-specific events, including the ability to repay debt in a highly adverse situation; and

(d) the strength of the issuer's industry within the economy relative to economic trends and the issuer's competitive position in its industry.

4.4 Records relating to the internal credit quality assessment

Requirement to make and retain records

4.4.1 R An *MMF manager* must record in writing:

(1) the internal credit quality assessment procedure; and

(2) the internal credit quality assessments.

4.4.2 R The records required by *MMFS* 4.4.1R must include the following:

(1) particulars of the design and operation of the internal credit quality assessment procedure, in sufficient detail to allow the *FCA* to understand and evaluate the appropriateness of the internal credit quality assessments;

(2) the rationale for, and the analysis supporting, the credit quality assessments, as well as the *MMF manager's* choice of criteria for, and the frequency of, the review of the assessments;

(3) all major changes to the internal credit quality assessment procedure, including identification of the triggers of such changes;

(4) the organisation of the internal credit quality assessment procedure and the internal control structure;

(5) complete internal credit quality assessment histories on instruments, issuers and, where relevant, recognised guarantors; and

(6) details of the *persons* responsible for the internal credit quality assessment procedure.

Retention of records

4.4.3 R An *MMF manager* must retain all the records referred to in *MMFS* 4.4.2R for at least 3 *annual accounting periods*.

Details to be included in the MMF's instrument constituting the fund

4.4.4 R The internal credit quality assessment procedure must be detailed in the *MMF's instrument constituting the fund*.

Records to be available to the FCA

4.4.5 R All the records referred to in *MMFS* 4.4.2R must be made available upon request to the *FCA*.

4.5 Governance for the internal credit quality assessment

Approval by senior management and governing body

4.5.1 R (1) The internal credit quality assessment procedure must be approved by the *senior personnel*, the *governing body*, and, where it exists, the *supervisory function* of the *MMF manager*.

(2) The *MMF manager* must ensure that the individuals who approve the internal credit quality assessment procedure in accordance with (1) have a good understanding of the procedure and the methodologies applied by the *MMF manager*, as well as a detailed comprehension of the associated reports.

Reporting to senior management

4.5.2 R (1) An *MMF manager* must ensure that reports on the *MMF's* credit risk profile are provided to its *senior personnel*, its *governing body* and, where it exists, the *supervisory function* of the *MMF manager*.

(2) The reports on the *MMF's* credit risk profile must be based on an analysis of the *MMF's* internal credit quality assessments.

(3) The *MMF manager* must ensure that the bodies and individuals in (1) are provided with the reports at least annually, and more frequently where appropriate and depending on the significance and type of information being reported.

Responsibilities of senior management

4.5.3 R (1) An *MMF manager* must ensure that its *senior personnel* are satisfied, on an ongoing basis, that the internal credit quality assessment procedure is operating properly.

(2) The *MMF manager* must ensure that its *senior personnel* are regularly informed about:

(a) the performance of the internal credit quality assessment procedures;

(b) any areas where deficiencies are identified; and

(c) the status of efforts and actions taken to improve those deficiencies.

Internal credit quality assessment not to be carried out by portfolio management function

4.5.4 R The internal credit quality assessments required under *MMFS* 4.3.1R(1) and any reviews under *MMFS* 4.3.1R(3) must not be performed by individuals or *persons* performing or responsible for the portfolio management of the *MMF*.

5 Risk management requirements for MMFs

5.1 Introduction

Application

5.1.1 R This chapter applies to:

(1) the *MMF manager* of a *UK MMF*;

(2) the *depositary* of a *UK MMF*; and

(3) an *ICVC* which is a *UK MMF*.

Purpose

5.1.2 G (1) This chapter helps in achieving the *statutory objectives* of securing an appropriate degree of protection for *consumers* and protecting and enhancing the integrity of the *UK* financial system, including its soundness, stability and resilience.

(2) The *rules* in this chapter are designed to reduce the portfolio risk of *MMFs* by setting maturity limits: for example, a maximum allowable *weighted average maturity* (which is used to measure the sensitivity of an *MMF* to changing money market interest rates) and *weighted average life* (which is used to measure the credit risk of an *MMF's* portfolio).

(3) The *rules* in this chapter are designed to help ensure appropriate liquidity management. To strengthen a *UK MMF's* ability to meet *redemption* requests and prevent their assets from being liquidated at a discount, the *rules* in this chapter require *UK MMFs* to hold a minimum amount of liquid assets that mature daily or weekly. *MMF managers* are expected to understand the *MMF's unitholder* base which will help them anticipate large *redemptions*.

(4) The *rules* also require prudent risk management by requiring *MMFs* to be subject to regular stress testing.

VNAV MMFs authorised as short-term or standard MMFs

5.1.3 G A *VNAV MMF* can be authorised as a *short-term MMF* or a *standard MMF*. A *VNAV MMF* that is authorised as a *short-term MMF* must comply with the portfolio *rules* for *short-term MMFs* which are in *MMFS* 5.2 (Portfolio rules for short-term MMFs). A *VNAV MMF* that is authorised as a *standard MMF* must comply with the portfolio *rules* for *standard MMFs* which are in *MMFS* 5.3 (Portfolio rules for standard MMFs).

5.2 Portfolio rules for short-term MMFs

Application

5.2.1 R This section applies to a *short-term MMF* and the *MMF manager* of a *short-term MMF*.

5.2.2 G The *rules* in this section apply to *short-term MMFs*. Only a *VNAV MMF*, an *LVNAV MMF* or a *public debt CNAV MMF* may be authorised as a *short-term MMF*.

General portfolio rules for short-term MMFs

5.2.3 R A *short-term MMF* must comply at all times with:

(1) the general portfolio requirements in *MMFS* 5.2.4R; and

(2) as applicable, either:

(a) the additional *rules* for *LVNAV MMFs* and *public debt CNAV MMFs* in *MMFS* 5.2.5R (Additional portfolio rules for LVNAV MMFs and public debt CNAV MMFs); or

(b) the additional *rules* for *short-term VNAV MMFs* in *MMFS* 5.2.6R (Additional portfolio rules for short-term VNAV MMFs).

5.2.4 R (1) The *MMF's* portfolio must have a *WAM* of no more than 60 *days*.

(2) The *MMF's* portfolio must have a *WAL* of no more than 120 *days*.

(3) Subject to (4) and (5), when calculating the *WAL* for a *security*, including a structured *financial instrument*, the *MMF manager* of a *short-term MMF* must base the maturity calculation on the *residual maturity* of the instrument.

(4) (a) In the event that a *financial instrument* embeds a put option, the *MMF manager* of a *short-term MMF* may base the maturity calculation on the exercise date of the put option instead of the *residual maturity*, but only if the conditions in (b) are satisfied.

(b) The conditions are that:

(i) the *MMF manager* of the *short-term MMF* can exercise the put option freely at its exercise date;

(ii) the strike price of the put option remains close to the expected value of the instrument at the exercise date; and

(iii) the investment strategy of the *short-term MMF* implies that there is a high probability that the option will be exercised at the exercise date.

(5) When calculating the *WAL* for a *securitisation* or an *ABCP* that is an amortising instrument, a *short-term MMF* may base the maturity calculation on:

(a) the contractual amortisation profile of the instrument; or

(b) the amortisation profile of the underlying assets from which the cash-flow for the redemption of the instrument results.

Additional portfolio rules for LVNAV MMFs and public debt CNAV MMFs

5.2.5 R (1) (a) At least 15% of the assets of an *LVNAV MMF* or a *public debt CNAV MMF* must comprise:

(i) daily maturing assets;

(ii) *eligible reverse repurchase agreements* which can be terminated on 1 *business day's* notice; or

(iii) *money* which can be withdrawn on 1 *business day's* notice.

(b) An *LVNAV MMF* or a *public debt CNAV MMF* must not acquire any asset other than a daily maturing asset, if doing so would result in that *MMF* investing less than 15% of its portfolio in daily maturing assets.

(2) (a) At least 50% of the assets of an *LVNAV MMF* or a *public debt CNAV MMF* must comprise:

(i) weekly maturing assets;

(ii) *eligible reverse repurchase agreements* which can be terminated on not more than 5 *business days'* notice; or

(iii) *money* which can be withdrawn on not more than 5 *business days'* notice.

(b) An *LVNAV MMF* or a *public debt CNAV MMF* must not acquire any asset other than a weekly maturing asset if doing so would result in the *MMF* investing less than 50% of its portfolio in weekly maturing assets.

(3) In relation to (2), assets that meet the following conditions may also be included within the weekly maturing assets of an *LVNAV MMF* or a *public debt CNAV MMF*, up to a limit of 17.5% of the value of the *MMF's* assets:

(a) the assets must be *eligible money market instruments* within *MMFS* 3.2.8R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations);

(b) the *eligible money market instruments* must satisfy the conditions in *MMFS* 3.2.9R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations);

(c) the *eligible money market instruments* must be highly liquid;

(d) the *eligible money market instruments* can be sold or *redeemed* and settled within 1 *business day*; and

(e) the *eligible money market instruments* have a *residual maturity* of up to 190 *days*.

Additional portfolio rules for short-term VNAV MMFs

5.2.6 R (1) (a) At least 15% of the assets of a *short-term VNAV MMF* must comprise:

(i) daily maturing assets;

(ii) *eligible reverse repurchase agreements* which can be terminated on 1 *business day's* notice; or

(iii) *money* which can be withdrawn on 1 *business day's* notice.

(b) A *short-term VNAV MMF* must not acquire any asset other than a daily maturing asset if doing so would result in the *MMF* investing less than 15% of its portfolio in daily maturing assets.

(2) (a) At least 50% of the assets of a *short-term VNAV MMF* must comprise:

(i) weekly maturing assets;

(ii) *eligible reverse repurchase agreements* which can be terminated on not more than 5 *business days'* notice; or

(iii) *money* which can be withdrawn on not more than 5 *business days'* notice.

(b) A *short-term VNAV MMF* must not acquire any asset other than a weekly maturing asset if doing so would result in that *MMF* investing less than 50% of its portfolio in weekly maturing assets.

(3) In relation to (2), assets that meet the following conditions may also be included within the weekly maturing assets of a *short-term VNAV MMF*, up to a limit of 17.5% of the value of the *MMF's* assets:

(a) the assets must be *eligible money market instruments* within *MMFS* 3.2.8R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations);

(b) the *eligible money market instruments* must satisfy the conditions in *MMFS* 3.2.9R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations);

(c) the *eligible money market instruments* must be highly liquid;

(d) the *eligible money market instruments* can be sold or *redeemed* and settled within 1 *business day*; and

(e) the *eligible money market instruments* have a *residual maturity* of up to 190 *days*.

Exceeding limits for reasons beyond control of the MMF manager

5.2.7 R If the limits specified in this section are exceeded:

(1) for reasons beyond the control of an *MMF manager*; or

(2) as a result of the exercise of subscription or *redemption* rights,

the *MMF manager* must prioritise bringing the *MMF* into compliance with the limits in this section, taking due account of the interests of its *unitholders*.

5.2.8 G (1) If the liquidity of an *LVNAV MMF* or a *public debt CNAV MMF* ceases to meet the portfolio requirements in *MMFS* 5.2.5R(2)(a) (Additional portfolio rules for LVNAV MMFs and public debt CNAV MMFs), after consulting the *depositary*, the *MMF manager* should prioritise the correction of that breach, taking into account the interests of the *unitholders*.

(2) The *MMF manager* is not required to take any other immediate action such as suspending *redemptions* in the *MMF* or utilising other liquidity

management tools. When deciding whether to use a liquidity management tool, the *MMF manager* should balance the speed at which it can return the *MMF* to compliance against the interests of *unitholders*.

(3) The *MMF manager* may refrain from taking actions which correct the breach as quickly as possible if, in the circumstances, it considers that the interests of *unitholders* would be best served by doing so. For example, an *MMF manager* might seek to correct an imbalance in the *MMF's* portfolio, in the shortest time period, by suspending *dealing* in *units* of the *MMF*; another way could be to impose *redemption* gates (where permitted). However, other ways of rebalancing the *MMF's* portfolio might better serve the interests of *unitholders*, rather than returning to compliance with the relevant portfolio requirements as quickly as possible by suspending *dealing* in the *MMF* or imposing *redemption* gates.

5.3 Portfolio rules for standard MMFs

Application

5.3.1 R This section applies to a *standard MMF* and the *MMF manager* of a *standard MMF*.

5.3.2 G A *VNAV MMF* can be authorised as a *standard MMF* or a *short-term MMF*. The *rules* in this section apply to a *VNAV MMF* which is authorised as a *standard MMF*.

General portfolio rules for standard MMFs

5.3.3 R A *standard MMF* must comply at all times with *MMFS* 5.3.4R to *MMFS* 5.3.7R.

5.3.4 R The *MMF's* portfolio must have a *WAM* of no more than 6 *months*.

5.3.5 R (1) The *MMF's* portfolio must have a *WAL* of no more than 12 *months*, but this is subject to (2) and (3).

(2) (a) Subject to (3), when calculating the *WAL* for a *security*, including a structured *financial instrument*, the *MMF manager* of a *standard MMF* must base the maturity calculation on the *residual maturity* of the instrument.

(b) In the event that a *financial instrument* embeds a put option, the *MMF manager* of a *standard MMF* may base the maturity calculation on the exercise date of the put option instead of the *residual maturity*, but only if the conditions in (c) are satisfied.

(c) The conditions are that:

(i) the *MMF manager* of the *standard MMF* can exercise the put option freely at its exercise date;

(ii) the strike price of the put option remains close to the expected value of the instrument at the exercise date; and

(iii) the investment strategy of the *standard MMF* implies that there is a high probability that the option will be exercised at the exercise date.

(3) When calculating the *WAL* for a *securitisation* or an *ABCP* that is an amortising instrument, a *standard MMF* may base the maturity calculation on:

(a) the contractual amortisation profile of the instrument; or

(b) the amortisation profile of the underlying assets from which the cash-flow for the redemption of such an instrument results.

5.3.6 R (1) At least 15% of the *MMF's* assets must comprise:

(a) daily maturing assets;

(b) *eligible reverse repurchase agreements* which can be terminated on 1 *business day's* notice; or

(c) *money* which can be withdrawn on 1 *business day's* notice.

(2) A *standard MMF* must not acquire any asset other than a daily maturing asset if doing so would result in the *MMF* investing less than 15% of its portfolio in daily maturing assets.

5.3.7 R (1) At least 50% of the *MMF's* assets must comprise:

(a) weekly maturing assets;

(b) *eligible reverse repurchase agreements* which can be terminated on not more than 5 *business days'* notice; or

(c) *money* which can be withdrawn on not more than 5 *business days'* notice.

(2) A *standard MMF* must not acquire any asset other than a weekly maturing asset if doing so would result in the *MMF* investing less than 50% of its portfolio in weekly maturing assets.

(3) In this *rule*, assets that meet the following conditions may also be included within the weekly maturing assets of a *standard MMF*, up to a limit of 17.5% of the value of the *MMF's* assets:

(a) the assets must be *eligible money market instruments* within *MMFS* 3.2.8R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations);

(b) the *eligible money market instruments* must satisfy the conditions in *MMFS* 3.2.9R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations);

(c) the *eligible money market instruments* must be highly liquid;

(d) the *eligible money market instruments* can be sold or *redeemed* and settled within 1 *business day*; and

(e) the *eligible money market instruments* have a *residual maturity* of up to 190 *days*.

Exceeding limits for reasons beyond control of the MMF manager

5.3.8 R If the limits specified in this section are exceeded:

(1) for reasons beyond the control of an *MMF manager*; or

(2) as a result of the exercise of subscription or *redemption* rights,

the *MMF manager* must prioritise bringing the *MMF* into compliance with the limits in this section, taking due account of the interests of its *unitholders*.

5.4 MMF credit ratings

Application

5.4.1 R This section applies to a *UK MMF* and to the *MMF manager* of a *UK MMF*.

Soliciting or financing an external credit rating

5.4.2 R An *MMF*, or an *MMF manager* for or on behalf of an *MMF*, that solicits or finances an external credit rating for the *MMF* must do so in accordance with the *CRA Regulation*.

5.4.3 R Where *MMFS* 5.4.2R applies:

(1) the *prospectus*; and

(2) all communications to *unitholders* in which the external credit rating is mentioned,

must explain that the rating was solicited or financed by the *MMF* or (where applicable) the *MMF manager* on behalf of the *MMF*.

5.5 Liquidity risk profile of the MMF: liability considerations

Application

5.5.1 R This section applies to a *UK MMF* and to the *MMF manager* of a *UK MMF*.

Carrying out due diligence on unitholders

5.5.2 R

(1) An *MMF manager* must establish, implement and apply procedures and exercise all due diligence with a view to anticipating the effect of simultaneous *redemptions* by several *unitholders*.

(2) In complying with (1), the *MMF manager* must take into account at least:

(a) the types of *unitholder*;

(b) the number of *units* in the *MMF* owned by a single *unitholder*;

(c) whether the value of the *units* held by a single *unitholder* in (b) exceeds the amount of the corresponding daily liquidity requirement of the *MMF*;

(d) whether a significant number of *units* in the *MMF* are owned by a relatively small number of *unitholders*;

(e) changes over time to the amount of money invested in the *MMF* and to *money redeemed*;

(f) identifiable patterns in *unitholder* cash needs, including predictable trends in the growth and contraction of the *MMF*;

(g) whether a significant number of *units* in the *MMF* are owned by *unitholders* who may show correlated behaviour – for example, reacting to certain events by simultaneously seeking *redemptions*;

(h) the probable risk aversion of the different *unitholders*; and

(i) the degree of correlation or close links between different *unitholders* in the *MMF*.

5.5.3 G The events referred to in *MMFS* 5.5.2R(2)(g) could include:

(1) an *LVNAV MMF* switching to *issuing* or *redeeming units* at a price equal to the *MMF's NAV per unit* in accordance with *MMFS* 6.4.2R(3); and

(2) a sharp rise in market rates resulting in an immediate need for cash *collateral* for *unitholders*.

Unitholders using an intermediary

5.5.4 R Where an investment in the *MMF* is made through an intermediary, the *MMF manager* must request the information to comply with *MMFS* 5.5.2R (Carrying out due diligence on unitholders) from the intermediary, in order to manage the liquidity and *unitholder* concentration of the *MMF*.

Action on unitholder concentration

5.5.5 R (1) An *MMF manager* must ensure that the nature of its *unitholder* base, in terms of *unitholder* concentration, does not materially impact the liquidity profile of the *MMF*.

(2) Where, having carried out the due diligence required by *MMFS* 5.5.2R, an *MMF manager* determines that there is a risk that simultaneous *redemptions* by several *unitholders* could materially adversely affect the operation of the *MMF*, the *MMF manager* must take appropriate action to strengthen the robustness of the *MMF*, including actions to reinforce the liquidity of the *MMF* and/or to improve the quality of the *MMF's* portfolio of assets.

(3) The *MMF manager* must have a reasonable basis for making the determination referred to in (2).

5.5.6 G (1) In addition to the actions required under *MMFS* 5.5.5R, an *MMF manager* may consider taking action to change the *MMF's unitholder* base. For example, an *MMF manager* may take action to:

(a) reduce the concentration of *units* owned by one or a relatively small number of *unitholders*; and/or

(b) reduce the concentration of *units* owned by *unitholders* who may show correlated behaviour to reduce the likelihood that certain events will trigger simultaneous *redemptions*.

(2) Where the *MMF manager* of an *LVNAV MMF* considers that a significant proportion of *unitholders* would seek to *redeem* their *units* in the event that the *MMF* started to *redeem units* at a price equal to the *MMF's NAV per unit* in accordance with *MMFS* 6.4.2R(3), the *MMF manager* could consider reducing the *weighted average maturity* of the *MMF's* portfolio to reduce the *MMF's* sensitivity to rate changes.

Other requirements relating to money laundering

5.5.7 G Among other things, an *MMF manager* will also need to ensure that it complies with the requirements of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

5.6 Stress testing

Application

5.6.1 R This section applies to the *MMF manager* of a *UK MMF*.

Requirement to conduct stress testing

5.6.2 R (1) For each *MMF* that it manages, an *MMF manager* must have sound stress testing processes in place to identify possible events or future changes in economic conditions ('scenarios') that could adversely affect the *MMF*.

(2) The *MMF manager* must regularly conduct stress testing for different possible scenarios.

(3) The tests must be based on objective criteria and consider the effects of severe but plausible scenarios.

Minimum parameters for stress test scenarios

5.6.3 R (1) The different stress test scenarios referred to in *MMFS* 5.6.2R(2) must take into account reference parameters that include at least the following factors:

(a) hypothetical changes in the level of liquidity of the assets held in the portfolio of the *MMF*;

(b) hypothetical changes in the level of credit risk of the assets held in the portfolio of the *MMF*, including credit events and rating events;

(c) hypothetical movements of interest rates and exchange rates;

(d) hypothetical levels of *redemption*;

(e) hypothetical widening or narrowing of spreads among indices to which interest rates of portfolio securities are tied; and

(f) hypothetical macro-systemic shocks affecting the economy as a whole.

(2) The *MMF manager* must test the impact of the factors referred to in (1) on the *MMF*, at least in relation to the following:

(a) the portfolio or *NAV* of the *MMF*; and

(b) the ability of the *MMF manager* to meet *redemption* requests.

Additional stress testing requirements for public debt CNAV MMFs and LVNAV MMFs

5.6.4 R In addition to *MMFS* 5.6.2R and *MMFS* 5.6.3R, the *MMF manager* of a *public debt CNAV MMF* and an *LVNAV MMF* must ensure that, where applicable, the stress test of the *MMF* includes the following:

(1) an estimate of the difference between the *constant NAV per unit* and the *NAV per unit* in different scenarios;

(2) consideration of whether a significant number of *units* are owned by *unitholders* who may show correlated behaviour by reacting to certain events by simultaneously seeking *redemptions*;

(3) consideration of whether the gap between the *constant NAV per unit* used to price *units* and the *NAV per unit* could drive additional *redemptions*;

(4) an assessment of whether the level of liquidity held by the *MMF* at the start of the scenario would be sufficient to ensure good outcomes for *unitholders*;

(5) where the *MMF* is an *LVNAV MMF*, and in relation to each scenario used:

(a) an assessment of the impact of *unitholder redemptions* on the probability of the *MMF* being required to *issue* and *redeem units* at a price that is equal to the *NAV per unit* under *MMFS* 6.4.2R(3)(b);

(b) an assessment of the impact on *redemptions* of being required to *issue* and *redeem units* at a price equal to the *NAV per unit* under *MMFS* 6.4.2R(3)(b), and whether this could lead to further *redemptions* given the *MMF's* investor base;

(c) an assessment of the impact of contagion from other *LVNAV MMFs* of being required to *issue* and *redeem units* at a price that is equal to the *NAV per unit* under *MMFS* 6.4.2R(3)(b), and the impact of contagion from *MMFs* authorised *overseas* which operate in a similar way to *LVMAV MMFs* needing to change the basis on which *units* are priced for issues and redemptions; and

(d) an assessment of whether the *weighted average maturity* of the *LVNAV MMF's* portfolio at the start of the scenario would be sufficient to ensure good outcomes for *unitholders*; and

(6) where the *MMF* is a *public debt CNAV MMF*, and in relation to each scenario used, an assessment of the impact of a change to the price at which *units* are *issued* and *redeemed* on *redemptions*, and whether

such pricing could lead to further *redemptions* given the *MMF's* investor base.

Guidance on stress test scenarios

5.6.5 G (1) This table belongs to *MMFS* 5.6.2R (Requirement to conduct stress testing), *MMFS* 5.6.3R (Minimum parameters for stress test scenarios), and *MMFS* 5.6.4R (Additional stress testing requirements for public debt CNAV MMFs and LVNAV MMFs).

(2) The *guidance* in the table below replaces the *guidance* and expectations set out in the document entitled 'Brexit: our approach to EU non-legislative materials' in relation to Guidelines 4.1 to 4.7 of *ESMA's* 'Guidelines on stress test scenarios under the MMF Regulation'.

1.	**General features of stress test scenarios**		
	Scope of the effects of the proposed stress test scenarios on the MMF		
	(1)	Using both historical and hypothetical scenarios, an *MMF manager* should apply the factors specified in sections 2 to 7 of this table when conducting stress test scenarios on the matters specified in *MMFS* 5.6.3R (Minimum parameters for stress test scenarios).	
	Using historical and hypothetical scenarios		
	(2)	(a)	Historical scenarios reproduce the parameters of previous events or crises and extrapolate the impact that they would have had on the present portfolio of the *MMF*.
		(b)	When using historical scenarios, an *MMF manager* should vary the time windows in order to process several scenarios and avoid getting stress test results that depend overly on an arbitrary time window (e.g. one period with low interest rates and another with higher rates). These scenarios may include independent or correlated shocks, depending on the model.
	(3)	(a)	Hypothetical scenarios aim to anticipate a specific event or crisis by setting its parameters and predicting its impact on the *MMF*. Examples of hypothetical scenarios include those based on economic and financial shocks, country risk (e.g. bankruptcy of a sovereign state) or business risk (e.g. a crash in an industrial sector). This type of scenario may require the creation of a dashboard of all changed risk factors, a correlation matrix and a

			choice of financial behaviour model. It also includes probabilistic scenarios based on implied volatility.
		(b)	Hypothetical scenarios may be single-factor or multi-factor scenarios. Factors can be uncorrelated (fixed income, equity, counterparty, foreign exchange, volatility, correlation, etc.) or correlated (a particular shock may spread to all risk factors, depending on the correlation table used).
	Aggregating the results of stress test scenarios		
	(4)	(a)	In certain circumstances, an *MMF manager* may also need to use aggregate stress test scenarios for some or all of the *MMFs* it manages.
		(b)	Aggregated results should provide an overview and may show, for example, the total volume of assets held by all the *MMFs* managed by the *MMF manager* in a particular position, and the potential impact of several portfolios selling out of that position at the same time during a liquidity crisis.
	Use of reverse stress testing		
	(5)	(a)	An *MMF manager* should also consider using reverse stress testing to subject the *MMF* to scenarios up to the point of failure, including the point where different regulatory thresholds, such as those in *MMFS* 8.2 (Reporting requirements for MMF managers of MMFs), would be breached.
		(b)	This should give the *MMF manager* another tool to explore any vulnerabilities and pre-empt and mitigate such risks.
	Testing against redemption levels		
	(6)	(a)	An *MMF manager* should test all factors mentioned in sections 2 to 7 of this table against several levels of *redemption*. However, before doing so, an *MMF manager* should test each of the factors separately (without combining them with tests against levels of *redemption*), to be able to identify the corresponding respective impacts.
		(b)	The *guidance* in sections 2 to 7 of this table explains how the combination of those factors should be tested against *redemption* requests.

		(c)	The *MMF manager's* approach to honouring *redemption* requests should also be considered.
	Additional guidance on stress tests for public debt CNAV MMFs and LVNAV MMFs		
	(7)	When estimating the difference between the *constant NAV per unit* and the *NAV per unit* in accordance with *MMFS* 5.6.4R, the *MMF manager* of a *public debt CNAV MMF* or an *LVNAV MMF* should consider whether to estimate the impact of the relevant factors in sections 2 to 7 on the volatility of the assets held by the *MMF* or on the volatility of the *NAV* of the *MMF*.	
	Factors in MMFS 5.6.5G, sections 2 to 7 not exhaustive		
	(8)	An *MMF manager* should consider the factors set out in sections 2 to 7 of this table as the minimum necessary to conduct a proper stress test. An *MMF manager* should tailor the approach to the particular circumstances of the relevant *MMF* and add any factors or requirements that it deems useful to the stress test exercise.	
	(9)	An example of another factor that an *MMF manager* should consider taking into account is the repo rate because *MMFs* are significant participants in that market.	
	(10)	More generally, an *MMF manager* should build a number of scenarios, with different levels of severity, which combine all the relevant factors, as well as separately testing each factor.	
2.	**Stress test scenario parameters relating to hypothetical changes in MMF liquidity**		
	(1)	The following *guidance* applies to the requirement in *MMFS* 5.6.3R(1)(a) that stress test scenarios must consider hypothetical changes in the level of liquidity of the assets held by the *MMF*.	
	(2)	The *MMF manager* should consider parameters such as:	
		(a)	the gap between the bid and ask prices;
		(b)	the trading volumes;
		(c)	the maturity profile of assets;
		(d)	the number of counterparties active in the secondary market (reflecting the fact that an asset's lack of liquidity may result from secondary market-related

			issues, but may also be related to the maturity of the asset); and
		(e)	the proportion of *units* in the *MMF* that are held by *unitholders* who may behave in a similar way, simultaneously seeking *unitholder redemption* in response to the events referred to in *MMFS* 5.5.2R(2)(g).
	(3)	The *MMF manager* should also consider a scenario reflecting an extreme liquidity shortfall event due to very substantial *redemptions*, by combining the liquidity stress-test with a bid-ask spread multiplied by a certain factor while assuming a certain *redemption* rate of the *NAV*.	
3.	**Stress test scenario parameters relating to hypothetical changes in the level of credit risk**		
	(1)	The following *guidance* applies to the requirement in *MMFS* 5.6.3R(1)(b) for stress test scenarios to consider hypothetical changes in the level of credit risk of the assets held in the portfolio of the *MMF*, including credit events and rating events.	
	(2)	It is not possible to provide comprehensive *guidance* on this parameter because the widening or narrowing of credit spreads is usually a reaction to quickly evolving market conditions. However, an *MMF manager* should, for example, consider:	
		(a)	the downgrade or default of particular portfolio security positions, each representing relevant exposures in the *MMF's* portfolio;
		(b)	the default of the biggest position of the portfolio combined with a downgrade of the ratings of assets within the portfolio; and
		(c)	parallel shifts of the credit spreads of a certain level for all assets held in the portfolio.
	(3)	Where a stress test involves the levels of changes of credit risk of an asset, the *MMF manager* should consider how its results might impact the internal credit quality assessment of the corresponding asset in the context of the *rules* in *MMFS* 4 (Credit quality of money market instruments, securitisations and ABCP).	

	(4)	(a)	The *MMF manager* should, for the purpose of combining different factors, combine changes to the level of credit risk of the assets held in the portfolio of the *MMF* with given levels of *redemptions*.
		(b)	The *MMF manager* should consider a scenario reflecting an extreme event of stress due to uncertainty about the solvency of market participants, which would lead to increased risk premia and a 'flight to quality'.
		(c)	This scenario should combine the default of a certain percentage of the portfolio with spreads going up together, while assuming a certain *redemption* rate of the *NAV*.
	(5)	The *MMF manager* should also consider a scenario combining a default of a certain percentage of the value of the portfolio with an increase in short-term interest rates and a certain *redemption* rate of the *NAV*.	
4.	**Stress test scenario parameters relating to hypothetical movements in interest rates and exchange rates**		
	(1)	The following *guidance* applies to the requirement in *MMFS* 5.6.3R(1)(c) for stress test scenarios to consider hypothetical movements in interest rates and exchange rates.	
	(2)	With respect to the levels of change in interest rates and exchange rates, an *MMF manager* should consider testing parallel shifts of a certain level. Depending on the specific nature of its strategy, the *MMF manager* should consider:	
		(a)	an increase in the level of short-term interest rates, with 1-*month* and 3-*month* treasury rates going up simultaneously, while assuming a certain *redemption* rate;
		(b)	a gradual increase or decrease in the long-term interest rates for sovereign bonds;
		(c)	a parallel and/or non-parallel shift in the interest rate curve that would change short-term, medium-term and long-term interest rates; and
		(d)	movements in exchange rates between the *MMF's* base currency and other currencies.
	(3)	The *MMF manager* should also consider a scenario reflecting an extreme event of increased interest rates combined with an	

		increase in short-term interest rates, using a certain *redemption* rate and a matrix of interest rates/credit spreads.		
5.	**Stress test scenario parameters relating to hypothetical levels of redemptions**			
	(1)	The following *guidance* applies to the requirement in *MMFS* 5.6.3R(1)(d) for stress test scenarios to consider hypothetical levels of *redemption*.		
	(2)	An *MMF manager* should consider *redemption* stress tests based on historical or hypothetical *redemption* levels or with the *redemption* being the maximum of either a certain percentage of the *NAV* or an opt-out *redemption* option exercised by the most important *unitholders*.		
	(3)	Stress tests for *redemptions* should include the specific liquidity management tool(s) which the *MMF manager* has selected under *MMFS* 6.5.2R and *MMFS* 6.5.4R(2) (Liquidity management procedures and tools).		
	(4)	(a)	The simulation of *redemptions* should be calibrated based on a stability analysis of the liabilities (i.e. the capital), which itself depends on the type of *unitholder* (e.g. institutional, retail, private bank, etc.) and the concentration of the liabilities.	
		(b)	*Redemption* scenarios should take account of the particular characteristics of the liabilities and any cyclical changes to *redemptions*.	
		(c)	There are various ways to test liabilities and *redemptions*. For example, significant *redemption* scenarios include:	
			(i)	*redemptions* of a percentage of the liabilities;
			(ii)	*redemptions* equal to the largest ever seen; and
			(iii)	*redemptions* based on a *unitholder* behaviour model.
	(5)	In relation to (4)(c)(i), *redemptions* of a percentage of the liabilities could be defined based on the frequency of calculating the *NAV*, any *redemption* notice period and the type of *unitholders*.		
	(6)	In the case of *redemption* of *units* by the largest *unitholders*, an *MMF manager* may use information about the *unitholder* base of the *MMF* to refine the stress test, rather than defining		

		an arbitrary *redemption* percentage as in the previous case. Specifically, the scenario involving *redemption* of *units* by the largest *unitholders* should be calibrated based on the concentration of the *MMF's* liabilities and the relationships between the *MMF manager* and the principal *unitholders* of the *MMF* (and the extent to which *unitholders'* behaviour is deemed volatile).
	(7)	An *MMF manager* may also test scenarios involving *redemptions* equal to the largest *redemptions* ever seen in a group of similar *MMFs* (geographically or in terms of *fund* type) or across all the *MMFs* that it manages. However, the largest *redemptions* witnessed in the past are not necessarily a reliable indicator of the largest *redemptions* that might occur in the future.
6.	**Stress test scenario parameters relating to hypothetical widening or narrowing of index spreads**	
	(1)	The following *guidance* applies to the requirement in *MMFS* 5.6.3R(1)(e) for stress test scenarios to consider the hypothetical widening or narrowing of spreads among indices to which interest rates of portfolio securities are tied.
	(2)	An *MMF manager* should consider the widening of spreads in various sectors to which the portfolio of the *MMF* is exposed, in combination with various increases in *redemptions*.
7.	**Stress test scenario parameters relating to hypothetical macro-systemic shocks**	
	(1)	The following *guidance* applies to the requirement in *MMFS* 5.6.3R(1)(f) for stress test scenarios to consider the hypothetical macro-systemic shocks affecting the economy as a whole.
	(2)	The *FCA* is of the view that *guidance* on modelling scenarios for macro-systemic shocks affecting the economy as a whole cannot be precise, because the choice of scenarios will largely depend on the latest developments in the market.
	(3)	However, an *MMF manager* should use an adverse scenario in relation to gross domestic product (GDP) and may also replicate macro-systemic shocks that have affected the economy as a whole in the past.

Frequency of stress testing

5.6.6 R (1) Stress tests must be conducted at least twice a year, and at such other times and at such frequency as determined by the *governing body* of the *MMF manager*.

(2) In determining when and at what frequency stress tests are to be conducted in (1), the *governing body* must consider what is an appropriate and reasonable interval in light of market conditions and any envisaged changes in the portfolio of the *MMF*.

Vulnerability of the MMF

5.6.7 R (1) If a stress test reveals any vulnerability, the *MMF manager* must draw up an extensive report with the results of the stress testing and a proposed action plan.

(2) Where necessary, the *MMF manager* must take action to strengthen the robustness of the *MMF*, including actions to reinforce the liquidity of the *MMF* and/or to improve the quality of the *assets* in the *MMF's* portfolio of assets.

(3) The *MMF manager* must immediately notify the *FCA* of the measures taken under (2).

5.6.8 G In relation to *MMFS* 5.6.7R, where the *MMF manager* of an *LVNAV MMF* considers that a significant proportion of *unitholders* would seek to *redeem* their *units* in the event that the *MMF* started to *redeem units* at a price equal to the *MMF's NAV per unit* in accordance with *MMFS* 6.4.2R(3), the *MMF manager* could consider reducing the *weighted average maturity* of the *MMF's* portfolio to reduce the *MMF's* sensitivity to rate changes.

Reporting and retaining the results of the stress tests

5.6.9 R (1) Where a stress test reveals a vulnerability (see *MMFS* 5.6.7R), a detailed report with the results of the stress testing and proposed action plan must be reviewed by the *governing body* of the *MMF manager*.

(2) Once it is satisfied that the proposed action plan is appropriate, the *governing body* must approve the action plan.

(3) The detailed report in (1) and the approved action plan in (2) must be:

(a) submitted to the *FCA*; and

(b) retained by the *MMF manager* for a period of at least 5 years.

6 Valuation and pricing of MMFs

6.1 Introduction

Application

6.1.1 R This chapter applies to:

(1) an *MMF manager*;

(2) a *depositary* of a *UK MMF*; and

(3) an *ICVC* which is a *UK MMF*.

Purpose

6.1.2 G The *rules* in this chapter are intended to ensure that the *issue* and *redemption* prices of *units* in a *UK MMF* accurately reflect the *MMF's* characteristics and objectives of the *MMF*.

6.2 Valuation of MMFs

Application

6.2.1 R This section applies in relation to a *UK MMF*.

Timing of valuation

6.2.2 R The assets of an *MMF* must be valued at least once every *business day* for the purpose of determining a price or prices for the *issue* and *redemption* of *units*.

Use of mark-to-market approach

6.2.3 R (1) The assets of an *MMF* must be valued using a *mark-to-market* approach whenever possible.

(2) When using a *mark-to-market* approach:

(a) an asset must be valued at the more prudent side of either the bid or offer price, unless the asset can be closed out at mid-market price; and

(b) only good quality market data may be used.

(3) The data referred to in (2)(b) must be assessed against the following factors:

(a) the number and quality of counterparties;

(b) the volume and turnover in the market of the relevant asset; and

(c) the issue size and the portion of the issue that the *MMF manager* plans to buy or *sell*.

(4) This *rule* is subject to:

(a) *MMFS* 6.2.5R, in relation to an *MMF* which is a *public debt CNAV MMF*; and

(b) *MMFS* 6.2.6R, in relation to an *MMF* which is an *LVNAV MMF*.

Use of mark-to-model approach

6.2.4 R (1) This *rule* applies where:

(a) use of the *mark-to-market* approach in *MMFS* 6.2.3R is not possible; or

(b) the required market data is not of sufficient quality.

(2) Where this *rule* applies to an asset of an *MMF*, it must be valued conservatively using a *mark-to-model* approach.

(3) When valuing an asset using a *mark-to-model* approach, the *amortised cost method* must not be used, except as permitted by *MMFS* 6.2.5R and *MMFS* 6.2.6R.

(4) The *mark-to-model* approach must estimate the intrinsic value of the asset, based on the following up-to-date key factors:

(a) the volume and turnover in the market of that asset;

(b) the issue size and the portion of the issue that the *MMF manager* plans to buy or sell; and

(c) the market risk, interest rate risk and credit risk attached to the asset.

(5) This *rule* is subject to:

(a) *MMFS* 6.2.5R, in relation to an *MMF* which is a *public debt CNAV MMF*; and

(b) *MMFS* 6.2.6R, in relation to an *MMF* which is an *LVNAV MMF*.

Public debt CNAV MMF use of amortised cost method

6.2.5 R In addition to the *mark-to-market* and *mark-to-model* approaches specified in this section, the assets of a *public debt CNAV MMF* may be valued using the *amortised cost method*.

LVNAV MMF use of amortised cost method

6.2.6 R (1) In addition to the *mark-to-market* and *mark-to-model* approaches specified in this section, the assets of an *LVNAV MMF* may be valued using the *amortised cost method*, subject to (2) and (3).

(2) The *amortised cost method* may be used only in relation to an asset held with a *residual maturity* of 75 *days* or less.

(3) (a) The *amortised cost method* may be used only where the price of the asset, calculated in accordance with *MMFS* 6.2.3R or *MMFS* 6.2.4R, does not differ from the price of the asset calculated in accordance with the *amortised cost method* by more than 10 basis points.

(b) If the price of the asset differs by more than 10 basis points, the asset must be valued in accordance with *MMFS* 6.2.3R or *MMFS* 6.2.4R.

Reporting to the FCA

6.2.7 R A valuation carried out in accordance with this section must be notified to the *FCA*.

6.3 Calculation of NAV per unit

Application

6.3.1 R This section applies in relation to a *UK MMF*.

General rules for calculating the NAV per unit of an MMF

6.3.2 R (1) The *MMF manager* must calculate the *NAV per unit* of an *MMF* in accordance with (2) and (3).

(2) The *MMF manager* must use the formula:

$$\text{NAV per } unit = \frac{A - L}{\text{number of } units\ issued}$$

where:

(a) 'A' is the sum of all assets of the *MMF*; and

(b) 'L' is the sum of all liabilities of the *MMF*,

valued in accordance with either the *mark-to-market* approach in *MMFS* 6.2.3R or the *mark-to-model* approach in *MMFS* 6.2.4R, or both.

(3) When the *MMF's NAV per unit* is expressed and published as a price in a unit of currency, the *NAV per unit* must be rounded to the nearest basis point or its equivalent.

Calculation of constant NAV for public debt CNAV MMFs

6.3.3 R (1) The *MMF manager* of a *public debt CNAV MMF* must calculate a 'constant NAV per unit' for the *MMF* in accordance with (2) to (4).

(2) The *MMF manager* must use the formula:

$$constant\ NAV\ per\ unit = \frac{\mathrm{A} - \mathrm{L}}{\text{number of } units\ issued}$$

where:

(a) 'A' is the sum of all the *MMF's* assets valued in accordance with the *amortised cost method*, as provided for in *MMFS* 6.2.5R (Public debt CNAV MMF using the amortised cost method); and

(b) 'L' is the sum of all the *MMF's* liabilities.

(3) When the *MMF's constant NAV per unit* is expressed and published as a price in a unit of currency, the *constant NAV per unit* must be rounded to the nearest percentage point or its equivalent.

(4) The *constant NAV per unit* must be calculated at least once every *business day*.

Calculation of constant NAV for LVNAV MMFs

6.3.4 R (1) The *MMF manager* of an *LVNAV MMF* must calculate a *constant NAV per unit* for the *MMF* in accordance with (2) to (4).

(2) The *MMF manager* must use the formula:

$$constant\ NAV\ per\ unit = \frac{\mathrm{A} - \mathrm{L}}{\text{number of outstanding } units}$$

where:

(a) 'A' is the sum of all of the *MMF's* assets valued in accordance with the *amortised cost method*, as provided for in *MMFS* 6.2.6R (LVNAV MMF use of amortised cost method); and

(b) 'L' is the sum of all the *MMF's* liabilities.

(3) When the *MMF's constant NAV per unit* is published in a currency unit, the *constant NAV per unit* must be rounded to the nearest percentage point or its equivalent.

(4) The *constant NAV per unit* must be calculated at least once every *business day*.

Calculation and publication of price per unit and the constant NAV per unit

6.3.5 R (1) At least once every *business day*, the *MMF manager* of a *UK MMF* must calculate and publish:

(a) the *NAV per unit*; and

(b) where the *MMF* is a *public debt CNAV MMF* or an *LVNAV MMF*, the difference between the *MMF's constant NAV per unit* and its *NAV per unit*.

(2) The information in (1) must be published on the public section of a website maintained for the *MMF*.

6.4 Issue and redemption pricing

Application

6.4.1 R This section applies in relation to a *UK MMF*.

Calculation of prices for units in an MMF

6.4.2 R (1) Subject to (2) and (3), the *units* of an *MMF* must be issued or *redeemed* at a price that is equal to the *MMF's NAV per unit*, excluding any permitted fees or charges as specified in the *MMF's prospectus*.

(2) The *units* of a *public debt CNAV MMF* may be issued or *redeemed* at a price that is equal to that *MMF's constant NAV per unit*.

(3) (a) The *units* of an *LVNAV MMF* may be issued or *redeemed* at a price that is equal to that *MMF's constant NAV per unit*, provided the *MMF's constant NAV per unit* and the *NAV per unit* do not differ by more than 20 basis points at the same *valuation point*.

(b) When the *NAV per unit* and the *constant NAV per unit* of an *LVNAV MMF* differ by more than 20 basis points at the same *valuation point*, *units* must be issued or *redeemed* in the next *dealing period* at a price that is equal to the *NAV per unit*.

Pre-contractual information for an LVNAV MMF

6.4.3 R The *MMF manager* of an *LVNAV MMF* must warn potential *unitholders* or *unitholders* clearly in writing, before they conclude a contract to *buy units* in the *MMF*, of the following matters:

(1) the circumstances in which *units* will no longer be *issued* or *redeemed* at a price that is equal to the *constant NAV per unit*; and

(2) the likely consequences for *unitholders* of such a change, including (where applicable) whether intra-day dealing arrangements are likely to be available.

Issue and redemption of units in public debt CNAV MMFs and LVNAV MMFs

6.4.4 R *MMFS* 6.4.5R to *MMFS* 6.4.10R apply to the *MMF manager* of a *public debt CNAV MMF* or an *LVNAV MMF*.

6.4.5 R (1) The *MMF manager* of a *public debt CNAV MMF* must have in place effective arrangements, processes and systems that enable it to *issue* and *redeem units* at a price that is equal to:

(a) the *MMF's constant NAV per unit* (including where the *constant NAV per unit* changes); and

(b) the *MMF's NAV per unit* (see *MMFS* 6.4.2R(1)).

(2) The *MMF manager* of an *LVNAV MMF* must have in place effective arrangements, processes and systems that enable it to:

(a) switch to *issuing* and *redeeming units* at a price that is equal to the *LVNAV MMF's NAV per unit* rather than the *constant NAV per unit*, if so required under *MMFS* 6.4.2R(3); and

(b) revert to *issuing* and *redeeming units* at a price that is equal to the *MMF's constant NAV per unit* where it is:

(i) permitted under *MMFS* 6.4.2R; and

(ii) practical or in the interests of *unitholders* to do so.

(3) The *MMF manager's* arrangements, processes and systems referred to in (1) and (2) must cover:

(a) operational and organisational matters within the *MMF manager*; and

(b) matters arising from the *MMF's* or the *MMF manager's* relationships with third parties, including the *depositary*, *firms* that *sell* or *advise* on *units* in the *MMF*, and other parties that provide services to the *MMF* or the *MMF manager*.

6.4.6 G (1) Operational and organisational matters within *MMFS* 6.4.5R(3)(a) include matters such as internal governance and sign-off procedures.

(2) In relation to *MMFS* 6.4.5R(3)(b), the matters arising from the *MMF manager's* relationships with third parties include plans for how it will communicate with such third parties.

6.4.7 R (1) The *MMF manager* must identify and document the *people*, procedures, technology, facilities, information and other relevant third parties necessary to deliver the arrangements, processes and systems referred to in *MMFS* 6.4.5R.

(2) The documentation must be sufficient for the *MMF manager* to identify and remedy any vulnerabilities that will affect the *MMF's* ability to change the price at which the *issue* and *redemption* of *units* takes place.

6.4.8 R (1) The *MMF manager* must provide clear, timely and relevant communications to *unitholders* and other relevant stakeholders in the event of the changes referred to in *MMFS* 6.4.5R(1) or (2) (as applicable) to *issue* and *redemption* prices.

(2) In relation to an *LVNAV MMF*, the communications in (1) are required where the price at which *units* are *issued* and *redeemed* switches from a price that is equal to the *MMF's constant NAV per unit* to a price that is equal to the *NAV per unit* in accordance with *MMFS* 6.4.2R(3) and vice versa.

(3) In relation to a *public debt CNAV MMF*, the communications in (1) are required where the price at which *units* are *issued* and *redeemed*:

(a) involves a change to the *MMF's constant NAV per unit*; and

(b) switches from the *MMF's constant NAV per unit* to the *NAV per unit* (see *MMFS* 6.4.3R(1)) and vice versa.

(4) The *MMF manager* must maintain an internal and external communication strategy to comply with (1) by acting quickly and effectively to reduce the anticipated harm caused by disruption due to the change.

6.4.9 G As part of the *MMF's* communication strategy, the *MMF manager* should:

(1) consider, in advance of any disruption, how it will provide important warnings or advice quickly to *unitholders* and other relevant stakeholders, including where there is no direct line of communication; and

(2) ensure that its choice of communication media takes account of the circumstances, needs and vulnerabilities of *unitholders* and other relevant stakeholders.

Notification requirements for public debt CNAV MMFs and LVNAV MMFs relating to the issue and redemption of units

6.4.10 R The *MMF manager* must inform its *governing body* and notify the *FCA* and the *depositary* where:

(1) in relation to a *public debt CNAV MMF*:

(a) the *constant NAV per unit* and the *NAV per unit* differ by more than 30 basis points;

(b) the *constant NAV per unit* changes; or

(c) the *MMF issues* and *redeems units* at a price that is equal to the *NAV per unit* (see *MMFS* 6.4.3R(1)); or

(2) in relation to an *LVNAV MMF*, the *constant NAV per unit* and the *NAV per unit* differ by more than 15 basis points.

6.5 Liquidity management procedures and tools for UK MMFs

Application

6.5.1 R This section applies to a *UK MMF* and the *MMF manager* of a *UK MMF*.

Liquidity management procedures and tools

6.5.2 R The *MMF manager* of a *UK MMF* must establish, implement and consistently apply prudent and rigorous liquidity management procedures and tools.

6.5.3 R (1) When establishing the liquidity management procedures, the *MMF manager* must consider, and take into account, the risks of putting the liquidity management tools into operation during stressed market conditions.

(2) The *MMF manager* must ensure that the liquidity management procedures:

(a) allow the liquidity management tools to be used when the *MMF manager* considers this necessary for the purpose of acting in the interests of the *MMF* and all *unitholders*; and

(b) enable the tools to be put into operation quickly during stressed market conditions.

6.5.4 R The liquidity management procedures must:

(1) include the power of the *MMF manager* to suspend *dealings* in the *fund* in accordance with *COLL* 7.2 (Suspension and restart of dealings), *COLL* 8.6 (Termination, suspension, and schemes of arrangement) or *MMFS* 6.5.6R (as applicable);

(2) provide for the use of at least one additional liquidity management tool (see *MMFS* 6.5.7R); and

(3) ensure that the interests of all *unitholders* are taken into account before putting into operation the relevant liquidity management tool.

Power to suspend dealings

6.5.5 G (1) (a) A *UK MMF* which is a *UK UCITS* or a *non-UCITS retail scheme* may suspend *dealings* in the *fund* in accordance with the *rules* in *COLL* 7.2 (Suspension and restart of dealings). An *MMF* which is a *qualified investor scheme* may suspend *dealings* in the *fund* in accordance with the *rules* in *COLL* 8.6 (Termination, suspension, and schemes of arrangement).

(b) The *rules* in *COLL* 7.2 and *COLL* 8.6 allow an *authorised fund manager* to suspend *dealings* in the relevant *authorised fund* with the prior agreement of the *depositary*, and require the *authorised fund manager* to do so without delay, if the *depositary* requires it. Under those *rules*, *dealings* in the *fund* may (among other things) only be suspended where it is in the interests of *unitholders* to do so.

(2) *MMFS* 6.5.6R permits the *MMF manager* of a *UK MMF* that is not an *authorised fund* to suspend *dealings* in the *fund* in certain circumstances.

6.5.6 R (1) This *rule* applies to the *MMF manager* of a *regulation [12] MMF*.

(2) The *MMF manager* may, with the prior agreement of the *depositary*, and must without delay, if the *depositary* so requires, within any parameters which are fair and reasonable in respect of all the *unitholders* in the *fund* and which are set out in the *prospectus*, temporarily suspend *dealings* in *units* of the *scheme*, a *sub-fund* or a *class*.

(3) Any suspension within (2) may only take place if the *MMF manager* has determined on reasonable grounds that there is a good and sufficient reason in the interests of *unitholders* or potential *unitholders*. The *MMF manager* must have regard to the interests of all the *unitholders* in the *scheme* in reaching such an opinion.

(4) At the commencement of suspension under (2), the *MMF manager* must immediately inform the *FCA* of the suspension and the reasons for it.

(5) The *MMF manager* must ensure that a notification of the suspension is made to *unitholders* of the *MMF* as soon as practicable after suspension commences.

(6) The *MMF manager* and the *depositary* must ensure that the suspension only continues for as long as it is justified, having regard to the interests of the *unitholders*.

(7) The suspension of *dealings* in *units* must cease as soon as (3) no longer applies.

(8) The *MMF manager* and the *depositary* must formally review the suspension at least every 28 *days* and inform the *FCA* of the results of this review and any change to the information provided in (4).

(9) The *MMF manager* must inform the *FCA* immediately of the resumption of *dealings*.

Additional liquidity management tools

6.5.7 R The additional liquidity management tool required by *MMFS* 6.5.4R(2) must enable the *MMF manager* to mitigate the effects of any material *dilution* in the value of the *MMF's* assets resulting from the *issue* or *cancellation* of *units*.

6.5.8 G (1) Liquidity management tools which would satisfy the requirements of *MMFS* 6.5.7R include:

(a) a *dilution levy*; and

(b) a *dilution adjustment*.

(2) An *MMF manager* should ensure that a *dilution levy* or *dilution adjustment* on *redemptions* is solely for the benefit of the *MMF*.

6.5.9 R If an *MMF manager* puts an additional liquidity management tool into operation, it must notify the *FCA* promptly, providing details of that decision.

Unitholder information about liquidity management tools

6.5.10 R (1) The *prospectus* of a *UK MMF* must contain a description of:

(a) the power of the *MMF manager* to suspend *dealings* in the *MMF* and the additional liquidity management tools required by this section; and

(b) an explanation of the circumstances in which these tools would typically be deployed and the likely consequences for *unitholders*.

(2) The information in (1) must also be published on the website maintained for the *MMF*.

6.5.11 R When an *MMF manager* considers that a *dilution levy* or *dilution adjustment* is likely to be applied to *redemptions*, it must take reasonable care to ensure that all *unitholders* are treated fairly and that no one or more *unitholders* are given advance notice of the *MMF manager's* intentions.

7 Transparency requirements

7.1 Introduction

7.1.1 R This chapter applies to the *MMF manager* of a *UK MMF*.

7.2 Provision of information to investors

Indication of type of MMF in firm literature

7.2.1 R (1) The *MMF manager* of a *UK MMF* must ensure that the applicable information specified in (2) is clearly stated in any *financial promotion* or communication issued by it or on its behalf by the *MMF manager*, where it is addressed, or intended for distribution, to *unitholders* or potential *unitholders*.

(2) The information specified for the purposes of (1) is that:

(a) the *MMF* is a *public debt CNAV MMF*, an *LVNAV MMF* or a *VNAV MMF* (as applicable); and

(b) the *MMF* is a *short-term MMF* or a *standard MMF*.

(3) The requirement in (1) does not apply to:

(a) an administrative communication; or

(b) *image advertising*.

7.2.2 G Examples of administrative communications in *MMFS* 7.2.1R(3)(a) include contract notes that simply set out details of the *unitholder's* purchase or *redemption* of *units*, statements of income distributions or accumulations, and confirmations of a change of *unitholder* registration details.

Information to be made available to investors at least weekly

7.2.3 R An *MMF manager* must make all of the following information about the *MMF* available at least once a week to the *unitholders*:

(1) the maturity breakdown of its portfolio;

(2) its credit profile;

(3) its *WAM* and *WAL*;

(4) details of its 10 largest holdings, including the name, country, maturity and asset type, and the counterparty in the case of *eligible repurchase agreements* and *eligible reverse repurchase agreements*;

(5) the total value of its assets; and

(6) its net yield.

Statements for inclusion in marketing documentation

7.2.4 R The *MMF manager* must ensure that any *financial promotion* or *marketing* communication relating to the *MMF* clearly includes all of the following statements:

(1) the *MMF* is not a guaranteed investment;

(2) an investment in *MMF*s is different to an investment in *deposits*, with particular reference to the risk that the principal invested in an *MMF* is capable of fluctuating in value;

(3) the *MMF* does not rely on external support for guaranteeing the liquidity of the *MMF* or stabilising the *NAV per unit*; and

(4) the risk of loss of the principal is borne by *unitholders*.

Other transparency requirements

7.2.5 R An *MMF manager* must ensure that no communication made by, for or on behalf of the *MMF* to *unitholders* or potential *unitholders* may in any way suggest that an investment in the *units* of the *MMF* is guaranteed.

7.2.6 R (1) The *MMF manager* of a *UK MMF* must ensure that *unitholders* are clearly informed of the method or methods used to value the assets of the *MMF* and to calculate the *NAV per unit*.

(2) The *MMF manager of a public debt CNAV MMF* and an *LVNAV MMF* must also clearly explain to *unitholders* and potential *unitholders* whether it intends to use the *amortised cost method*, or to round the *NAV per unit* and the *constant NAV per unit*, or both.

8 Reporting to the FCA

8.1 Introduction

Application

8.1.1 R This chapter applies to the *MMF manager* of a *UK MMF*.

8.2 Reporting requirements for MMF managers of MMFs

General reporting requirements

8.2.1 R Subject to *MMFS* 8.2.2R, for each *MMF* that it manages, a *UK MMF manager* must report the following information to the *FCA* on at least a quarterly basis:

(1) the type and characteristics of the *MMF*;

(2) portfolio indicators such as the total value of assets, *NAV*, *WAM*, *WAL*, maturity breakdown, liquidity and yield;

(3) the results of stress tests, including those of the common reference stress test scenarios and, where applicable, the proposed action plan;

(4) information on the assets held in the portfolio of the *MMF*, including:

(a) the characteristics of each asset, such as name, country, issuer category, risk or maturity, and the outcome of the internal credit quality assessment procedure; and

(b) the type of asset, including details of the counterparty in the case of *derivatives*, *repurchase agreements* or *reverse repurchase agreements*;

(5) information on the liabilities of the *MMF*, including:

(a) the country in which the *unitholder* is established;

(b) the *unitholder* category;

(c) *unitholder* concentration; and

(d) subscription and *redemption* activity; and

(6) any other additional information which may be requested by the *FCA*.

Reporting requirements for MMFs with assets under management that do not exceed £100,000,000

8.2.2 R For an *MMF* whose assets under management in total do not exceed £100,000,000, the *MMF manager* must report the information specified in *MMFS* 8.2.1R(3) to the *FCA* on at least an annual basis.

Additional reporting requirements for LVNAV MMFs

8.2.3 R In relation to each *LVNAV MMF* that it *manages* (and in addition to the information required by *MMFS* 8.2.1R), a *UK MMF manager* must report the following information to the *FCA* on at least a quarterly basis:

(1) every occasion in the relevant quarter on which:

(a) the *amortised cost method* was used to value an asset that had a *residual maturity* of 75 *days* or less in accordance with *MMFS* 6.2.6R (LVNAV MMF use of amortised cost method); and

(b) the price calculated in (a) differed from the price of that asset calculated under the *mark-to-market* approach or *mark-to-model* approach in accordance with *MMFS* 6.2.3R (Use of mark-to-market approach) and *MMFS* 6.2.4R (Use of mark-to-model approach) by more than 10 basis points;

(2) every occasion in the relevant quarter on which the *constant NAV per unit* calculated in accordance with *MMFS* 6.3.4R (Calculation of constant NAV for LVNAV MMFs) differed from the *NAV per unit* calculated in accordance with *MMFS* 6.3.2R (General rules for calculating the NAV per unit of an MMF) by more than 20 basis points; and

(3) every occasion in the relevant quarter on which the *LVNAV MMF* breached the applicable weekly liquidity thresholds in *MMFS* 5.2.5R(2) (Additional portfolio rules for LVNAV and public debt CNAV MMFs) and any measures taken to ensure that the *MMF* is able to comply with those thresholds.

8.3 Format of information reporting to the FCA

Reporting templates

8.3.1 R (1) A *UK MMF manager* must report the information required by *MMFS* 8.2.1R in the format specified in *MMFS* 8 Annex 1R (General characteristics, identification of the MMF and the manager of that MMF) in relation to each *MMF* which the *MMF manager* manages or markets in the *UK*.

(2) A *UK MMF manager* must report the information required by *MMFS* 8.2.3R in the format specified in *MMFS* 8 Annex 2R (Additional reporting for LVNAV MMFs).

8.3.2 G (1) When reporting the information required by *MMFS* 8.3.1R in the formats specified in *MMFS* 8 Annex 1R and *MMFS* 8 Annex 2R, a *UK MMF manager* could use *ESMA's* latest 'Guidelines on the reporting to competent authorities under Article 37 of the MMF Regulation'.

(2) When conducting common reference stress test scenarios in relation to section A.5 of the reporting template relating to stress testing, a *UK MMF manager* could use the latest *ESMA* 'Guidelines on the establishment of additional common reference stress test scenarios', part of the 'Guidelines on stress test scenarios under the MMF Regulation'.

(3) The *guidance* in (1) and (2) replaces the *guidance* and *FCA* expectations set out in the document entitled 'Brexit: our approach to EU non-legislative materials' in relation to *ESMA's* 'Guidelines on the reporting to competent authorities under Article 37 of the MMF Regulation' and Guideline 4.8 of the 'Guidelines on stress test scenarios under the MMF Regulation'.

8 Annex 1R General characteristics, identification of the MMF and the manager of that MMF

Data item	Data type	Reported data
General characteristics, identification of the MMF and the manager of that MMF		
(A.1.1)	Reporting period	
(A.1.2)	National code of the *MMF* as provided by the *FCA*	
(A.1.3)	LEI of the *MMF*	ISO 17442 Legal Entity Identifier 20 alphanumerical character code (LEI)
(A.1.4)	Product reference number (PRN) of the *MMF*	
(A.1.5)	Name of the *MMF*	
(A.1.6)	Indicate if the *MMF* is a *UCITS* or an *AIF*	*UCITS* *AIF*
(A.1.7)	[Left blank]	[Left blank]
(A.1.8)	Domicile of the *MMF*	ISO 3166 – country code
(A.1.9)		
(A.1.10)		
(A.1.11)	Inception date of the *MMF*	ISO 8601 date in the format YYYY-MM-DD
(A.1.12)	Base currency of the *MMF*	ISO 4217 currency code, 3 alphabetical characters
(A.1.13)	National code of the *MMF manager* as provided by the *competent authority* of the *MMF*	
(A.1.14)	National code of the *MMF manager* as provided by the *FCA*	

(A.1.15)	LEI of the manager of the *MMF*	ISO 17442 LEI 20 alphanumerical character code
(A.1.16)	ECB code (MFI ID code) of the *MMF manager*	
(A.1.17)	Name of the *MMF manager*	
(A.1.18)	Country where the *MMF manager* is authorised	
(A.1.19)	LEI of the *depositary* of the *MMF*	ISO 17442 LEI 20 alphanumerical character code
(A.1.20)	National code of the *depositary* of the *MMF*	
(A.1.21)	Legal name of the *depositary* of the *MMF*	
Type of MMF		
(A.2.1)	*MMF* type [Select one]	*VNAV MMF* which is a *short-term MMF* *Public debt CNAV MMF* *LVNAV MMF* *VNAV MMF* which is a *standard MMF*
Other characteristics of the MMF		
Master/feeder information [Left blank]		
(A.3.1)	[Left blank]	[Left blank]
If the *MMF* is a feeder:		
(A.3.2)	LEI of the master of the *MMF*	ISO 17442 LEI 20 alphanumerical character code
(A.3.3)	National code of the master of the *MMF*	
(A.3.4)	Legal name of the master of the *MMF*	

Information on unit classes

(A.3.5)	Indicate whether the *MMF* has *unit classes*	(Yes/No)
(A.3.6)	Where the *MMF* has *unit classes*, state the single ISIN of the different *unit classes*	ISO 6166 ISIN 12-character alphanumerical code
(A.3.7)	Where the *MMF* has *unit classes*, state the currency of the different *unit classes*	ISO4217 Currency Code, 3 alphabetical characters
Information on preceding fund or liquidation (one-off reporting)		
If the *MMF* has been merged with another *fund*, please indicate:		
(A.3.8)	Date of merger	ISO 8601 date in the format YYYY-MM-DD
If the *MMF* is being liquidated, please indicate:		
(A.3.9)	Date of liquidation	ISO 8601 date in the format YYYY-MM-DD
Portfolio indicators of the MMF		
Total value of assets [**Note**: For the purpose of the reporting template under MMFS/the EU MMF Regulation, it is considered that the total value of assets equals the NAV – please see below field A.4.1.]		
NAV (sub-fund level – not unit class)		
(A.4.1)	*NAV* of the *MMF* (*sub-fund* level)	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.4.2)	*NAV* of the *MMF*	(in base currency)
WAM		
(A.4.3)	*Weighted average maturity* of the *MMF*.	(*days*)
WAL		

(A.4.4)	*Weighted average life* of the *MMF*.	(*days*)
Liquidity indicators		
Portfolio liquidity profile		
(A.4.5)	% of assets qualifying for the daily liquidity buffer (daily maturing assets as defined under *MMFS* 5.2 (Portfolio rules for short-term MMFs) and *MMFS* 5.3 (Portfolio rules for standard MMFs)	%
(A.4.6)	% of assets qualifying for the weekly liquidity buffer (weekly maturing assets as defined under *MMFS* 5.2 (Portfolio rules for short-term MMFs) and *MMFS* 5.3 (Portfolio rules for standard MMFs)	%
(A.4.7)	Portfolio liquidity profile	Percentage of portfolio capable of being liquidated that fall within each period
Each period in A.4.7		
Yield		
(A.4.8)	Cumulative returns	%
Range		
(A.4.9)	Calendar year performance (net return) of the most representative share class	%
Range		

(A.4.10)	Monthly portfolio volatility and monthly portfolio volatility of the shadow *NAV* (when applicable)	%
Range		
Stress tests for the MMF		
Results of the stress tests of the MMF		
(A.5.1)	Results of the liquidity stress tests of the *MMF* conducted within the reporting period as set out in *MMFS* 5.6 (Stress testing)	
(A.5.2)	Results of the credit stress tests of the *MMF* conducted within the reporting period as set out in *MMFS* 5.6 (Stress testing)	
(A.5.3)	Results of the FX rate stress tests of the *MMF* conducted within the reporting period as set out in *MMFS* 5.6 (Stress testing)	
(A.5.4)	Results of the interest rate stress tests of the *MMF* conducted within the reporting period as set out in *MMFS* 5.6 (Stress testing)	
(A.5.5)	Results of stress test on the level of *redemption* of the *MMF* conducted within the reporting period as set out in *MMFS* 5.6 (Stress testing)	

(A.5.6)	Results of stress test of the *MMF* on the spread among indices to which interest rate of portfolio securities are tied conducted within the reporting period as set out in *MMFS* 5.6 (Stress testing)	
(A.5.7)	Results of the macro stress test of the *MMF* conducted within the reporting period as set out in *MMFS* 5.6 (Stress testing)	
(A.5.8)	Results of the multivariate stress test of the *MMF* conducted within the reporting period as set out in *MMFS* 5.6 (Stress testing)	
(A.5.9)	In the case of *public CNAV MMFs* and *LVNAV MMF*s (or *EU MMFs* authorised as 'public debt CNAV MMFs' or 'low volatility NAV MMFs' under the *EU MMF Regulation*), indicate the results of the stress tests mentioned in the fields A.5.1 to A.5.8 in terms of difference between the *constant NAV per unit* and the *NAV per unit*	
Proposed action plan (where applicable)		
(A.5.10)	Indicate the proposed action plan as set out in *MMFS* 5.6.7R (Vulnerability of the MMF)	Free text

Information on the assets held in the portfolio of the MMF		
Money market instruments, eligible securitisations and asset backed commercial papers		
The below fields A.6 must be completed using a line-by-line reporting template		
(A.6.1)	Type of the *money market instrument*, *eligible securitisations* and *ABCP* [Select one or several]	
	Indicate the type of *money market instruments*, *eligible securitisations* and *ABCP*	*Eligible money market instruments* Article 13 of Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA Rulebook* *ABCP* as referred to in *MMFS* 2.4.2R(2)(b) An *STS securitisation* or an *STS ABCP*
	If the type of asset is a money market instrument, complete the fields A.6.2 to A.6.20	
(A.6.2)	Asset description of the *money market instrument*	
(A.6.3)	ISIN of the *money market instrument*	ISO 6166 ISIN 12-character alphanumerical code
(A.6.4)	CFI (if available, and if the ISIN is not available) of the *money market instrument*	ISO 10692 CFI, 6-character alphabetical code
(A.6.5)	LEI of the issuer	ISO 17442 LEI 20-character alphanumerical code
(A.6.6)	Name of the issuer	

(A.6.7)	Issuer category The issuer categories shall be selected among the corresponding ones [Select one]	Sovereign (UK) Sovereign (non-UK) Central bank of an EU member state Other overseas central bank (outside the EU) Regional Local National public body EU public body (except national public body) Non-EU public body Supranational public body (EU) Supranational public body (other than EU) *Credit institution* Other financial corporations Non-financial corporations
(A.6.8)	Country of the issuer of the *money market instrument*	ISO 3166 – country code
(A.6.9)	Maturity date of the *money market instrument*	ISO 8601 date in the format YYYY-MM-DD
(A.6.10)	Currency of the *money market instrument*	(ISO 4217 currency code, 3 alphabetical characters)
(A.6.11)	Quantity of the *money market instrument*	
(A.6.12)	Clean price of the *money market instrument*	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)

(A.6.13)	Clean price of the *money market instrument*	(in base currency)
(A.6.14)	Accrued interests	
(A.6.15)	Accrued interests	(in base currency, if A.6.14 is in GBP)
(A.6.16)	Total market value of the *money market instrument*	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.17)	Total market value of the *money market instrument*	(in base currency)
(A.6.18)	Method used to price the *money market instrument*	*mark-to-market* *mark-to-model* *amortised cost*
(A.6.19)	Indicate whether the outcome of the internal credit assessment procedure is favourable or unfavourable	(favourable/unfavourable)
(A.6.20)	Provide the next interest rate reset date (as mentioned in *MMFS* 2.3.7R (Conditions for eligible money market instruments))	ISO 8601 date in the format YYYY-MM-DD
	If the type of asset is an eligible securitisation or eligible ABCP, complete the fields A.6.21 to A.6.37	
(A.6.21)	Asset description of the *eligible securitisation* or *eligible ABCP*	
(A.6.22)	ISIN of the *eligible securitisation* or *eligible ABCP*	ISO 6166 ISIN 12-character alphanumerical code
(A.6.23)	Country of the sponsor of the *eligible securitisation* and *eligible ABCP*	ISO 3166 – country code

(A.6.24)	LEI of the sponsor	ISO 17442 LEI 20-character alphanumerical code
(A.6.25)	Name of the sponsor	
(A.6.26)	The type of underlying [Select one]	Trade receivables Consumer loans Leasing Credit card receivables Loans to corporates or SME Residential mortgage Commercial mortgage Other assets
(A.6.27)	Maturity date	ISO 8601 date in the format YYYY-MM-DD
(A.6.28)	Currency	(ISO 4217 currency code, 3 alphabetical characters)
(A.6.29)	Quantity	
(A.6.30)	Clean price	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.31)	Clean price	(in base currency)
(A.6.32)	Accrued interests	
(A.6.33)	Accrued interests	(in base currency, if A.6.30 is in GBP)
(A.6.34)	Total market value	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.35)	Total market value	(in base currency)

(A.6.36)	Method used to price the *eligible securitisations* or *eligible ABCP* [Select one]	*mark-to-market* *mark-to-model* *amortised cost*
(A.6.37)	Indicate whether the outcome of the internal credit assessment procedure is favourable or unfavourable [Select one]	favourable unfavourable
Other assets		
(A.6.38)	Type of other assets [Select one] The type of other assets shall be selected among the assets listed in *MMFS* 2.2.1 (Eligible assets)	*Deposits* with *credit institutions* as referred to in *MMFS* 2.5 (Eligible deposits) *Eligible derivatives* as referred to in *MMFS* 2.6 (Eligible derivatives) of which: • financial *derivative* instruments *dealt* in on a *regulated market* (and specify if the market is a *UK RIE*, an *EU regulated market*, or a market within Article 2(1)(13) of *MiFIR*); or • financial *derivative* instruments dealt *over the counter* *Repurchase agreements* as referred to in *MMFS* 2.7 (Eligible repurchase agreements) *Reverse repurchase agreements* as referred to in *MMFS* 2.8 (Eligible reverse repurchase agreements) *Units* of other *MMFs* as referred to in *MMFS* 2.9 (Eligible MMF units) Ancillary liquid assets

	If the type of other asset is an eligible derivative, complete the fields A.6.39 to A.6.60	
(A.6.39)	Contract type of *derivative* contract	
(A.6.40)	ISIN of the *eligible derivative*	ISO 6166 ISIN 12-character alphanumerical code
(A.6.41)	UPI of the *eligible derivative* (if the ISIN is not available)	
(A.6.42)	Financial instrument short name (FISN) of the *eligible derivative*	ISO 18774
(A.6.43)	CFI code (if available and if the ISIN is not available) of the *eligible derivative*	ISO 10692 CFI, 6-character alphabetical code
(A.6.44)	Type of *eligible derivative* [Select one]	interest rate currencies indices of interest rates indices of currencies
(A.6.45)	Name of the underlying	
(A.6.46)	Underlying identification type	I = ISIN X = Index
(A.6.47)	Underlying identification	For underlying identification type I: ISO 6166 ISIN 12-character alphanumerical code For underlying identification type X: ISO 6166 ISIN 12-character alphanumerical code if available, otherwise full name of the index as assigned by the index provider
(A.6.48)	Notional currency 1	ISO 4217 currency code

(A.6.49)	Notional currency 2	ISO 4217 currency code
(A.6.50)	Country of the *eligible derivative*	ISO 3166 – country code
(A.6.51)	Maturity date of the *eligible derivative*	ISO 8601 date in the format YYYY-MM-DD
(A.6.52)	Exposure of the *eligible derivative*	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.53)	Exposure of the *eligible derivative*	(in base currency)
(A.6.54)	Market value of the *eligible derivative*	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.55)	Market value of the *eligible derivative*	(in base currency)
(A.6.56)	Market value of the *collateral* received (in relation to the *eligible derivative*)	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.57)	Market value of the *collateral* received (in relation to the *eligible derivative*)	(in base currency)
(A.6.58)	Provide the next interest rate reset date (as mentioned in *MMFS* 2.3.7R(3) (Conditions for eligible money market instruments))	ISO 8601 date in the format YYYY-MM-DD
(A.6.59)	Name of the counterparty	
(A.6.60)	LEI of the counterparty	ISO 17442 LEI 20 alphanumerical character code

	If the type of other asset is an eligible MMF unit of another MMF, complete the fields A.6.61 to A.6.71	
(A.6.61)	Asset description of the *eligible MMF unit* of the other *MMF*	
(A.6.62)	ISIN of the *eligible MMF unit* of the other *MMF*	ISO 6166 ISIN 12-character alphanumerical code
(A.6.63)	LEI (if the ISIN is not available) of the *eligible MMF unit* of the other *MMF*	
(A.6.64)	CFI code (if available and if the ISIN is not available) of the *eligible MMF unit* of the other *MMF*	ISO 10692 CFI, 6-character alphabetical code
(A.6.65)	Currency	(ISO 4217 currency code, 3 alphabetical characters)
(A.6.66)	Country of the *eligible MMF unit* of the other *MMF*	ISO 3166 – country code
(A.6.67)	Market value of the *eligible MMF unit* of the other *MMF*	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.68)	Market value of *eligible MMF unit* of the other *MMF*	(in base currency)
(A.6.69)	Quantity	
(A.6.70)	Price of the *eligible MMF unit* of the other *MMF* (*NAV per unit*)	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.71)	Price of the *eligible MMF unit* of the other *MMF* (*NAV per unit*)	(in base currency)

	If the type of other asset is a deposit or ancillary liquid assets, complete the fields A.6.72 to A.6.81	
(A.6.72)	Asset description of the *deposit* or ancillary liquid assets	
(A.6.73)	ISIN of the *deposit* or ancillary liquid assets	ISO 6166 ISIN 12-character alphanumerical code
(A.6.74)	CFI (if available and if the ISIN is not available) of the *deposit* or ancillary liquid assets	ISO 10692 CFI, 6-character alphabetical code
(A.6.75)	Country of the *deposit* or ancillary liquid assets	ISO 3166 – country code
(A.6.76)	Name of the counterparty	
(A.6.77)	LEI of the counterparty	ISO 17442 LEI 20-character alphanumerical code
(A.6.78)	Maturity date of the *deposit* or ancillary liquid assets	ISO 8601 date in the format YYYY-MM-DD
(A.6.79)	Currency	(ISO 4217 currency code, 3 alphabetical characters)
(A.6.80)	Exposure of the *deposit* or ancillary liquid assets	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.81)	Exposure of the deposit or ancillary liquid assets	(in base currency)
	If the type of other asset is an eligible repurchase agreement or an eligible reverse repurchase agreement, complete the fields A.6.82 to A.6.99	
(A.6.82)	Asset description of the *eligible repurchase agreement* or *eligible reverse repurchase agreement*	

(A.6.83)	ISIN of the *eligible repurchase agreement* or *eligible reverse repurchase agreement*	ISO 6166 ISIN 12-character alphanumerical code
(A.6.84)	CFI (if available and if the ISIN is not available) of the *eligible repurchase agreement* or *eligible reverse repurchase agreement*	ISO 10692 CFI, 6-character alphabetical code
(A.6.85)	Country of the *eligible repurchase agreement* or *eligible reverse repurchase agreement*	ISO 3166 – country code
(A.6.86)	Counterparty category The counterparty category shall be selected among the following ones (see *MMFS* 4.3.2R(1)(e) (General principles for the internal credit quality assessment)) [Select one]	Sovereign (UK) Sovereign (non-UK) Central bank of EU member state Other overseas central bank (outside the EU) Regional Local National public body EU public body (except National Public body) Non-EU public body Supranational public body (EU) Supranational public body (other than EU) *Credit institution* Other financial corporations Non-financial corporations
(A.6.87)	LEI of the counterparty	ISO 17442 LEI 20-character alphanumerical code

(A.6.88)	Name of the counterparty	
(A.6.89)	Maturity date of the *eligible repurchase agreement* or *eligible reverse repurchase agreement*	ISO 8601 date in the format YYYY-MM-DD
(A.6.90)	Currency	(ISO 4217 currency code, 3 alphabetical characters)
(A.6.91)	Exposure of the *eligible repurchase agreement* or *eligible reverse repurchase agreement* (in the case of an *eligible reverse repurchase agreement*, this is the amount of cash provided to the counterparty)	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.92)	Exposure of the *eligible repurchase agreement* or *eligible reverse repurchase agreement* (in the case of an *eligible reverse repurchase agreement*, this is the amount of *money* provided to the counterparty)	(in base currency)
(A.6.93)	Market value of the *collateral* received (in relation to the *eligible repurchase agreement* or *eligible reverse repurchase agreement*) (the amount of *money* received by the *MMF* as part of *eligible repurchase agreements* (as referred to in *MMFS* 2.7.2R(4) (Conditions for eligible repurchase agreements))	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)

(A.6.94)	Market value of the *collateral* received (in relation to the *eligible repurchase agreement* or *eligible reverse repurchase agreement*) (the amount of *money* received by the *MMF* as part of *eligible repurchase agreements* (as referred to in *MMFS* 2.7.2R(4) (Conditions for eligible repurchase agreements))	(in base currency)
(A.6.95)	Indicate whether the outcome of the internal credit assessment procedure is favourable or unfavourable (for the different liquid *transferable securities* or (other) *money market instruments* received as part of an *eligible reverse repurchase agreement* as referred to in *MMFS* 2.8.7R (Receiving assets that are not eligible money market instruments))	(favourable/unfavourable)
In the context of *eligible reverse repurchase agreements* and assets referred to in *MMFS* 2.8 (Eligible reverse repurchase agreements) that were received by the *MMF*, indicate:		
(A.6.96)	ISIN of these different assets	ISO 6166 ISIN 12-character alphanumerical code
(A.6.97)	Market value of these different assets	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(A.6.98)	Market value of these different assets	(in base currency)

(A.6.99)	In the context of *eligible reverse repurchase agreements*, whether there are any assets as referred to in *MMFS* 2.8.7R (Receiving assets that are not eligible money market instruments)	(Yes/No)
Information on the liabilities of the MMF		
Information on the unitholders – unitholder concentration		
(A.7.1)	Specify the approximate percentage of the *MMF's* equity that is beneficially owned by the 5 beneficial owners that have the largest equity interest in the *MMF*, as a percentage of *NAV* of the *MMF*. Look-through to the ultimate beneficial owners where known or possible	% (of *NAV*)
Information on the unitholders – breakdown of unitholder concentratio*n*		
(A.7.2)	Specify the breakdown of *unitholder* concentration by status of *unitholders* (estimate if no precise information available):	
	• *professional clients*	% (of *NAV*)
	• *retail clients*	% (of *NAV*)
Information on the unitholders – geographical breakdown		

(A.7.3)	Provide the breakdown of the ownership of *units* in the *MMF* by *unitholder* group. Look-through to the ultimate beneficial owners where known or possible.	(% of NAV) Non-financial corporations Banks Insurance corporations Other financial institutions Pension plans/funds General government Other collective investment undertakings Households Unknown
(A.7.4)	Specify the geographical breakdown of *unitholders* by country (estimate if no precise information available)	
	Country	(% of NAV, country – ISO 3166 – 2 character)
Information on unitholders – subscription and redemption activity		
Unitholder redemptions		
(A.7.5)	State the frequency of *unitholder redemption*s. If multiple *classes* of *units*, report for the largest *unit class* by *NAV*. [Select one]	Daily Weekly Monthly Bi-monthly Other No *redemption* rights
(A.7.6)	What is the notice period required by *unitholders* for *redemptions* in *days*	Days

(A.7.7)		As at the reporting date, what percentage of the *MMF's NAV* is subject to the following arrangements:	
		Gates	% of *NAV*
		Suspension of *dealing*	% of *NAV*
		Liquidity fees	% of *NAV*
		Other arrangements for managing illiquid assets	Type of arrangement
			% of *NAV*
(A.7.8)		*NAV* of the *MMF* over the reporting period	(in GBP, including the impact of subscriptions and *redemptions*) (at the last *day* of the month)
	January		
	February		
	March		
	April		
	May		
	June		
	July		
	August		
	September		
	October		
	November		
	December		
(A.7.9)		Subscriptions over the reporting period	(in GBP)
	January		

	February		
	March		
	April		
	May		
	June		
	July		
	August		
	September		
	October		
	November		
	December		
(A.7.10)		*Redemptions* over the reported period	(in GBP)
	January		
	February		
	March		
	April		
	May		
	June		
	July		
	August		
	September		
	October		
	November		
	December		
(A.7.11)		Payments to *unitholders*	(in GBP)

	January		
	February		
	March		
	April		
	May		
	June		
	July		
	August		
	September		
	October		
	November		
	December		
(A.7.12)		Exchange rate	
	January		
	February		
	March		
	April		
	May		
	June		
	July		
	August		
	September		
	October		
	November		
	December		

8 Annex 2R **Additional reporting for LVNAV MMFs**

Item	Data type	Reported data
Indicate every event in which the price of an asset valued by using the *amortised cost method* in accordance with *MMFS* 6.2.6R (LVNAV MMF use of amortised cost method) deviates from the price of that asset calculated in accordance with *MMFS* 6.2.3R (Use of mark-to-market approach) or *MMFS* 6.2.4R (Use of mark-to-model approach) by more than 10 basis points. These fields should be reported for every asset the price of which, by using the *amortised cost method*, would deviate in such a way.		
(B.1.1)	Valuation date (the first *day* the event occurs)	ISO 8601 date in the format YYYY-MM-DD
(B.1.2)	ISIN of the asset	ISO 6166 ISIN 12-character alphanumerical code
(B.1.3)	CFI code (if available and if the ISIN is not available) of the asset	ISO 10692 CFI, 6-character alphabetical code
(B.1.4)	Price (*MMFS* 6.2.3R (Use of mark-to-market approach) to *MMFS* 6.2.4R (Use of mark-to-model approach)) (at the valuation date mentioned in field B.1.1. when the event occurs)	
(B.1.5)	Price (*amortised cost method*) (at the valuation date mentioned in field B.1.1. when the event occurs)	

(B.1.6)	From the valuation date specified in field B.1.1, state how long the price of an asset valued by using the *amortised cost method* deviated by more than 10 basis points from the price of that asset	(*days*)
(B.1.7)	During the period mentioned in field B.1.6, state the average difference between the 2 values mentioned in field B.1.6	
(B.1.8)	During the period mentioned in field B.1.6, state the minimum price deviation between the 2 values	
(B.1.9)	During the period mentioned in field B.1.6, state the maximum price deviation between the 2 values	
Indicate every event in which the *constant NAV per unit* calculated in accordance with *MMFS* 6.3.4R(1) to (4) (Calculation of constant NAV for LVNAV MMFs) deviates from the *NAV per unit* calculated in accordance with *MMFS* 6.3.2R (General rules for calculating the NAV per unit of an MMF) by more than 20 basis points.		
(B.1.10)	Valuation date (the first *day* the event occurs)	ISO 8601 date in the format YYYY-MM-DD

(B.1.11)	*Constant NAV per unit* (*MMFS* 6.3.4R (Calculation of constant NAV for LVNAV MMFs)) (at the valuation date mentioned in field B.1.10, when the event occurs)	(in GBP) (if the base currency is not in GBP the exchange ratio used shall be the rate most recently set by the Bank of England)
(B.1.12)	*Constant NAV per unit* (*MMFS* 6.3.4R (Calculation of constant NAV for LVNAV MMFs)) (at the valuation date mentioned in field B.1.10, when the event occurs)	(in base currency)
(B.1.13)	*NAV per unit* (*MMFS* 6.3.2R (General rules for calculating the NAV per unit of an MMF) (at the valuation date mentioned in field B.1.10, when the event occurs)	(in GBP) (if the base currency is not in GBP, the exchange ratio used shall be the rate most recently set by the Bank of England)
(B.1.14)	*NAV per unit* (*MMFS* 6.3.2R (General rules for calculating the NAV per unit of an MMF) (at the valuation date mentioned in field B.1.10, when the event occurs)	(in base currency)
(B.1.15)	From the valuation date specified in field B.1.10, state how long the *constant NAV per unit* differed from the *NAV per unit* by more than 20 basis points	(*days*)

(B.1.16)	During the period mentioned in field B.1.15, state the average difference between the 2 values mentioned in field B.1.15	
(B.1.17)	During the period mentioned in field B.1.15, state the minimum price difference between the 2 values	
(B.1.18)	During the period mentioned in field B.1.15, state the maximum price difference between the 2 values	
Every occasion in which the *LVNAV MMF* breached the applicable weekly liquidity thresholds in *MMFS* 5.2.5R(2) (Additional portfolio rules for LVNAV and public debt CNAV MMFs) and any measures taken by the *MMF manager*.		
(B.1.19)	Date of the event	ISO 8601 date in the format YYYY-MM-DD
(B.1.20)	Date when the measure was taken	ISO 8601 date in the format YYYY-MM-DD

Sch 1 Record keeping requirements

Sch 1.1 G (1) The aim of the *guidance* in the following table is to provide an overview of the relevant record keeping requirements in *MMFS*.

(2) It is not a complete statement of those requirements and should not be relied on as if it were.

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
MMFS 2.8.8R(6) (Receiving assets that are not eligible money market instruments)	Additional adjustment for asset received as part of a *reverse repurchase agreement*	Policy and substantiate each decision to apply a specific adjustment to the value of the asset	As implicit from the rules in *MMFS*	As implicit from the *rules* in *MMFS*
MMFS 4.3.1R(6) (Requirement for an internal credit quality assessment)	*MMF manager* override of output of internal credit quality assessment methodology	Decision, details of *person* responsible for decision and objective reason for taking the decision	As implicit from the rules in *MMFS*	As implicit from the *rules* in *MMFS*
MMFS 4.4.1R (Requirement to make and retain records)	Internal credit quality assessment	The internal credit quality assessment procedure and internal credit quality assessments (see *MMFS* 4.4.2R for detailed requirements)	As implicit from the rules in *MMFS*	Minimum of 3 *annual accounting periods* (*MMFS* 4.4.3R)
MMFS 5.6.7R(1) (Vulnerability of the MMF)	Vulnerability of the MMF	Results of stress testing and proposed action plan	Stress testing reveals vulnerability	5 years (*MMFS* 5.6.9R(3))
MMFS 6.4.7R(1) (Issue and redemption of units in public debt CNAV MMFs and LVNAV MMFs)	Issue and redemption of *units* in *public debt CNAV MMFs* and *LV NAV MMFs* at the *MMF's NAV per unit* and the *MMF's constant*	The *people*, procedures, technology, facilities and information necessary to deliver the strategies, processes and systems	As implicit from the rules in *MMFS*	As implicit from the rules in *MMFS*

	NAV per unit (as applicable)	referred to in *MMFS* 6.4.5R		

Sch 1.2 G *MMF managers* are also reminded of the general record-keeping obligations that apply under the *rules* in *COLL*, *FUND* and *SYSC* 9 (Record keeping).

Sch 2 Notification requirements

Sch 2.1 G (1) This schedule sets out the notification requirements detailed in *MMFS* in respect only of notifications to be provided to the *FCA*.

(2) It is not a complete statement of those requirements and should not be relied upon as if it were.

Handbook reference	Subject of notification	Trigger events	Time allowed
MMFS 1.3.3R	Changes to the written agreement with the *depositary*, delegation of *AIFM investment management functions*, or the investment strategies, risk profile and other characteristics of *MMFs* which the *MMF manager* manages or intends to manage.	As implicit from the rules in *MMFS*	As implicit from the rules in *MMFS*
MMFS 4.2.3R(5) (Methodologies used in the internal credit quality assessment procedure)	Methodologies used in the internal credit quality assessment procedure	As implicit from the rules in *MMFS*	As implicit from the rules in *MMFS*
MMFS 5.6.7R(3) (Vulnerability of the MMF)	Measures taken by an *MMF manager* to strengthen the robustness of the *MMF*, including actions to reinforce the liquidity of the *MMF* and/or to improve the quality of the *MMF's* portfolio of assets.	Stress testing carried out in accordance with *MMFS* 5.6 (Stress testing) reveals any vulnerability of an *MMF*.	*FCA* must be notified immediately

MMFS 5.6.9R(3) (Reporting and retaining the results of the stress tests)	Detailed report with the results of stress testing and proposed action plan	As implicit from the rules in *MMFS*	As implicit from the rules in *MMFS*
MMFS 6.2.7R (Reporting to the FCA)	Valuation of *MMF* carried out in accordance with *MMFS* 6.2 (Valuation of MMFs)	Valuation of MMF (See *MMFS* 6.2.2R (Timing of valuation))	As implicit from the *rules* in *MMFS*
MMFS 6.4.10R (Notification requirements for public debt CNAV MMFs and LVNAV MMFs relating to the issue and redemption of units)	Deviation of the *NAV per unit* from the *constant NAV per unit* for *public debt CNAV MMFs* and *LVNAV MMFs* and, for *public debt CNAV MMFs*, the *issue* and *redemption* of *units* at a price that is equal to the *NAV per unit*.	As implicit from the *rules* in *MMFS*	As implicit from the *rules* in *MMFS*
MMFS 6.5.6R(4) (Power to suspend dealings)	Suspension of dealings in the *fund*	Commencement of suspension under *MMFS* 6.5.6R(2)	*FCA* must be notified immediately
MMFS 6.5.6R(8) (Power to suspend dealings)	Formal review of suspension of dealings in the *fund*	Formal review of suspension	As implicit from the *rules* in *MMFS*
MMFS 6.5.6R(9) (Power to suspend dealings)	Resumption of *dealings* in the *fund*	Resumption of *dealings*	*FCA* must be notified immediately

MMFS 6.5.9R (Additional liquidity management tools)	Additional liquidity management tools	*MMF manager* puts additional liquidity management tool into operation	*FCA* must be notified promptly
MMFS 8.2.1R (General reporting requirements)	General reporting requirements *MMFS* 8.3 (Format of information reporting to the FCA) specifies the format of the required information	As implicit from the *rules* in *MMFS*	As implicit from the *rules* in *MMFS*
MMFS 8.2.3R (Additional reporting requirements for LVNAV MMFs)	General reporting requirements *MMFS* 8.3 (Format of information reporting to the FCA) specifies the format of the required information	As implicit from the *rules* in *MMFS*	As implicit from the *rules* in *MMFS*

Sch 3 Fees and other payment requirements

Sch 3.1	G	*MMFS* does not contain any *rules* that directly impose fees or other payments. *FEES* 3 Annex 2 sets out the application and notification fees payable in relation to *UK MMFs* and *MMFs* marketed in the *UK*.

Sch 4 Rights of action for damages

Sch 4.1	G	(1)	In accordance with regulation [5] of the [*the MMF (Restatement) Regulations*], an *MMF manager* is liable for any loss or damage arising from its non-compliance and any non-compliance of an *MMF* which it manages with the ***rules*** in *MMFS*.
		(2)	The table below sets out the ***rules*** in *MMFS*, contravention of which by an *authorised person* may be actionable under section 138D of the *Act* (Actions for damages) by a *person* who suffers loss as a result of the contravention.
		(3)	If ‘Yes’ appears in the column headed ‘For private person’, the *rule* may be actionable by a *private person* under section 138D (or, in certain circumstances, that *person****’s*** fiduciary or representative: see regulation 6(2) and 6(3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). If ‘Yes’ appears in the column headed ‘Removed’, this indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the *rule* in which the right of action is removed is also given.

		(4)	The column headed 'For other person' indicates whether the *rule* may be actionable by a *person* other than a *private person* (or that *person's* fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

Chapter/ Appendix	Right of action under section 138D of the Act		
	For private person	**Removed**	**For other person**
All *rules* in *MMFS*	Yes	No	No

Sch 5 Rules that can be waived or modified

Sch 5.1 G Where the relevant conditions are met, the *rules* in *MMFS* may be waived or modified by the *FCA* under the following powers (as applicable):

(1) regulation [14] of [the *MMF (Restatement) Regulations* (Modification or waiver of rules)];

(2) regulation 7 of the *OEIC Regulations* (Modification or waiver of FCA rules);

(3) section 250 (Modification or waiver of rules) of the *Act*; or

(4) section 261L (Modification or waiver of rules) of the *Act*.

Annex B

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

[*Editor's note*: This Annex takes into account the changes proposed by the Securitisation (Smarter Regulatory Framework) Instrument 2023 as if they were made final.]

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

ABCP	asset backed commercial paper.
amortised cost method	a valuation method which takes the acquisition cost of an asset and adjusts that value for amortisation of premiums or discounts until maturity.
constant NAV per unit	(1) in relation to a *public debt CNAV MMF*, has the meaning given in *MMFS* 6.3.3R(1) (Calculation of constant NAV for public debt CNAV MMFs); and (2) in relation to an *LVNAV MMF*, has the meaning given in *MMFS* 6.3.4R(1) (Calculation of constant NAV for LVNAV MMFs).
eligible ABCP	has the meaning given in *MMFS* 2.4.1R(2) (Meaning of 'eligible securitisation' and 'eligible ABCP').
eligible deposit	has the meaning given in *MMFS* 2.5.1R (Meaning of 'eligible deposit').
eligible derivative	has the meaning given in *MMFS* 2.6.1R (Meaning of 'eligible derivative').
eligible MMF unit	has the meaning given in *MMFS* 2.9.1R (Meaning of 'eligible MMF unit').
eligible money market instrument	has the meaning given in *MMFS* 2.3.5R (Meaning of 'eligible money market instrument').
eligible repurchase agreement	has the meaning given in *MMFS* 2.7.1R (Meaning of 'eligible repurchase agreement').
eligible reverse repurchase agreement	has the meaning given in *MMFS* 2.8.1R (Meaning of 'eligible reverse repurchase agreement').

eligible securitisation	has the meaning given in *MMFS* 2.4.1R(1) (Meaning of 'eligible securitisation' and 'eligible ABCP').
EU MMF	an *AIF* or an *EEA UCITS scheme* which is authorised as an *MMF* under the *EU MMF Regulation* by the relevant *competent authority*.
EU MMF Regulation	the *EU* version of Regulation (EU) No. 2017/1131 of the European Parliament and the Council of 14 June 2017 on money market funds.
legal maturity	the date when the principal of a *security* is to be repaid in full and which is not subject to any optionality.
low volatility NAV MMF	has the meaning given in *MMFS* 1.2.5R (Meaning of 'low volatility NAV MMF').
LVNAV MMF	a *low volatility NAV MMF*.
mark-to-market	the valuation of positions at readily available close out prices that are sourced independently, including exchange prices, screen prices or quotes from several independent reputable brokers.
mark-to-model	a valuation which is benchmarked, extrapolated or otherwise calculated from one or more market inputs.
MMF	a *money market fund*.
MMF manager	in relation to a *UK MMF*, the *management company* or *full-scope UK AIFM* of the *MMF*;
[*MMF (Restatement) Regulations*]	Part [X] of the [Money Market Funds (Restatement) Regulations 2024 (SI XXXX/XXXX)].
MMFS	the Money Market Funds sourcebook.
money market fund	(1) in relation to a *fund* established in the *United Kingdom*, a type of *collective investment scheme* which: (a) invests in financial assets with a *residual maturity* not exceeding 2 years; and (b) has a distinct or cumulative investment objective of offering returns in line with money market rates or preserving the value of a *participant's* investment; and (2) in relation to a *fund* established *overseas*, a type of *collective investment scheme* or collective investment undertaking which satisfies (1)(a) and (b).

NAV	(in *MMFS*) the value of the assets of an *MMF*, after the deduction of the *MMF's* liabilities.
NAV per unit	in relation to a *UK MMF*, means the *NAV* per *unit* calculated in accordance with *MMFS* 6.3.2R (General rules for calculating the NAV per unit of an MMF).
public debt CNAV MMF	a *public debt constant NAV MMF*.
public debt constant NAV MMF	has the meaning given in *MMFS* 1.2.7R (Meaning of 'public debt constant NAV MMF').
regulation [12] MMF	has the meaning given in regulation [2] of the *MMF (Restatement) Regulations*, which is, in summary, a *UK AIF* that: (1) is managed by a *full-scope UK AIFM*; and (2) is a *collective investment scheme* which: (a) was authorised by the *FCA* under Article 5 of Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds; and (b) has not had that authorisation revoked by the *FCA*.
repurchase agreement	any agreement in which one party transfers *securities*, or any rights related to that title or *security*, to a counterparty, subject to a commitment to repurchase them at a specified price on a future date specified or to be specified.
residual maturity	the length of time remaining until the *legal maturity* of a *security*.
reverse repurchase agreement	any agreement in which one party receives *securities*, or any rights related to a title or *security*, from a counterparty, subject to a commitment to sell them back at a specified price on a future date specified or to be specified.
standard MMF	a *UK MMF* that is a *VNAV MMF* which: (1) invests in *eligible money market instruments*; and (2) is operated, or intended to be operated, in accordance with the portfolio *rules* in *MMFS* 5.3 (Portfolio rules for standard MMFs).
STS ABCP	(in *MMFS*) an *ABCP transaction* that fulfils the requirements in *SECN* 2.3.2R to *SECN* 2.3.22R (Transaction-level requirements) to be considered a simple, transparent and standardised *ABCP*.

temporary recognised EU MMF	has the meaning given in regulation [20(2)] of the *MMF (Restatement) Regulations*.
UK MMF	an *MMF* which is authorised as such by the *FCA*.
UK MMF manager	the *MMF manager* of a *UK MMF*.
UK MMFR	the *Money Market Funds Regulation*.
variable NAV MMF	has the meaning given in *MMFS* 1.2.4R (Meaning of 'variable NAV MMF').
VNAV MMF	a *variable NAV MMF*.
WAL	*weighted average life*.
WAM	*weighted average maturity*.
weighted average life	the average length of time to *legal maturity* of all of the underlying assets in the *MMF* reflecting the relative holdings in each asset.
weighted average maturity	the average length of time to *legal maturity* or, if shorter, to the next interest rate reset to a money market rate, of all of the underlying assets in the relevant *MMF* reflecting the relative holdings in each asset.

Amend the following definitions as shown.

annual accounting period …

(2) (in *COLL*): the period determined in accordance with *COLL* 6.8.2R(3) to *COLL* 6.8.2R(7) (Accounting periods).

<u>(3)</u> <u>(in *MMFS*):</u>

<u>(a)</u> <u>in relation to a *UK MMF* that is an *authorised fund*, has the same meaning as in (2); and</u>

<u>(b)</u> <u>in relation to a *regulation [12] MMF*, the period determined in accordance with *COLL* 6.8.2R(3) to *COLL* 6.8.2R(7) (Accounting periods), reading those provisions as if they applied to the *MMF manager* of the *MMF*.</u>

approved bank (except in *COLL*) (in relation to a *bank* account opened by a firm):

…

	(in *COLL* and *MMFS*) any ~~person~~ *person* falling within (a-c) and a *credit institution* established in an *EEA State* and duly authorised by the relevant *Home State regulator*.
class	…
	(5) …
	(6) (in *MMFS*):
	(a) a particular class of *units* of a *UK MMF*;
	(b) all of the *units* relating to a single *sub-fund*; or
	(c) a particular class of *units* relating to a single *sub-fund*.
collateral	(1) (in *COLL*, ~~and~~ *FUND* and *MMFS*) any form of security, guarantee or indemnity provided by way of security for the discharge of any liability arising from a transaction.
	…
competent authority	…
	(12) …
	(13) (in the definition of *EU MMF* and *qualifying money market fund*) the competent authority in the *EEA State* in which the *MMF* is authorised under the *EU MMF Regulation*.
dealing period	(in *COLL* and *MMFS*) the period between one *valuation point* and the next.
derivative	(1) …
	(2) (in *REC*, *MAR* 5, ~~and~~ *MAR* 5A and *MMFS*) those financial instruments defined in article 2 (1)(24)(c) of *MiFIR* or referred to in paragraphs 4 to 10 of Part 1 of Schedule 2 to the *Regulated Activities Order*.
	…
dilution	(in *COLL* and *MMFS*) the amount of *dealing* costs incurred, or expected to be incurred, by or for the account of a *single-priced authorised fund* to the extent that these costs may reasonably be expected to result, or have resulted, from the acquisition or disposal of *investments* by or for the account of the *single-priced authorised fund* as a consequence (whether or not immediate) of the increase or decrease in the cash resources of the *single-priced authorised fund* resulting from the *issue* or *cancellation* of *units* over a period;

for the purposes of this definition, *dealing* costs include both the costs of *dealing* in an *investment*, professional fees incurred, or expected to be incurred, in relation to the acquisition or disposal of an immovable and, where there is a spread between the *buying* and selling prices of the *investment*, the indirect cost resulting from the differences between those prices.

dilution adjustment

(1) an adjustment to the price of a *unit* determined by the *authorised fund manager* of a *single-priced authorised fund*, under *COLL* 6.3.8R (Dilution) for the purpose of reducing *dilution*.

(2) (in *MMFS*) in addition to (1), an adjustment to the price of a *unit* determined by the *MMF manager* of a *single-priced authorised fund* which is a *UK MMF* in accordance with *MMFS* 6.5 (Liquidity management procedures and tools for UK MMFs), for the purpose of reducing *dilution*.

financial instrument

(1) (other than in (2) and (3)) those instruments specified in Part 1 of Schedule 2 to the *Regulated Activities Order*, that is:

(a) *transferable securities*;

(b) ~~*money-market instruments*~~ *money market instruments*;

…

…

issue

(in relation to *units*):

…

(2) (in *EG* 14):

…

(b) the sale of *units*; and

(3) (in *MMFS*) in addition to (1), the issue of new *units* by the *depositary* of a *UK MMF* that is not an *authorised fund*.

~~*money-market instruments*~~ *money market instrument*

(1) (in the definition of *financial instrument*) those classes of *financial instruments* which are normally dealt in on the money market, such as treasury bills, certificates of deposit and commercial papers and excluding instruments of payment.

(2) (in *MMFS*) has the meaning given in *MMFS* 2.3.1R (Meaning of 'money market instrument').

[Note: in relation to (1), see article 4(1)(19) of *MiFID*] *prospectus* …

(2) …

(3) (in *MMFS*, in relation to a *UK MMF* that is not an *authorised fund*) either:

(a) a document or documents containing the information required by *FUND* 3.2.2R (Prior disclosure of information to investors); or

(b) a prospectus required under the *Prospectus Regulation*.

qualifying money market fund …

(4) (in *COLL* and *MMFS*) a collective investment undertaking which is a *UCITS scheme* ~~or authorised under the *UCITS Directive*~~ or which is ~~subject to supervision and, if applicable,~~ authorised by ~~either~~ the *FCA* as a *UK MMF*, or ~~an authority~~ an *EU MMF* which is subject to supervision and authorised by a *competent authority* under the ~~national~~ law of the authorising *Member State*, and which satisfies the following conditions:

…

…

redemption …

(2) …

(3) (in *MMFS*) as in (1) but also the purchase of *units* from their holder by an *MMF manager* of an *MMF* that is not an *authorised fund* when acting as a *principal*.

regulated market …

(3) (in *MAR* 1, *FUND*, *COLL*, *MMFS* and *COBS* 21) as in (1) above or an *EU regulated market*.

regulated money market fund ~~a *UCITS scheme* that is authorised as a money market fund as envisaged in article 4, or an *AIF* that is authorised as a money market fund as envisaged in article 5, of the *Money Market Funds Regulation*~~ a *UK MMF*.

scheme property …

(b) (in relation to an *AUT* or *ACS*) the *capital property* and the *income property*~~.~~;

(c) (in relation to a *UK MMF* that is not in (a) or (b)) the property subject to the *collective investment scheme* constituted by it.

securitisation …

(4) (in *FEES* 4 Annex 16R Part 3, item J.3, ~~and~~ in *SECN* and in *MMFS*) has the same meaning in regulation 3(1) of the *Securitisation Regulations*.

short-term MMF ~~a *regulated money market fund* that meets the definition of a "short-term MMF" in article 2(14) of the *Money Market Funds Regulation*.~~ a *UK MMF* which is a *public debt CNAV MMF*, an *LVNAV MMF* or (where applicable) a *VNAV MMF* that:

(1) invests in *money market instruments* that satisfy the conditions in *MMFS* 2.3.6R, *MMFS* 2.3.7R(1) or (2), *MMFS* 2.3.8R and *MMFS* 2.3.9R (Conditions for eligible money market instruments); and

(2) is operated, or intended to be operated, in accordance with the portfolio *rules* in *MMFS* 5.2 (Portfolio rules for short-term MMFs).

single-priced authorised fund

(1) an *authorised fund* or, in the case of an *umbrella*, a *sub-fund* (if it were a separate fund), for the *units* of which there is only one price applicable by reference to a *valuation point*.

(2) (in *MMFS* and in the definitions for *dilution*, *dilution adjustment* and *dilution levy*) in addition to (1), a *UK MMF* that is not an *authorised fund*, or, in the case of an *umbrella*, a *sub-fund* (if it were a separate fund), for the *units* of which there is only one price applicable by reference to a *valuation point*.

STS securitisation

(1) (other than in *MMFS*) has the meaning in regulation 3(1) of the *Securitisation Regulations*.

(2) (in *MMFS*) a *securitisation* which is either:

(a) an STS securitisation as defined in regulation [10] of the *Securitisation Regulations*; or

(b) a relevant securitisation as defined in regulation [13(2)] of the *Securitisation Regulations*.

transferable security …

(3) …

	(4) (in *MMFS*) a *transferable security* within *COLL* 5.2.7R (Transferable securities) which also fulfils the criteria specified in *COLL* 5.2.7AR(1)(a) to (f) (Investment in transferable securities), and in relation to recently issued *transferable securities*, *COLL* 5.2.8R(3)(e) (Transferable securities and money-market instruments generally to be admitted to or dealt in on an eligible market).
	…
umbrella	(in *FEES*, *COLL*, ~~and~~ *COBS*, and in relation to *MMFS* and the definition of *single-priced authorised fund*) a *collective investment scheme* whose *instrument constituting the fund* provides for such pooling as is mentioned in section 235(3)(a) of the *Act* (Collective investment schemes) in relation to separate parts of the *scheme property* and whose *unitholders* are entitled to exchange rights in one part for rights in another.
valuation point	(in *COLL*) a *valuation point* fixed by the *authorised fund manager* for the purpose of *COLL* 6.3.4 R (Valuation points), *COLL* 8.5.9 R (Valuation, pricing and dealing) or *COLL* 15.8.2R (Valuation, pricing and dealing) or, in the case of a ~~*regulated money market fund*~~ *UK MMF*, the applicable ~~requirements of article 29 to article 32 of the *Money Market Funds Regulation*~~ *rules* in *MMFS* 6.1 to *MMFS* 6.3 (Valuation and pricing of MMFs).

Annex C

Amendments to the Fees Manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Annex 2R **Application and notification fees payable in relation to collective investment schemes, LTIFs, money market funds and AIFs marketed in the UK**

Legislative provision	**Nature and purpose of fee**	**Payable by**	**Applicable pricing category in FEES 3 Annex 1AR**	**Umbrella factor (note 1)**
…				
Part 2 Application fees payable for firms to be subject to *COLL*				
…				
(2) Section 242 of the *Act*, application for order declaring a *scheme* to be an *AUT* ~~(3) Section 261C of the *Act*, application for order declaring a *scheme* to be an *ACS*, whether it is established as a *co-ownership scheme* or a *limited partnership scheme*~~ ~~(1), (2) and (3) also apply to funds where an application is also made to be authorised under the *Money Market Funds Regulation*~~	On application for an order declaring a *scheme* to be an *AUT*, where the *scheme* is a:	An applicant		2
	UCITS scheme		4	
	Non-UCITS retail scheme		4	
	Qualified investor scheme		5	
	Long-term asset fund		5	

(3) Section 261C of the *Act*, application for order declaring a *scheme* to be an *ACS*, whether it is established as a *co-ownership scheme* or a *limited partnership scheme* ~~This section also applies to funds where an application is also made to be authorised under the *Money Market Funds Regulation*~~	On application for an order declaring a *scheme* to be an *ACS*, whether it is established as a *co-ownership scheme* or a *limited partnership scheme*, where the *scheme* is a:	An applicant		2
	UCITS scheme		4	
	non-UCITS retail scheme		4	
	qualified investor scheme		5	
	Long-term asset fund		5	
(1), (2) and (3) also apply where an application is made for a *scheme* to be authorised as a *UK MMF* under regulation 141A of the *OEIC Regulations*, or section 243A or section 261EA of the *Act*				
Section 272 of the *Act*	On application for an order declaring a *scheme* to be recognised where the *scheme* is:	An applicant		
	a *non-UK AIF* or *AIF* equivalent to a *UK UCITS*~~,~~ , *non-UCITS retail scheme*, a *qualified investor scheme* or a *long-term asset fund*		6	2
	~~Where funds of any kind set out in Part 2 exist prior to 21 July 2018, a flat fee will be payable on an application for authorisation under the~~		~~1~~	

	~~*Money Market Funds Regulation*~~			
…				
Part 2B ~~Application fees payable for UK or non-EEA firms applying for authorisation under article 5 of the Money Market Funds Regulation~~ [deleted]				
~~Article 5 of the *Money Market Funds Regulation*~~	~~*UK AIF* (apart from those authorised as a *non-UCITS retail scheme*, a *qualified investor scheme* or a *long-term asset fund*)~~		~~2~~	
	~~*Non-UK AIF* which is marketed in the *UK*~~		~~3~~	
	~~*Non-UK AIF* which is not marketed in the *UK*~~		~~2~~	
	~~*Non-UK AIF* which is not managed by an *AIFM* but is marketed in the *UK*~~		~~3~~	
…				
Part 5 ~~(Administration fee for money market funds that exist prior to 21 July 2018 which need to apply for authorisation by the FCA by 21 January 2019)~~ [deleted]				
~~Article 4 of the *Money Market Funds Regulation*~~	~~On application by an existing money market fund which from 21 July 2018 seeks to be authorised under the *Money Market Funds Regulation*~~	~~21 July 2018~~	~~1~~	~~2~~

…

Annex D

Amendments to the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

6 Basic liquid assets requirement

…

6.3 Core liquid assets

…

6.3.2 G When assessing whether a *third country* fund is comparable to a *short-term MMF*, a *firm* should consider factors such as:

(1) whether the restrictions on instruments eligible for inclusion in the fund are comparable to the restrictions on ~~instruments in article 10(1) of the *Money Market Funds Regulation*~~ *eligible money market instruments* in *MMFS* 2.3.6R, *MMFS* 2.3.7R(1) or (2), *MMFS* 2.3.8R and *MMFS* 2.3.9R (Conditions for eligible money market instruments); and

(2) whether the fund is subject to requirements concerning portfolio diversification and risk management which are comparable to the ~~requirements~~ *rules* applicable to *short-term MMFs* in ~~the *Money Market Funds Regulation*~~ *MMFS*.

Annex E

Amendments to the Collective Investment Schemes sourcebook (COLL)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 Introduction

…

1.2 Types of authorised fund

…

Types of authorised fund - explanation

1.2.2 G …

(3A) …

(g) The nature of the assets that are held (or expected to be held) by a *long-term asset fund* means that it will not be able to seek authorisation as a *regulated money market fund*, or to have the characteristics of such a *fund* without significant changes to its constitution, objectives and investment powers. See also ~~article 6 of the *Money Market Funds Regulation*~~ <u>*MMFS* 2 (Eligible assets for UK MMFs)</u>.

…

…

3 Constitution

…

3.2 The instrument constituting the fund

…

Table: contents of the instrument constituting the fund

3.2.6 R This table belongs to *COLL* 3.2.4R (Matters which must be included in the instrument constituting the fund)<u>.</u>

…	
	Object of the scheme
…	

7A	…
7B	Where the *authorised fund* is a *public debt CNAV MMF*, the statement required by *MMFS* 1.2.7R(5) (Meaning of 'public debt constant NAV MMF').
…	

…

4 Investor Relations

…

4.2 Pre-sale notifications

…

Table: contents of the prospectus

4.2.5 R This table belongs to *COLL* 4.2.2R (Publishing the prospectus).

…		
Investment objectives and policy		
3	The following particulars of the investment objectives and policy of the *authorised fund*:	
	…	
	(qa)	…
	(qb)	where the *authorised fund* is a *public debt CNAV MMF*, a statement setting out the information required by *MMFS* 1.2.7R(5) (Meaning of 'public debt constant NAV MMF');
	(qc)	where the *authorised fund* is a *UK MMF* which invests in the *units* of other *qualifying money market funds*, the information required by *MMFS* 2.9.3R(2)(a) (General conditions for the acquiring MMF);
	(qd)	where the *authorised fund* is a *UK MMF* which intends to make use of the derogation in *MMFS* 3.2.8R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations), the information required by *MMFS* 3.2.9R(4);
	…	

…			
Contracts and other relationships with parties			
11	The following relevant details:		
	…		
	(g)	a list of:	
		…	
		(ii)	the person to whom such functions have been delegated; ~~and~~
	(h)	in what capacity (if any), the *authorised fund manager* acts in relation to any other *regulated collective investment schemes* and the name of such *schemes*~~.~~; and	
	(i)	where the *authorised fund* is a *UK MMF* that has an external credit rating solicited or financed by the *authorised fund* or the *authorised fund manager* on its behalf, a statement explaining the information required by *MMFS* 5.4.3R (Soliciting or financing an external credit rating).	
…			
Dealing			
17	The following particulars:		
	…		
	(b)	…	
	(ba)	where the *authorised fund* is a *UK MMF*:	
		(i)	the likely consequences for *unitholders* of the *MMF manager* exercising its power to suspend *dealings* (see *MMFS* 6.5.4R (Liquidity management procedures and tools) and *MMFS* 6.5.10R (Unitholder information about liquidity management tools); and
		(ii)	a description of the additional liquidity management tool required by *MMFS* 6.5.4R(2) (Liquidity management procedures and tools), an explanation of the circumstances in which it would typically be deployed, and the likely consequences for *unitholders*;
	…		

…	

5 Investment and borrowing powers

…

5.2 General investment powers and limits for UCITS schemes

…

Investment powers: general

…

5.2.4A G Investment powers and limits for *UCITS schemes* that are *regulated money market funds* are set out in ~~the *Money Market Funds Regulation*~~ *MMFS* 2 (Eligible assets for UK MMFs), *MMFS* 3 (Investment policies) and *MMFS* 5 (Risk management requirements for MMFs). Subject to complying with ~~that Regulation~~ those *rules* in *MMFS*, the *instrument constituting the fund* may further restrict:

…

…

5.4 Stock lending

Application

5.4.1 R …

(2) This section does not apply in any case where a *UCITS scheme* or a *non-UCITS retail scheme* is a *regulated money market fund*. ~~The *Money Market Funds Regulation* sets out restrictions in relation to~~ *MMFS* 2.2.3R(3) (Eligible assets) prohibits *stock lending*. ~~and *repo* contracts that apply in relation to~~ *MMFS* 2.7 (Eligible repurchase agreements) and *MMFS* 2.8 (Eligible reverse repurchase agreements) set out the conditions for *repos* to be eligible for investment by *regulated money market funds*.

…

5.6 Investment powers and borrowing limits for non-UCITS retail schemes

…

Investment powers: general

…

5.6.4A G Investment powers and limits for *non-UCITS retail schemes* that are *regulated money market funds* are set out in ~~the *Money Market Funds Regulation*~~ *MMFS* 2 (Eligible assets for UK MMFs) and *MMFS* 3 (Investment policies). Subject to complying with ~~that Regulation~~ the *rules* in *MMFS*, *the instrument constituting the fund* may further restrict:

…

…

6 Operating duties and responsibilities

…

6.2 Dealing

…

Payment for units issued

6.2.13 R (1) The *authorised fund manager* must, by the close of business on the fourth *business day* following the *issue* of any *units*, arrange for payment to the *depositary* of an *AUT* or *ACS* or the *ICVC* of:

…

(c) in the case of a *regulated money market fund*, the sum required pursuant to ~~article 33 of the *Money Market Funds Regulation*~~ *MMFS* 6.4.2R (Calculation of prices for units in an MMF).

…

Payment for cancelled units

6.2.14 R (1) On cancelling *units* the *authorised fund manager* must, before the expiry of the fourth *business day* following the *cancellation* of the *units* or, if later, as soon as practicable after delivery to the *depositary* of the *AUT* or *ACS* or the *ICVC* of such evidence of title to the *units* as it may reasonably require, require the *depositary* to pay:

…

(c) in the case of a *regulated money market fund*, the sum required pursuant to ~~article 33 of the *Money Market Funds Regulation*~~ *MMFS* 6.4.2R (Calculation of prices for units in an MMF);

…

…

Deferred redemption

6.2.21 R …

(4) Any deferral under (1) in relation to an *authorised fund* that is a *regulated money market fund* must be consistent with ~~the *Money Market Funds Regulation*~~ *MMFS* 6.5 (Liquidity management procedures and tools for UK MMFs), where relevant.

Deferred redemption: guidance

6.2.22 G …

(2) ~~Article 34 of the *Money Market Funds Regulation* provides for deferred *redemption* in relation to certain kinds of *regulated money market funds* in particular circumstances.~~ *MMFS* 6.5 (Liquidity management procedures and tools for UK MMFs) requires *MMF managers* to establish, implement and apply liquidity management procedures and tools. One such tool could be deferred *redemption* arrangements.

…

6.3 Valuation and pricing

Application

6.3.1 R …

(4) Where an *authorised fund* is a *regulated money market fund*, *COLL* 6.3.6G applies to the *authorised fund manager* and *depositary* of that *authorised fund* ~~to the extent it is consistent with the requirements of the *Money Market Funds Regulation*~~ subject to the *rules* in *MMFS*.

…

Dilution

6.3.8 R …

(1A) When arranging to *sell*, redeem, *issue* or cancel *units*, or when *units* are *issued* or cancelled under *COLL* 6.2.7R(1) (Issues and cancellations through an authorised fund manager), an *authorised fund manager* of a *regulated money market fund* may only require payment of a *dilution levy* or make a *dilution adjustment* to the extent it is permissible under ~~the Money *Market Funds Regulation*~~ *MMFS* 6.5 (Liquidity management procedures and tools for UK MMFs).

…

Forward pricing

6.3.9 R …

(7) Deals for the *sale* and *redemption* of *units* in a *regulated money market fund* need not be at a *forward price* where ~~the circumstances in article 34(2) of the *Money Market Funds Regulation* apply~~ permitted under the terms of a liquidity management tool operated in accordance with *MMFS* 6.5 (Liquidity management procedures and tools for UK MMFs).

…

6.6 Powers and duties of the scheme, the authorised fund manager, and the depositary

Application

6.6.1 R (1) ~~Subject to (2), this~~ This section applies in accordance with *COLL* 6.6.2R (Table of application).

(2) ~~Where a *scheme* is a *regulated money market fund*, *COLL* 6.6.3R and *COLL* 6.6.14R apply to the *authorised fund manager* and *depositary* of that *scheme* to the extent the provisions are consistent with requirements of the *Money Market Funds Regulation*.~~ [deleted]

…

Functions of the authorised fund manager

6.6.3 R (1) The *authorised fund manager* must manage the scheme in accordance with:

…

(c) the most recently published prospectus; and

(d) for an *ICVC*, the *OEIC Regulations*~~; and~~.

(e) ~~where applicable, the *Money Market Funds Regulation*.~~ [deleted]

…

…

General duties of the depositary

6.6.4	R	(1)	The *depositary* of an *authorised fund* must take reasonable care to ensure that the scheme is managed by the *authorised fund manager* in accordance with:
			…
			(e) where applicable, the ~~provisions of the *Money Market Funds Regulation* relating to investment and borrowing powers, dealing, valuation and pricing, and income~~ *rules* in *MMFS* 2 (Eligible assets for UK MMFs), *MMFS* 3 (Investment policies), *MMFS* 5 (Risk management requirements for MMFs) and *MMFS* 6 (Valuation and pricing of MMFs).
		(2)	The *depositary* must, in so far as not required under (1)(c), take reasonable care to ensure on a continuing basis that:
			(a) the *authorised fund manager* is adopting appropriate procedures to ensure that the *price* of a *unit* is calculated for each *valuation point* in accordance with *COLL* 6.3 or, where applicable, ~~the *Money Market Funds Regulation*~~ *MMFS* 6 (Valuation and pricing of MMFs); and
			…
		…	

…

	Duties of the authorised fund manager and the depositary under the general law		
6.6.5	R	(1)	The duties and powers of the *authorised fund manager*, the *directors* of an *ICVC* and the *depositary* under the *rules* in this sourcebook and (where relevant) in *MMFS* and under the *instrument constituting the fund* are in addition to the powers and duties under the general law.
		(2)	Paragraph (1) applies only in so far as the relevant general law is not qualified by the *rules* in this sourcebook and (where relevant) in *MMFS*, the *instrument constituting the fund*~~,~~ or the *OEIC Regulations*~~, or the *Money Market Funds Regulation*~~.

…

	Dealings in scheme property		
6.6.10	R	…	
		(3)	Where the *depositary* is of the opinion that a deal in property is not within the *rules* in this sourcebook, (where relevant) the *rules* in *MMFS*, and the *instrument constituting the fund*, the *depositary* may require the *authorised fund manager* to cancel the transaction or

make a corresponding disposal or acquisition to secure restoration of the previous situation and to meet any resulting loss or expense.

…

…

Control by the depositary over the scheme property

6.6.12 R …

(3) The *depositary* must keep for six years such records as are necessary:

(a) to enable it to comply with the *rules* in this sourcebook and (where applicable) in *MMFS*;

…

…

…

Duties of the depositary and the authorised fund manager: investment and borrowing powers

6.6.14 R (1) (a) ~~The~~ Subject to (b), the *authorised fund manager* must avoid the *scheme property* being used or invested contrary to *COLL* 5, or any provision in the *instrument constituting the fund* or the *prospectus* as referred to in *COLL* 5.2.4R (Investment powers: general), *COLL* 5.6.4R (Investment powers: general) ~~and, where the scheme is a *regulated money market fund*, the Money *Market Funds Regulation*~~, except to the extent permitted by (3)(b).

(b) The *authorised fund manager* of a *UK MMF* must avoid the *scheme property* being invested contrary to the *rules* and provisions referred to in (a) and the *rules* in *MMFS* 2 (Eligible assets for UK MMFs), *MMFS* 3 (Investment policies) and *MMFS* 5 (Risk management requirements for MMFs).

…

(6) …

(b) …

(ii) …

6.6.14A G *COLL* 6.6.14R(3), (5) and (6) do not apply in relation to a *regulated money market fund* (see *MMFS* 1.3.2R (Compliance with other requirements)).

…

6.6B UCITS depositaries

…

Depositary functions: oversight

6.6B.16 R The *depositary* must, for each *UCITS scheme* for which it is appointed:

(1) ensure that the *sale*, *issue*, repurchase, *redemption* and *cancellation* of *units* of the *scheme* are carried out in accordance with:

…

(c) the *prospectus*; ~~and~~

(d) *COLL* 6.2 (Dealing); <u>and</u>

<u>(e) (where applicable) *MMFS* 6.5 (Liquidity management procedures and tools for UK MMFs);</u>

(2) ensure that price of the *units* of the *UCITS* is calculated in accordance with:

…

(c) the *prospectus*; ~~and~~

(d) *COLL* 6.3 (Valuation and pricing); <u>and</u>

<u>(e) (where applicable) *MMFS* 6.4 (Issue and redemption pricing);</u>

(3) carry out the instructions of the *authorised fund manager*, unless they conflict with:

…

(d) *COLL* 5 (Investment and borrowing powers); <u>or</u>

<u>(e) (where applicable) *MMFS* 2 (Eligible assets for UK MMFs), *MMFS* 3 (Investment policies) or *MMFS* 5 (Risk management requirements for MMFs);</u>

…

…

6.7 Payments

…

Charges on buying and selling units: guidance

…

6.7.8 G …

(6) In relation to a *regulated money market fund*, any charges for the *sale* or *redemption* of *units*, and any change to such charges, should reflect the restrictions of the ~~*Money Market Funds Regulation*~~ <u>*rules* in *MMFS* 6.5 (Liquidity management procedures and tools for UK MMFs)</u>.

…

7 Suspension of dealings, termination of authorised funds and side pockets

…

7.2 Suspension and restart of dealings

Requirement

…

7.2.1 R (1) The *authorised fund manager* may, with the prior agreement of the *depositary*, and must without delay, if the *depositary* so requires, temporarily suspend the *issue*, *cancellation*, *sale* and *redemption* of *units* in an *authorised fund* (referred to in this chapter as "*dealings* in *units*"), where due to exceptional circumstances it is in the interest of all the *unitholders* in the *authorised fund*. Where an *authorised fund* is a *regulated money market fund*, the *authorised fund manager* must ensure that any such suspensions ~~are consistent with the *Money Market Funds Regulation*~~ <u>also comply with *MMFS* 6.5 (Liquidity management procedures and tools for UK MMFs)</u>.

…

8 Qualified investor schemes

…

8.2 Constitution

…

Table: contents of the instrument constituting the fund

8.2.6 R This table belongs to *COLL* 8.2.5R (Instrument constituting the fund).

…		
3	**Investment objectives**	
	(1)	A statement of the object of the *scheme*, in particular the types of *investments* and assets in which it and each *sub-fund* (where applicable) may invest and that the object of the *scheme* is to invest in property of that kind with the aim of spreading investment risk.
	(2)	Where the *authorised fund* is a *public debt CNAV MMF*, the statement required by *MMFS* 1.2.7R(5) (Meaning of 'public debt constant NAV MMF').
…		

…

8.3 Investor relations

…

Table: contents of qualified investor scheme prospectus

8.3.4 R This table belongs to *COLL* 8.3.2R (Drawing up and availability of a prospectus).

…		
3	**Investment objectives and policy**	
	…	
	(5)	Where a *scheme* is a feeder *scheme* which (in respect of investment in *units* in a single *collective investment scheme*) is *dedicated* to *units* in a *collective investment scheme*, details of the master *scheme* and the minimum (and, if relevant, maximum) investment that the feeder *scheme* may make in it~~;~~.
	(6)	Where the *authorised fund* is a *qualifying money market fund*, the following information, where applicable:

		(a)	if the *scheme* is a *public debt CNAV MMF*, a statement setting out the information required by *MMFS* 1.2.7R(5) (Meaning of 'public debt constant NAV MMF');
		(b)	where the *authorised fund* is a *qualifying money market fund* which invests in the *units* of other *qualifying money market funds*, the information required by *MMFS* 2.9.3R(2)(a) (General conditions for the acquiring MMF); and
		(c)	where the *authorised fund* is a *qualifying money market fund* which intends to make use of the derogation in *MMFS* 3.2.8R (Derogation for money market instruments issued or guaranteed by certain authorities, institutions and organisations), the information required by *MMFS* 3.2.9R(4).
…			
10	**The auditor**		
	…		
10A	**UK MMFs: external credit ratings**		
	Where the *authorised fund* is a *UK MMF* that has an external credit rating solicited or financed by the *authorised fund* or the *authorised fund manager* on its behalf, a statement explaining the information required by *MMFS* 5.4.3R (Soliciting or financing an external credit rating).		
…			
13	**Dealing**		
	Details of:		
	…		
	(4)	…	
	(4A)	where the *authorised fund* is a *UK MMF*:	
		(i)	the likely consequences for *unitholders* of the *MMF manager* exercising its power to suspend *dealings* (see *MMFS* 6.5.4R (Liquidity management procedures and tools) and *MMFS* 6.5.10R (Unitholder information about liquidity management tools); and

		(ii)	a description of the additional liquidity management tool required by *MMFS* 6.5.4R(2) (Liquidity management procedures and tools for UK MMFs), an explanation of the circumstances in which it would typically be deployed, and the likely consequences for *unitholders*;
	…		
…			

…

8.4 Investment and borrowing powers

…

Money market funds

8.4.4C G Investment powers and limits for *qualified investor schemes* that are *regulated money market funds* are set out in ~~the *Money Market Funds Regulation*~~ *MMFS* 2 (Eligible assets for UK MMFs), *MMFS* 3 (Investment policies) and *MMFS* 5 (Risk management requirements for MMFs). Subject to complying with ~~that Regulation~~ those *rules* in *MMFS*, the *instrument constituting the fund* may further restrict:

…

…

Permitted stock lending

…

8.4.9A G ~~The *Money Market Funds Regulation* sets out restrictions in relation to~~ *MMFS* 2.2.3R(3) (Eligible assets) prohibits *stock lending*. ~~and *repo* contracts that apply in respect of~~ *MMFS* 2.7 (Eligible repurchase agreements) and *MMFS* 2.8 (Eligible reverse repurchase agreements) set out the conditions for *repos* to be eligible for investment by *regulated money market funds*.

…

8.5 Powers and responsibilities

Application

8.5.1 R (1) Subject to (2) ~~and (3)~~, this section applies to an *ICVC* which is a *qualified investor scheme* and the *authorised fund manager*, any other *directors* of an *ICVC* and the *depositary* of a *qualified investor scheme*.

…

(3) ~~Where a *qualified investor scheme* is a *regulated money market fund*, *COLL* 8.5.2R and *COLL* 8.5.3R apply to the *authorised fund manager* and *depositary* of that scheme to the extent the provisions are consistent with the requirements of the *Money Market Funds Regulation*.~~ [deleted]

Functions of the authorised fund manager

8.5.2 R (1) The *authorised fund manager* must manage the *scheme* in accordance with:

…

(c) the most recently published *prospectus*; <u>and</u>

(d) for an *ICVC*, the *OEIC Regulations*~~; and~~<u>.</u>

(e) ~~where applicable, *Money Market Funds Regulation*.~~ <u>[deleted]</u>

…

(3) The *authorised fund manager* must:

…

(e) maintain such records as are necessary to enable the *authorised fund manager* or the *ICVC*, as appropriate, to comply with and demonstrate compliance with the *rules* in this sourcebook<u> and, where applicable, the *rules* in *MMFS*,</u> and also in the case of an *ICVC*, the *OEIC Regulations*; and

…

Duties of the authorised fund manager: investment and borrowing powers

8.5.3 R …

(2) An *authorised fund manager* must avoid the *scheme property* being used or invested contrary to any provision in *COLL* 8.4 (Investment and borrowing powers) <u>and, where applicable, the *rules* in *MMFS* 2 (Eligible assets for UK MMFs), *MMFS* 3 (Investment policies), *MMFS* 5 (Risk management requirements for MMFs) and *MMFS* 6 (Valuation and pricing of MMFs)</u>.

…

…

Duties of the depositary

8.5.4 R …

(2) The *depositary* must:

…

(g) take reasonable care to ensure that the *scheme* is managed by the *authorised fund manager* in accordance with:

…

(iv) where applicable, the ~~provisions of the *Money Market Funds Regulation* relating to investment and borrowing powers, valuation, pricing, and dealing, and income~~ *rules* in *MMFS* 2 (Eligible assets for UK MMFs), *MMFS* 3 (Investment policies), *MMFS* 5 (Risk management requirements for MMFs) and *MMFS* 6 (Valuation and pricing of MMFs).

(h) keep records so as to comply with the *rules* in this sourcebook and (where applicable) in *MMFS* and so as to demonstrate such compliance; and

…

…

…

Issues and cancellations of units

8.5.10 R …

(3) The *authorised fund manager* must arrange for the *issue* and *cancellation* of *units* and pay ~~money~~ *money* or assets to or from the *depositary* for the account of the *scheme* as required by the *prospectus*, and, where applicable, in accordance with ~~the *Money Market Funds Regulation*~~ the *rules* in *MMFS* 6 (Valuation and pricing of MMFs).

…

…

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FINANCIAL
CONDUCT
AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk