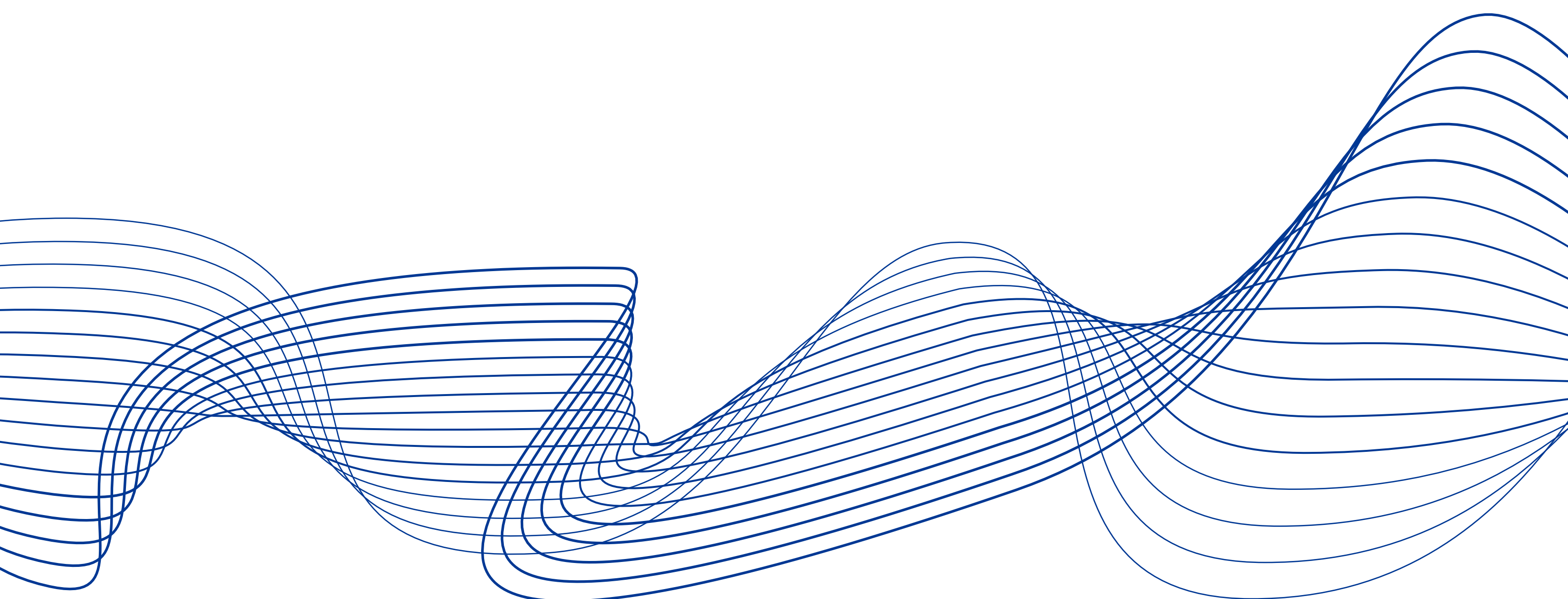
Compliance report

February 2025

Recommendation of the European Systemic Risk Board of 2 December 2021 on reform of money market funds (ESRB/2021/9)



ESRB
European Systemic Risk Board
European System of Financial Supervision

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1 Introduction and summary of findings

This report provides a compliance assessment of the implementation of the Recommendation of the European Systemic Risk Board of 2 December 2021 on reform of money market funds (ESRB/2021/9)[1] (hereinafter the "Recommendation") by its addressee, the European Commission (hereinafter the "Commission").

Recommendations issued by the European Systemic Risk Board (ESRB) are not legally binding but are subject to an "act or explain" regime in accordance with Article 17 of the ESRB Regulation[2]. This means that addressees of ESRB recommendations are required to communicate to the European Parliament, the Council of the European Union, the Commission, and the ESRB the actions they have taken to comply with the recommendations or provide adequate justification for inaction.

The report assesses the Commission's compliance with the Recommendation or its justifications for non-action based on the Commission's submission to the ESRB Secretariat of a dedicated template. In accordance with Section 2(3) of the Recommendation, the Commission was asked to explain the measures taken to comply with the Recommendation or provide adequate justification for inaction by 31 December 2023. To this end, the Commission was sent a reporting template for the Recommendation to complete and return to the ESRB.

An assessment team was set up under the auspices of the Advisory Technical Committee[3] in 2024. It comprised a Chair and five assessors and was supported by ESRB Secretariat staff (see Annex for the composition of the assessment team).

The Commission is assessed as materially non-compliant. Three of the four recommendations – A, B and D – were not implemented, and as the justifications were not considered adequate, they were all assessed as insufficiently explained. Recommendation C was implemented and was assessed as largely compliant.

The compliance assessment is based on the Commission's actions and explanations up until the end of 2023. A key source of information is the Commission's July 2023 report to the European Parliament and the Council on the functioning of Regulation (EU) 2017/1131 on money market funds.[4]

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[1] Recommendation of the European Systemic Risk Board of 2 December 2021 on reform of money market funds (ESRB/2021/9) (OJ C 129 22.3.2022, p. 1).

[2] **Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board** (OJ L 331, 15.12.2010, p. 1).

[3] The assessment team was created in line with Subsection 3.2 and 3.4 of the Handbook on the assessment of compliance with ESRB recommendations, Revised Handbook, April 2016.

[4] **Report from the Commission to the European Parliament and the Council on the adequacy of Regulation (EU) 2017/1131 of the European Parliament and of the Council on money market funds from a prudential and economic point of view**, European Commission, July 2023.

In May 2024 the Commission launched a targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFI).[5] The consultation document includes a chapter on money market funds (MMFs) as well as several questions related to the content of the Recommendation, especially with respect to the recommendation on enhancing monitoring and stress testing (Recommendation D). However, at the time of this assessment, this has not led to concrete steps by the Commission.

The assessment was conducted by duly taking into account:

- the criteria contained in Section 2(2) of the Recommendation;
- the methodology provided in the **Handbook on the assessment of compliance with ESRB recommendations** (hereinafter the "Handbook");
- the implementation standards prepared by the assessment team, which specify the grading of each sub-recommendation based on the compliance criteria.
- the principle of proportionality.

This report reflects the implementation status as at 31 December 2023.

This compliance report was approved for publication by the ESRB General Board on 14 January 2025.

[5] See **Targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFI)**, European Commission, May 2024.

2 Objective of the Recommendation

The Recommendation addresses a number of specific policy recommendations to the Commission regarding the regulation and supervision of MMFs and aims to comprehensively address vulnerabilities stemming from the MMF sector. The ESRB recommended that the Commission should, via EU legislation, ensure the reduction of threshold effects, the reduction of liquidity transformation and the improvement of MMFs' asset-liability matching, increased availability and use of liquidity management tools (LMTs) that impose on redeeming and subscribing investors the cost of their respective redemptions and subscriptions, and the adoption of enhanced monitoring and stress testing. More specifically, the Recommendation set out the following policy objectives:

Recommendation A – Reducing threshold effects

The Commission is recommended to propose:

1. that relevant Union legislation should require all low-volatility net asset value (LVNAV) MMFs to have a fluctuating net asset value;
2. the repeal of the regulatory thresholds set out in Article 34(1)(a) and (b) of Regulation (EU) 2017/1131[6] (hereinafter the "MMFR").

Recommendation B — Reducing liquidity transformation

The Commission is recommended to propose that relevant Union legislation:

1. should incorporate new liquidity requirements for variable net asset value (VNAV) MMFs and LVNAV MMFs, composed of daily maturing assets, weekly maturing assets and public debt assets;
2. should permit individual MMF managers to take actions leading them to hold fewer weekly maturing assets and fewer public debt assets than required if:
   (a) there are market-wide developments negatively affecting the assets MMFs hold or MMF unit holders;
   (b) MMF managers immediately inform their national competent authorities (NCAs) accordingly.
3. should authorise NCAs to specify a time limit defining the period during which MMFs under their supervision may hold fewer weekly maturing assets and public debt assets than required as is envisaged in sub-recommendation B2 in the case of market-wide developments negatively affecting multiple MMFs;

[6] Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds (OJ L 169, 30.6.2017, p. 8).

4. should provide for the European Securities and Markets Authority (ESMA) to coordinate the action taken by NCAs when acting as envisaged in sub-recommendation B3, in order to ensure consistency in the application of the measure across the Union.

Recommendation C — Imposing on redeeming and subscribing investors the cost of their redemptions and subscriptions

The Commission is recommended to propose that relevant Union legislation:

1. should require the incorporation in the constitutional documents of MMFs and any other pre-contractual information of at least one of the following LMTs:

   (a) anti-dilution levies;

   (b) liquidity fees;

   (c) swing pricing for MMFs with a fluctuating net asset value (NAV);

2. should mandate ESMA to develop criteria for inclusion in relevant Union legislation to facilitate the use of LMTs by MMF managers in all market conditions, as well as guidance on those criteria.

Recommendation D — Enhancing monitoring and stress testing

The Commission is recommended to propose that the relevant Union legislation:

1. should incorporate provisions aimed at enhancing the timely sharing of data stemming from the regular reporting of MMFs to their respective NCAs;

2. should mandate ESMA to coordinate and, where necessary, to harmonise ad hoc data requests made by the NCAs to MMFs in times of stress resulting from market-wide developments;

3. should incorporate provisions to ensure that NCAs share the data referred to in sub-recommendations D1 and D2 with Union bodies with a financial stability mandate;

4. should provide for ESMA to initiate and coordinate Union-wide stress tests on MMFs in cooperation with NCAs; to develop scenarios and parameters for an adequate Union-wide stress testing regime for MMFs in cooperation with the ESRB; to publish an assessment of the impact of such scenarios on the MMF sector, including the potential contagion to other market participants; and, where appropriate, to coordinate the follow-up supervisory actions.

The Recommendation also sets out further detailed compliance criteria for each of the policy recommendations.

3 Assessment methodology

The assessment of the implementation of the Recommendation (and thus, of each of the recommendations and sub-recommendations contained in it) was carried out on the basis of the "act or explain" mechanism, in accordance with Article 17 of the ESRB Regulation. Under those arrangements, the addressee of the Recommendation can either (i) take action in response to each of the recommendations and inform the ESRB of such action; or (ii) take no action, provided that the addressee can adequately justify that inaction. The assessment team then analyses the information provided and assesses whether the action taken duly achieves the objectives of each recommendation or whether the justification provided for inaction is sufficiently explained. Following this analysis, the addressee is assigned a final compliance grade.

The assessment was based on the submissions that the Commission had made by 31 December 2023 – the reporting deadline specified in Section 2.3 of the Recommendation.

The compliance report is based on the following documentation provided by the Commission:

- Commission's letter of 20 December 2023 to the ESRB Secretariat;
- Follow-up reporting template completed by the Commission on 20 December 2023.

The detailed procedure for assessing compliance is set out in the Handbook. The assessment was carried out by an assessment team comprising five assessors and one Chair, endorsed by the Advisory Technical Committee (see Annex I). The assessment team conducted a four-eyes review. In the first stage of the assessment, the assessors split into two groups, with each group evaluating the addressee's compliance with two of the recommendations. In the second stage, each group checked the consistency of the assessments made by the other group. As a general principle, assessors are not directly involved in grading the performance of their respective authority. The results of both groups were then cross-checked to prepare the final assessment.

To ensure the highest degree of transparency and consistency, the assessment team conducted its work in accordance with the following six assessment principles mentioned in Section 4 of the Handbook:

- fairness, consistency, and transparency;
- efficiency and appropriateness of procedures with regard to available resources while ensuring high-quality deliverables;
- four-eyes review – compliance of each recommendation is assessed by at least two assessors who have not been directly involved in assessing the performance of the authorities they come from;

- effective dialogue – communication with the addressees is essential to fill in information gaps on compliance;
- principle of proportionality – actions to be taken by the addressees are relative to the intensity of risks targeted by the recommendation;
- the ultimate objective of preventing and mitigating systemic risks to financial stability in the European Union.

3.1 Assessment criteria

The assessment criteria applied are based on best practices established in previous assessments of compliance with ESRB recommendations. The assessment criteria describe the actions that are required of the addressee in order to achieve the objectives of the recommendations. The assessment team took due account of the implementation criteria set out in Section 2(2)(1) of the Recommendation.

To assess whether the Commission had complied with all elements of the Recommendation, the assessment team analysed the content and substance of the Commission's actions and its justifications for inaction.

As the Recommendation specifies detailed compliance criteria for each sub-recommendation, there was no need to develop separate assessment criteria. Moreover, the assessment team did not deem it necessary to specify implementation standards for this assessment because the Recommendation only has one addressee. Therefore, a methodology to ensure that compliance and implementation were comparable across several addressees was not required. The assessment team agreed on the weights allocated to the criteria.

3.2 Grading methodology

To reach a single grade for the addressee as a final result of the follow-up assessment, the assessment team used a four-step grading methodology, in line with the Handbook. This methodology ensures full transparency of the single overall compliance grade and a high level of objectivity throughout the assessment process, while still allowing room for high-quality expert judgement, which can easily be identified and reviewed to understand the rationale behind particular grades.

Step I – Assessing the compliance grade for each sub-recommendation

For each recommendation/sub-recommendation, three elements have been assessed: the content of the measure, its proportionality, and the reporting of the measure to the ESRB. These elements were each graded according to the following grading scale:

Table 1
Grading scale

Grading scale for action

Fully compliant (FC)	The addressee complies entirely with the recommendation.
Largely compliant (LC)	The objectives of the recommendation have been met almost entirely and only negligible requirements are still to be implemented.
Partially compliant (PC)	The most important requirements have been met; certain deficiencies affect the adequacy of the implementation, although this does not result in a situation where the given recommendation has not been acted upon.
Materially non-compliant (MN)	Requirements have only been fulfilled to a degree, resulting in a significant deficiency in the implementation.
Non-compliant (NC)	Almost none of the requirements have been met, even if steps have been taken towards implementation.

Grading scale for inaction

Sufficiently explained (SE)	A completed and well-reasoned explanation for the lack of implementation has been provided.
Insufficiently explained (IE)	The explanation given for the lack of implementation is not sufficient to justify the inaction.

Step II – Calculating the grades for each specific recommendation

Each compliance grade is converted into a numerical grade to be weighted and aggregated into a single compliance grade for each sub-recommendation, as set out in the following table (note that insufficiently explained is equal to non-compliant in terms of numerical value):

Table 2

Conversion table: compliance grades to numerical grades

Compliance grade	Numerical grade
Action	
Fully compliant	1
Largely compliant	0.75
Partially compliant	0.50
Materially non-compliant	0.25
Non-compliant	0
Inaction	
Sufficiently explained	1
Insufficiently explained	0

Step III – Calculating the overall numerical grade for the Recommendation

The numerical grades were then weighted for each element and, where applicable for each recommendation/sub-recommendation, aggregated into a single, overall numerical grade for compliance.

In establishing the weights, the assessment team took into consideration the importance of each constituent element and, where applicable, each recommendation/sub-recommendation for the achievement of the policy objectives as outlined in Section 2 of this report.

Step IV – Converting the overall numerical grade to an overall level of compliance

The overall compliance grade was determined by converting the single weighted numerical grade for each recommendation into a final grade for compliance using a conversion table (see Table 2).

Table 3

Conversion table: numerical grades to compliance grades

Compliance grade	Numerical grade for recommendation
Fully compliant	<0.90-1.00>
Largely compliant	<0.65-0.90)
Partially compliant	<0.40-0.65)
Materially non-compliant	<0.15-0.40)
Non-compliant	<0.00-0.15)
Sufficiently explained	<0.65-1.00>
Insufficiently explained	<0.00-0.65)

Table 4

Colour codes for levels of compliance

Positive grades	Mid-grade	Negative grades
FC – Actions taken fully implement the Recommendation		MN – Actions taken only implement a small part of the Recommendation
LC – Actions taken implement almost all of the recommendation	PC – Actions taken only implement part of the Recommendation	NC – Actions taken are not in line with the nature of the Recommendation
SE – No actions were taken but the addressee provided sufficient justification		IE – No actions were taken, and the addressee did not provide sufficient justification

3.3 Weights assigned by the Assessment Team

The assessment team assigned the following weights to Recommendations A, B, C and D and their respective sub-recommendations:

Table 5
Individual weighting

Category	Weighting
Recommendation A	1/4
Recommendation B	1/4
Recommendation C	1/4
Recommendation D	1/4
Recommendation A	**Weighting**
Sub-recommendation A1	1/2
Sub-recommendation A2	1/2
Sub-recommendation A1	**Weighting**
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8
Sub-recommendation A2	**Weighting**
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B	**Weighting**
Sub-recommendation B1	1/4
Sub-recommendation B2	1/4
Sub-recommendation B3	1/4
Sub-recommendation B4	1/4
Sub-recommendation B1	**Weighting**
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8
Sub-recommendation B2	**Weighting**
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8

Sub-recommendation B3	Weighting
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8
Sub-recommendation B4	**Weighting**
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8
Recommendation C	**Weighting**
Sub-recommendation C1	1/2
Sub-recommendation C2	1/2
Sub-recommendation C1	**Weighting**
Assessment of the content of the measure	3/4
Proportionality	1/8
Reporting	1/8
Sub-recommendation C2	**Weighting**
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8
Recommendation D	**Weighting**
Sub-recommendation D1	1/4
Sub-recommendation D2	1/4
Sub-recommendation D3	1/4
Sub-recommendation D4	1/4
Sub-recommendation D1	**Weighting**
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8
Sub-recommendation D2	**Weighting**
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8

Sub-recommendation D3	Weighting
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8
Sub-recommendation D4	**Weighting**
Content of the measure	3/4
Proportionality	1/8
Reporting	1/8

4 Assessment results

4.1 Summary of assessment results

The results of the assessment for each sub-recommendation are summarised in Table 6. The compliance grade for each sub-recommendation is converted into a numerical grade, which is then weighted accordingly.

Table 6

Assessment results for each sub-recommendation and recommendation

		Sub-recommendations				Recommendations	
		Weight	Compliance grade	Numerical grade	Weighted numerical grade	Numerical grade	Compliance grade
A	A1	1/2	IE	0	0	0	IE
	A2	1/2	IE	0	0		
B	B1	1/4	IE	0	0	0	IE
	B2	1/4	IE	0	0		
	B3	1/4	IE	0	0		
	B4	1/4	IE	0	0		
C	C1	1/2	LC	0.75	0.375	0.875	LC
	C2	1/2	FC	1	0.5		
D	D1	1/4	IE	0	0	0	IE
	D2	1/4	IE	0	0		
	D3	1/4	IE	0	0		
	D4	1/4	IE	0	0		

The overall compliance grade is determined using the conversion table, in accordance with the Handbook. After reaching a single compliance grade for each sub-recommendation, a final grade is calculated for each recommendation using the weights assigned to each sub-recommendation and the conversion table (see Table 3).

This provides weighted numerical grades for Recommendations A, B, C and D, which are then aggregated to produce an overall compliance grade (see Table 7).

Table 7

Results for each recommendation and overall assessment result

Recommendation	Weight	Compliance grade	Numerical grade	Weighted numerical grade
A	1/4	IE	0	0
B	1/4	IE	0	0
C	1/4	LC	0.75	0.187
D	1/4	IE	0	0
Overall assessment		MN		0.187

The assessment team assessed Commission as:

- **insufficiently explained** with regard to recommendation A;
- **insufficiently explained** with regard to recommendation B;
- **largely compliant** with regard to recommendation C;
- **insufficiently explained** with regard to recommendation D.

Overall, the assessment team has found that the Commission is materially non-compliant with regard to Recommendation ESRB/2021/9 on reform of MMFs.

4.2 Assessors' findings

Pursuant to the findings described in the following sections, the overall level of compliance with the Recommendation is:

Table 8
Overall grade

Fully compliant	Largely compliant	Partially compliant	Materially non-compliant	Non-compliant	Sufficiently explained	Insufficiently explained

4.2.1 Recommendation A – reducing threshold effects

Pursuant to the findings described in the following sections, the overall level of compliance with Recommendation A is:

Table 9
Overall grade for Recommendation A

Fully compliant	Largely compliant	Partially compliant	Materially non-compliant	Non-compliant	Sufficiently explained	Insufficiently explained

Box 1
Sub-recommendation A1

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with sub-recommendation A1 is **insufficiently explained**.

The content of the measure was assessed as **insufficiently explained**. Proportionality was assessed as **partially compliant**. Reporting was assessed as **partially compliant**.

Table 10

Overview of grade for sub-recommendation A

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Partially compliant
Reporting	Partially compliant
Grade for sub-recommendation A1	Insufficiently explained

Comments on the implementation of sub-recommendation A1

Sub-recommendation A1 states that relevant EU legislation should require all LVNAV MMFs to have a fluctuating net asset value. In Section 3.4.1 of its report on the adequacy of the MMFR, the European Commission states that "*this policy option would imply a radical change for the EU MMF market and notably the disappearance of the LVNAV market. The switch from a stable to a variable NAV would remove the deposit-like features of these products, which is one of the main purposes that investors cite for using these MMFs (…). The respondents to the consultation appreciated the utility of LVNAVs and particularly the operational ease of use for investors because of the ability to round the share price within the 20 basis points collar. Should LVNAVs not be available anymore, respondents feared a lack of alternative investment and risk diversification options*". In other words, the Commission put forward two arguments for not addressing sub-recommendation A1, claiming that implementing it would:

- remove the deposit-like features of the MMFs which are attractive to investors;
- imply a radical change for the EU MMF market and notably the disappearance of the LVNAV market.

In the view of the assessment team, these two arguments are insufficient to explain the Commission's inaction with regard to implementing sub-recommendation A1.

The assessment team does not consider the Commission's first argument to be a valid and proportionate justification for its inaction. Since 2008 all regulatory reforms concerning MMFs (Financial Stability Board, 2011[7]; 2021[8]) have sought to change investors' "false perception" that constant NAV MMFs are similar to deposits. Moreover, as noted in the Commission's 2013 **Impact Assessment Report**, "*[the use of constant NAV] triggers false incentives and exacerbates runs once investors realise that either there is no sponsor support after all or that sponsor support will be too little, too late to prevent the MMF from 'breaking the buck'*". Therefore, the argument that implementing sub-recommendation A1 would remove the deposit-like features of the MMFs which are attractive to investors cannot be considered valid, as the rationale behind sub-recommendation A1 is precisely to mitigate the risks of perceiving MMFs as deposits.

Regarding the Commission's second argument, the assessment team agrees that such a change would likely result in LVNAVs being less attractive to investors. A key aspect for investors would be the availability of substitutes. These already exist and include short-term or standard VNAVs (which have floating values and are considered as equivalent to cash in France, although this is a unique case in Europe) or public debt constant NAVs (PDCNAV). Experience from the United States can also be helpful in showing how such a change can affect the MMF market and be managed. In 2014 the US Security and Exchange Commission issued new regulations that required prime institutional MMFs to move to a floating NAV by 14 October 2016. While investors moved massively to government MMFs, prime MMFs remained available to institutional investors. Thus, while LVNAVs may become less attractive, the existence of substitutes strongly suggests that the implementation of sub-recommendation A1 is manageable.

[7] See "**Shadow Banking: Strengthening Oversight and Regulation**", Financial Stability Board, 2011.

[8] See "**Policy Proposals to Enhance Money Market Fund Resilience**", Financial Stability Board, 2021.

Moreover, LVNAVs are predominantly denominated in foreign currencies and mainly used by investors domiciled outside of the EU. Given the global nature of the MMF industry, the attractiveness of this product may lie in the potential for regulatory arbitrage. The United States and the United Kingdom have started to adopt reforms that will result in substantially higher liquidity requirements for MMFs compared with EU MMFs. The mismatch between the liquidity of assets and the on-demand liquidity offered to investors remains a key vulnerability of MMFs. This vulnerability can be further amplified by the structure of LVNAVs, as it can give rise to "first-mover advantage" and incentivise pre-emptive runs in times of stress. In addition, the lack of a level playing field could create a wedge between jurisdictions for MMFs denominated in US dollars or pound sterling where liquidity requirements are being increased in response to the risk identified during the COVID-19 pandemic crisis.[9] In other words, the assessment team considers that the divergent approaches across jurisdictions that would result from the failure to implement ESRB sub-recommendation A1 could increase regulatory arbitrage and, in turn, increase the risk of cross-border spillovers. It could also make it more difficult for EU MMFs to market themselves in other jurisdictions.

Box 2

Sub-recommendation A2

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with sub-recommendation A2 is **insufficiently explained**.

The content of the measure was assessed as **insufficiently explained**. Proportionality was assessed as **partially compliant**. Reporting was assessed as **partially compliant**.

Table 11

Overview of grade for sub-recommendation A2

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Partially compliant
Reporting	Partially compliant
Grade for sub-recommendation A2	Insufficiently compliant

[9] For more information, see ESRB, "**EU Non-bank Financial Intermediation Risk Monitor 2024**", *NBFI Monitor*, No 9, 2024.

Comments on the implementation of sub-recommendation A2

Sub-recommendation A2 states that the European Commission should propose the repeal of the regulatory thresholds set out in Article 34(1)(a) and (b) of the MMFR. On page 18 of its report on the adequacy of the money market funds regulation, the Commission acknowledges the issue as a vulnerability, given the importance of the regulatory link between a breach of the level of weekly liquid assets and the obligation for fund managers to consider activating fees and/or gates, as occurred in March 2020. However, despite this acknowledgement, the Commission did not take any action or provide sufficient justification for its inaction. Therefore, the assessment team graded sub-recommendation A2 as inaction insufficiently explained.

4.2.2 Recommendation B – reducing liquidity transformation

Table 12
Overall grade for recommendation B

Fully compliant	Largely compliant	Partially compliant	Materially non-compliant	Non-compliant	Sufficiently explained	Insufficiently explained

Box 3
Sub-recommendation B1

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with recommendation B1 is i**nsufficiently explained**.

The content of the measure was assessed as **insufficiently explained**. Proportionality was assessed as **insufficiently explained** and reporting was assessed as **partially compliant**.

Table 13

Overview of grade for sub-recommendation B1

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Insufficiently Explained
Reporting	Partially explained
Grade for sub-recommendation B1	Insufficiently explained

Comments on the implementation of sub-recommendation B1

Sub-recommendation B1 states that the European Commission should incorporate new liquidity requirements for VNAV MMFs and LVNAV MMFs, composed of daily maturing assets, weekly maturing assets and public debt assets.

The Commission has not implemented sub-recommendation B1 as it considers current requirements already include significant safeguards against liquidity risk. The Commission stated that it will further assess potential amendments to the current framework after considering the results of extensive analysis and stakeholders' feedback.

The Commission does not take into account the system-wide implications of MMF behaviour due to liquidity mismatch, focusing instead on MMFs' ability to meet regulatory thresholds. While the Commission acknowledges the role of Eurosystem interventions (e.g. commercial paper purchases and increasing concentration limits for unsecured bank debt in its collateral framework) as indirectly benefiting EU MMFs, the report does not highlight the importance of this support in preserving the resilience of MMFs. It also attributes some of the blame to the liquidity supply by dealers, arguing that it was more constrained and less responsive to sudden increases in demand than before the 2008 financial crisis. In the Commission's view, some of the problems are external to MMFs and could be resolved via reforms to shorter-term funding markets as well as potential access to central bank facilities.

The Commission has not flagged the current liquidity requirements as a potential shortcoming, although this could be a priority in a potential future review. The MMFR has significantly strengthened the regulatory framework for MMFs in the EU, which had been subject to different rules before its application. However, five years on, the Commission's report identifies shortcomings which should be further assessed. In particular, recent market developments and the results of the targeted stakeholder consultation in 2024 show that there could be scope to further increase the resilience of EU MMFs, notably by decoupling the potential activation of LMTs from regulatory liquidity thresholds.

In its report, the Commission states that "proposals to increase minimum holdings of liquid assets, while not controversial in substance, are difficult to implement and may have unintended consequences". In its assessment, the Commission mainly focuses on the concept of liquid assets, which are just one element of the buffer. The Commission argues that increased holdings of public debt would negatively affect the profitability of MMFs and exacerbate concerns about the availability of eligible public debt and shifting liquidity risk to the sovereign market. This assessment is not consistent with the ESRB's assessment, which quantitively showed that, if calibrated appropriately, these issues would not be material.

The Commission will further assess structural problems linked to the underlying short-term markets as well as the issue of MMFs' liquidity mismatch. Increased transparency could help make short-term funding markets more dynamic and resilient, thereby also reducing the risk associated with MMFs in periods of severe stress. However, it is important to note that such benefits may be limited in crisis times, so greater transparency should not be framed as a substitute for increased liquidity levels.

The Commission suggests that contagion dynamics would be avoided if MMFs could invest their cash in instruments for which a rapid withdrawal would not lead to market contagion, such as central bank deposits. In its report, the Commission states "*A case study of such an arrangement can be found in the US, where MMFs may place their excess cash with the US Federal Reserve's overnight reserve repo (ON RRP) facility. In addition to preventing contagion dynamics in situations of liquidity crunch, this facility also puts the US MMF sector at an advantage compared to EU MMFs in terms of flexibility in managing their liquidity inflows*" (p.16). However, the Commission fails to acknowledge that these inflows were largely due to public debt MMFs, which are not comparable to the types of MMFs (VNAVs and LVNAVs) being targeted as part of the review of the MMFR. It also ignores the fact that such access to the liability side could amplify flight-to-quality dynamics in periods of stress, as MMFs could invest more in central bank assets at the expense of other sectors.

The assessment team deems that the justifications provided by the Commission are insufficient to explain its inaction. The reasoning provided by the Commission is not supported by adequate evidence and fails to take into account relevant elements that the assessment team considers to be significant.

The Commission's assessment of the key vulnerabilities related to liquidity mismatch, which is necessary to identify shortcomings in the MMFR with respect to the ESRB's recommendations, deviates from the ESRB's assessment in several key ways. The Commission's assessment seems to be mainly concerned with MMFs' ability to meet regulatory thresholds and discounts the role MMFs play in amplifying market stress, also suggesting that many of the key vulnerabilities are external to MMFs. It also suggests that many of the issues related to liquidity mismatch stem from factors outside the control of MMFs, such as shorter-term funding markets and bank dealer regulatory constraints.

The Commission's assessment of sub-recommendation B1 fails to distinguish between its two elements: (i) the overall levels, and (ii) the composition of liquid asset holdings. Contrary to the importance of sub-recommendation B1 in the Recommendation as a whole, in its report the Commission does not mention the need to increase overall liquid asset requirements, at least not

for the time being. But it appears that the Commission's assessment mainly relates to the composition of liquid asset holdings rather than their overall levels, and the Commission's assessment of the latter is not very clear. In its reply, it suggests that fund managers are best placed to manage their own liquidity needs and that there is evidence that they hold sufficient liquidity. From a financial stability perspective, the assessment team does not consider reliance on managers themselves to determine what constitutes a minimum level of resilience. Given that the Commission does not mention the potential benefits of increased liquidity requirements, it would appear that it does not view changes to the current requirements for liquid asset holdings as a priority. Overall, the report appears to suggest that the current requirements are not a shortcoming of the MMFR.

The Commission's mapping of the ESRB's recommendations to international standards is misleading with respect to a key component of sub-recommendation B1. While the FSB's 2021 policy options do not specifically mention changes to daily liquid assets/weekly liquid assets (DLA/WLA), they are the cornerstone of its policy option "additional liquidity requirements". The FSB's recent peer review report[10] confirms this, identifying changes to DLA/WLA as the key mechanism for implementing this policy option. Therefore, the Commission's assessment could incorrectly give the impression that (a) the ESRB's proposals go beyond the agreed international standards of the FSB, and (b) acting on sub-recommendation B1 may not be necessary to comply with internationally agreed standards.

While changes to the MMFR are not considered for the current cycle, the Commission does identify certain vulnerabilities in the market for MMFs as well as areas that could merit further assessment, but this recommendation does not feature among them. Given the importance of the conclusion of a report for framing priorities, it is disappointing that the Commission did not flag shortcomings in current liquidity levels as a priority for further work.

Non-compliance with these recommendations, at least with respect to an increase in liquidity levels, diverges markedly from the recent actions and rules of other jurisdictions. In light of the recently adopted amendments to certain rules governing MMFs in the United States[11] and similar proposals in the United Kingdom[12], the MMF sector in the EU will be less resilient than the MMF sector in peer jurisdictions and will also provide opportunities for regulatory arbitrage for euro area funds denominated in foreign currencies, which could also increase the risk of cross-border spillovers.

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[10] "**Thematic Review on Money Market Fund Reforms – Peer review report**", Financial Stability Board, February 2024.

[11] See "**SEC Adopts Money Market Fund Reforms and Amendments to Form PF Reporting Requirements for Large Liquidity Fund Advisers**", *press release*, Securities Exchange Commission, 12 July 2023.

[12] See "**Updating the regime for Money Markets Funds**", *Consultation Paper*, No CP23/28, Financial Conduct Authority, December 2023.

Box 4
Sub-recommendation B2

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with sub-recommendation B2 is **insufficiently explained**.

The content of the measure was assessed as **insufficiently explained**. Proportionality was assessed as **insufficiently explained**. Reporting was assessed as **partially compliant**.

Table 14
Overview of grade for sub-recommendation B2

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Insufficiently explained
Reporting	Partially compliant
Grade for sub-recommendation B2	Insufficiently explained

Comments on the implementation of sub-recommendation B2

Sub-recommendation B2 states that the Commission should permit individual MMF managers to take actions leading them to hold fewer weekly maturing assets and fewer public debt assets than required if: (a) there are market-wide developments negatively affecting the assets MMFs hold or MMF unit holders; and (b) MMF managers immediately inform their NCAs accordingly.

The Commission has not implemented sub-recommendation B2 because its own assessment of the current MMF framework does not call for an immediate reopening of the MMFR. Despite the severe liquidity strains observed during the market turmoil of March 2020, no EU MMF had to introduce redemption fees or gates or to suspend redemptions. This led the Commission to conclude that there are insufficient reasons to reopen the MMFR at this stage, also considering the costs that the legislative process may entail and the time it would take for the new rules to apply. The Commission is conducting a further assessment to evaluate whether amendments to the current framework are needed.

The current MMFR already provides for degrees of flexibility for fund managers to temporarily breach minimum liquidity requirements without taking any action. In assessing

the need to implement sub-recommendation B2, the Commission also took into account that Article 34(1)(a)(iv) of the MMFR already allows for fund managers to temporarily fall below the requirements for weekly maturing assets. In the Commission's view, this degree of flexibility is considered sufficient and does not warrant the introduction of new regulatory tools.

The assessment team deems the justifications provided by the Commission to be insufficient to explain its inaction. The Commission's reasoning is not supported by adequate evidence and fails to take into account relevant elements that the assessment team considers to be significant.

Central banks played a crucial role in the March 2020 turmoil. Although no EU MMF had to activate liquidity management tools during the turmoil of March 2020, the severe deterioration of market liquidity prompted unprecedented interventions by central banks, including the ECB. Evidence shows that as the pandemic crisis deepened, euro area MMFs experienced outflows of nearly 8% of assets under management between 13 and 20 March. The level of stress then stabilised following the start of the pandemic emergency purchase programme on 26 March.[13] It is therefore not clear whether – and to what extent – the observed resilience of EU MMFs was entirely due to their internal features or whether the central bank's intervention also played a part.

The flexibility embedded in the current regulation does not shield MMFs from "first-mover advantage". MMF are subject to daily and weekly liquidity requirements. When these are breached, funds may have to consider applying extraordinary liquidity measures, which may encourage investors to request redemptions earlier than planned. Although Article 34(1)(a)(iv) of the MMFR allows fund managers to fall below minimum thresholds under certain circumstances, the risk of excessive withdrawals driven by the application of such extraordinary measures may make managers reluctant to make use of their buffers. The evidence confirms this: although some funds experienced large outflows, fund managers did not draw down on their weekly liquid assets to the same extent, suggesting low levels of usability for MMFs' buffers.[14] In this regard, introducing adequate tools to incentivise fund managers' use of buffers is crucial to enhance the resilience of the MMF sector.

The response of the Commission omits important elements of sub-recommendation B2 that are not addressed by the current EU regulation. While Article 34(1)(a)(iv) of the MMFR may provide some flexibility with regard to the management of WLA, it does not provide any information about the holding of public debt assets. Moreover, recommendation B2(b) also explicitly requires MMF managers to inform their NCA whenever funds breach WLA or public debt asset requirements. Finally, it is worth noting that Article 34(1)(a)(iv) only applies to public debt CNAV and LVNAV funds, whereas the scope of the recommendation includes all types of MMF.

The timing and costs of a new regulation are not reasons for inaction. The Commission highlights the potential costs of reopening the MMFR and the risks from legislative delays in the application of new rules. This reasoning appears unjustified for two reasons. The Commission itself

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[13] "**How effective is the EU Money Market Fund Regulation? Lessons from the COVID-19 turmoil**", *Macroprudential Bulletin*, No 12, ECB, April 2021.

[14] ibid.

acknowledges that the costs borne by the sector to comply with the MMFR after its introduction were not excessive and did not alter the market structure in a significant way.

Box 5
Sub-recommendation B3

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with sub-recommendation B3 is **insufficiently explained**.

The content of the measure was assessed as **insufficiently explained**. Proportionality was assessed as **insufficiently explained**. Reporting was assessed as **partially compliant**.

Table 15
Overview of grade for sub-recommendation B3

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Insufficiently explained
Reporting	Partially compliant
Grade for sub-recommendation B3	Insufficiently explained

Comments on the implementation of sub-recommendation B3

Recommendation B3 states that the Commission should authorise NCAs to specify a time limit defining the period during which MMFs under their supervision may hold fewer weekly maturing assets and public debt assets than required as is envisaged in sub-recommendation B2 in the case of market-wide developments negatively affecting multiple MMFs.

Since sub-recommendation B3 complements B2, which had not been implemented at this stage, no action was taken in response to the sub-recommendation. The reasoning is provided in the assessment of sub-recommendation B2 above.

The assessment team deems the justifications provided by the Commission to be insufficient to explain its inaction. The Commission's reasoning is not adequately supported by evidence and fails to take into account relevant elements that the assessment team considers to be significant.

Box 6

Sub-recommendation B4

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with sub-recommendation B4 is **insufficiently explained**.

The content of the measure was assessed as **insufficiently explained**. Proportionality was assessed as **insufficiently explained**. Reporting was assessed as **partially compliant**.

Table 16

Overview of grade for sub-recommendation B4

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Insufficiently explained
Reporting	Partially compliant
Grade for recommendation B4	Insufficiently explained

Comments on the implementation of sub-recommendation B4

Sub-recommendation B4 states that the Commission should provide for ESMA to coordinate the action taken by NCAs when acting as envisaged in sub-recommendation B3, in order to ensure consistency in the application of the measure across the EU.

Since sub-recommendation B4 complements sub-recommendations B2 and B3, which had not been implemented at this stage, no action was taken in response to the sub-recommendation. The reasoning is provided in the assessment of sub-recommendation B2.

The assessment team deems the justifications provided by the Commission to be insufficient to explain its inaction. The Commission’s reasoning is not adequately supported by evidence and fails to take into account relevant elements that the assessment team considers to be significant.

4.2.3 Recommendation C – Imposing on redeeming and subscribing investors the cost of their redemptions and subscriptions

Table 17

Overall grade

Fully compliant	**Largely compliant**	Partially compliant	Materially non-compliant	Non-compliant	Sufficiently explained	Insufficiently explained

Box 7

Sub-recommendation C1

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with sub-recommendation C1 is **largely compliant**.

The content of the measure was assessed as **largely compliant**. Proportionality was assessed as **fully compliant**. Reporting was assessed as **largely compliant**.

Table 18

Overview of grade for sub-recommendation C1

Criteria for action	Grade
Content of the measure	Largely compliant
Proportionality	Fully compliant
Reporting	Largely compliant
Grade for sub-recommendation C1	Largely compliant

Comments on the implementation of sub-recommendation C1

Under sub-recommendation C1, the Commission is recommended to propose that the relevant EU legislation should require MMFs to incorporate in their constitutional documents and any other pre-

contractual information at least one of the following LMTs: (a) anti-dilution levies; (b) liquidity fees; (c) swing pricing for MMFs with a fluctuating net asset value. These LMTs are anti-dilution tools that aim to allow MMFs to affect the cost of liquidity of underlying assets for subscribing or redeeming investors as needed, in particular when such costs increase sharply in certain markets circumstances. Anti-dilution tools ensure that all investors are treated equally and removes any first-mover advantage.

With the entry into force of Directive 2024/927[15] amending both Directive 2011/61/EU on Alternative Investment Fund Managers (AIFMD)[16] and Directive 2009/65/EC on undertakings for collective investment in transferable securities (UCITSD)[17], MMFs are required to incorporate in their constitutional documents at least one of the following LMTs: redemption gate, extension of notice periods, redemption fee, swing pricing, dual pricing, anti-dilution levy or redemption in kind. The assessment team notes that this list includes, but is not restricted to, LMTs recommended by the ESRB. However, the assessment team also observes that while the list does include swing pricing, this is not limited to VNAVs, as specified in the recommendation. Therefore, MMFs could also incorporate any of the other LMTs listed. Nevertheless, the assessment team considers that MMFs will most likely pick one of the ESRB's recommended anti-dilution tools rather than a tool that would affect the ability of investors to redeem their shares (i.e. access their cash) in stressed market conditions. In its response to ESMA's consultation on LMTs, the ESRB expressed the view that anti-dilution LMTs are more suitable than outflow restricting tools, as they do not go against the cash management function of an MMF.[18]

Dual pricing is an anti-dilution tool that was not originally listed in the Recommendation. The assessment team acknowledges that dual pricing is an anti-dilution tool that is in line with the spirit of the Recommendation. The assessment team is not aware of this tool being commonly used in European funds, including MMFs, and does not expect that it will be in the foreseeable future.

Based on these considerations, the assessment team deems the Commission to be "largely compliant" with sub-recommendation C1. The provisions of the revised AIFMD and UCITSD will ensure that MMFs will incorporate at least one LMT in their constitutional documents. While the provisions only touch upon the inclusion of one LMT from a more extensive list than in the ESRB's Recommendation, the assessment team expects that the Recommendation will be implemented in practice. However, in the absence of a stringent requirement, the assessment team cannot assign a "fully compliant" grade.

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[15] Directive (EU) 2024/927 of the European Parliament and of the Council of 13 March 2024 amending Directives 2011/61/EU and 2009/65/EC as regards delegation arrangements, liquidity risk management, supervisory reporting, the provision of depositary and custody services and loan origination by alternative investment funds (OJ, L 2024/927, 26.3.2024).

[16] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (OJ, L 174, 1.7.2011, p. 1).

[17] Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ, L 302, 17.11.2009, p. 32).

[18] "**ESRB response to the ESMA consultation on draft Regulatory Technical Standards and Guidelines on liquidity management tools**", ESRB, July 2024.

Box 8
Sub-recommendation C2

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with recommendation C2 is **fully compliant**.

The content of the measure was assessed as **fully compliant**. Proportionality was assessed as **fully compliant**. Reporting was assessed as **fully compliant**.

Table 19
Overview of grade for sub-recommendation C2

Criteria for action	Grade
Content of the measure	Fully compliant
Proportionality	Fully compliant
Reporting	Fully compliant
Grade for sub-recommendation C2	Fully compliant

Comments on the implementation of sub-recommendation C2

Under sub-recommendation C2, the Commission is recommended to mandate ESMA to develop criteria for inclusion in relevant EU legislation to facilitate the use of LMTs by MMF managers in all market conditions, as well as guidance on those criteria.

Directive (EU) 2024/927 amending the AIFMD and UCITSD includes provisions that fully comply with sub-recommendation C2. Directive (EU) 2024/927 contains relevant provisions that make the Recommendation applicable to all MMFs, whether they are structured as alternative investment funds (AIFs) or UCITS. For what concerns AIF MMFs, Article 2g of the Directive provides that "*ESMA shall develop draft regulatory technical standards to specify the characteristics of the liquidity management tools set out in Annex V" and Article 2h states that "By 16 April 2025, ESMA shall develop guidelines on the selection and calibration of liquidity management tools by AIFMs for liquidity risk management and for mitigating financial stability risks*". Articles 18a(3) and 18a(4) of the same Directive provide equivalent provisions for UCITS MMFs.

The assessment team deems the Commission to be fully compliant with sub-recommendation C2, considering that Directive (EU) 2024/927 explicitly mandates ESMA to (i)

draft regulatory technical standards that specify the characteristics of LMTs, and (ii) draft guidelines on the selection and calibration of LMTs for liquidity risk management and for mitigating financial stability risks. The assessment team acknowledges that ESMA has not yet fulfilled its mandate (it is currently a work in progress) and that the mandate does not envisage any specific treatment or additional elements that should be considered for MMF managers. Nevertheless, the assessment team considers that the Commission has complied with sub-recommendation C2 by having mandated ESMA to develop level 2 and level 3 regulatory measures, the relevance of which is out of the scope of this assessment.

4.2.4 Recommendation D – Enhancing monitoring and stress testing

Table 20

Overall grade

Fully compliant	Largely compliant	Partially compliant	Materially non-compliant	Non-compliant	Sufficiently explained	Insufficiently explained

Box 9

Sub-recommendation D1

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with sub-recommendation D1 is **insufficiently explained**.

The content of the measure was assessed as **insufficiently explained**. Proportionality was assessed as **partially compliant**. Reporting was assessed as **partially compliant**.

Table 21
Overview of grade for sub-recommendation D1

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Partially compliant
Reporting	Partially compliant
Grade for sub-recommendation D1	Insufficiently explained

Comments on the implementation of sub-recommendation D1

The Commission has not implemented sub-recommendation D1. The sub-recommendation states that regular reporting should be enhanced by increasing its frequency and by providing more information on the investor base of MMFs. The Commission should incorporate provisions in the legislation aimed at enhancing the timely sharing of data stemming from the regular reporting of MMFs to their respective NCAs.

In its reply to the ESRB Secretariat, the Commission considers itself to be partially compliant. It does not provide specific reasoning, and its main assessment relates to proportionality considerations where it states: "*The requirements stipulated in MMFR are suitable and necessary to ensure timely reporting and sharing of information necessary to for effective supervision of MMFs and identification of potential vulnerabilities in the sector. They are not considered as excessively burdening by going beyond what is necessary to achieve the goals of the recommendation.*" It also states that the current regulation is compliant with respect to scope and regulatory arbitrage considerations.

The Commission also provided additional information concluding that an "immediate reopening of the MMFR would not be justified at this stage. The Commission will further assess the potential framework amendments, considering the results of extensive analysis and stakeholders' feedback."

The Commission does highlight data availability as a potential vulnerability that would warrant further assessment before possible further action can be taken. The Commission did not deem these elements to be urgent enough to warrant reopening the MMFR before the end of its mandate, also considering the time it would take for the new rules to enter into force.

The assessment team deems the justifications provided by the Commission to be insufficient to explain its inaction. The Commission's reasoning is not supported by adequate

evidence and fails to take into account relevant elements that the assessment team considers to be significant.

The ESRB's compliance criteria applicable to sub-recommendation D1 primarily focus on the need for more frequent reporting and more information on the investor base. The criteria include (i) increasing the frequency of the reporting by MMF managers to their respective competent authority, as referred to in Article 37 of the MMFR, to a monthly frequency for funds with assets under management exceeding €100 million; and (ii) providing information on the percentage of NAV categorised both by the type of investor and their place of domicile.

The Commission provides limited feedback in its reply, which makes an assessment difficult. Ultimately, it fails to justify that the frequency of reporting and the information on the investor base and their jurisdiction are sufficient.

A quarterly or annual reporting frequency is not appropriate for monitoring financial stability risk. At present, the frequency of the MMFR reporting is quarterly at best. This frequency should be increased to monthly for some of the most important indicators and parameters. The reporting should also be complemented with more information on investors: MMFs should report the NAV held by investors according to both their domicile and their category. This would provide supervisory and macroprudential authorities with greater information and insights – which they could then use in crisis scenarios to assess run risks – and, in the medium term, provide useful information for the design of stress tests.

The Commission could have provided additional arguments to help justify its inaction. For example, ESMA raised concerns with respect to the regulatory threshold for more frequent reporting (assets under management exceeding €100 million) that is set out in the MMFR and retained in the Recommendation. In addition, ESMA states that additional requirements on the reporting of information on the investors of MMFs, "should be supplemented by a proposal to enhance the disclosure of MMIs and investors of MMFs (including to the managers of MMFs), which goes beyond the scope of the MMF Regulation."[19]

Box 10
Sub-recommendation D2

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with sub-recommendation D2 is **insufficiently explained**.

The content of the measure was assessed as **fully compliant**. Proportionality was assessed as **partially compliant**. Reporting was assessed as **insufficiently explained**.

[19] See "**Final report - ESMA opinion on the review of the Money Market Fund Regulation**", ESMA, February 2022.

Table 22

Overview of grade for sub-recommendation D2

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Partially compliant
Reporting	Partially compliant
Grade for sub-recommendation D2	Insufficiently explained

Comments on the implementation of recommendation D2

The Commission has not implemented sub-recommendation D2. Under this sub-recommendation, the Commission is recommended to mandate ESMA to coordinate and, where necessary, to harmonise ad hoc data requests made by the NCAs to MMFs in times of stress resulting from market-wide developments.

In its self-assessment the Commission grades itself as sufficiently explained. "*Art. 37 of the MMFR sets forth comprehensive reporting requirements of MMFs to their respective NCAs ensuring timely sharing of data necessary for effective supervision and monitoring of the risks in MMF sector. According to Art. 37(5) and 39 of the MMFR NCAs have all supervisory and investigatory powers that are necessary for the exercise of their functions, including right to request additional information necessary.*"

The Commission also provided additional information concluding that an "immediate reopening of the MMFR would not be justified at this stage. The Commission will further assess the potential framework amendments, considering the results of extensive analysis and stakeholders' feedback."

The Commission does highlight data availability as a potential vulnerability that would further assessment before possible further action can be taken. The Commission did not deem these elements to be urgent enough to warrant reopening the MMFR before the end of its mandate, also considering the time it would take for the new rules to enter into force.

The assessment team deems the justifications provided by the Commission to be insufficient to explain its inaction. The compliance criteria state that "*ESMA should be empowered to design templates for ad hoc data requests made by NCAs as provided for in Article 39 of the MMFR*". The reply provided by the Commission fails to take into account relevant elements that the assessment team considers to be significant, such as the role of ESMA and harmonisation of data.

The assessment team considers that enhancing and harmonising data-sharing arrangements, especially in stressed market situations, would improve authorities' understanding of risks and facilitate adequate policy responses. This sub-recommendation aims to strengthen the ability of authorities to identify systemic risk emanating from MMFs. In a crisis scenario, NCAs can ask for higher-frequency data, for example on daily fund flows. Harmonising such requests would increase their efficiency and support their use.

Box 11

Sub-recommendation D3

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with sub-recommendation D3 is **insufficiently explained.**

The content of the measure was assessed as **insufficiently explained**. Proportionality was assessed as **partially compliant**. Reporting was assessed as insufficiently explained.

Table 23

Overview of grade for sub-recommendation D3

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Insufficiently explained
Reporting	Partially compliant
Grade for sub-recommendation D3	Insufficiently explained

Comments on the implementation of sub-recommendation D3

Recommendation D3 states that the Commission should incorporate provisions to ensure that NCAs share the data referred to in sub-recommendations D1 and D2 with EU bodies with a financial stability mandate.

The Commission has not implemented sub-recommendation D3 as it considers that the current MMF framework for data sharing between NCA and EU bodies is already compliant with the ESRB recommendations.

Article 37(5) of the MMFR requires NCAs to transmit to ESMA the data collected quarterly from MMF managers within 30 days of the end of the reporting quarter. ESMA is required to build a central database and to share it with the ECB for statistical purposes only.

The Commission assesses its actions as partially compliant with the recommendation and is of the view that an immediate reopening of the MMFR would not be justified at this stage.

The assessment team deems the justifications provided by the Commission to be insufficient to explain its inaction. The Commission's reasoning is not adequately supported by evidence and fails to take into account relevant elements that the assessment team considers to be significant.

The Commission's lack of compliance with sub-recommendations D1 and D2 prevents it from complying with sub-recommendation D3. Sub-recommendation D3 seeks to improve the ability of authorities to identify systemic risk linked to MMFs by increasing the data available to European bodies with a financial stability mandate in normal conditions and in periods of crisis. It explicitly builds on compliance with sub-recommendations D1 and D2, which should increase the frequency of data collections through regular reporting and strengthen the role of the ESMA in data collections in times of crisis.

Sub-recommendation D3 seeks to improve data sharing between central banks and NCAs (see §11), a topic which is not currently addressed within the MMFR framework. The March 2020 dash for cash in MMFs illustrated the systemic risk stemming from this sector. Lessons learned from the interventions of central banks in these markets highlight the importance of data sharing both before and during a crisis. ESMA is mandated to share its central database with the ECB under the current regulation, but use of these data is limited to statistical purposes and the database is not accessible to national central banks.

The timeline set out in Article 37(5) of the MMFR is not adapted to data sharing in times of crisis. Article 37(5) requires NCAs to transmit their data to ESMA within 30 days of receiving them. However, this time frame may prove too long if a monthly reporting requirement is adopted. It is also detrimental in times of crisis when successful interventions may depend on the rapid availability of information.

Box 12
Sub-recommendation D4

Final grade

Pursuant to the findings below, it is considered that the overall level of compliance with sub-recommendation D4 is **insufficiently explained**.

The content of the measure was assessed as **insufficiently explained**. Proportionality was assessed as **partially compliant**. Reporting was assessed as **insufficiently explained**.

Table 24

Overview of grade for sub-recommendation D4

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Insufficiently explained
Reporting	Partially compliant
Grade for sub-recommendation D4	Insufficiently explained

Comments on the implementation of sub-recommendation D4

The Commission has not implemented sub-recommendation D4 based on its own assessment, the stress testing framework for MMFs under the current rules is adequate and already complies with the recommendation. Article 28 of the MMFR and the related ESMA guidelines[20] set out a stress testing framework based on severe and plausible scenarios, consistent with ECB and ESRB projections.

The requirements stipulated in the MMFR are adequate to enhance the relevance and comparability of stress tests carried out by MMFs and are aligned with the goals of the Recommendation. Moreover, the ESMA guidelines provide severe criteria to ensure comparability and make it possible to capture the actual risk profile of MMFs.

The current framework sets out a consistent EU-wide methodology that ensures comparability and ex post verification. Since stress testing methodologies and scenario are provided by ESMA in accordance with ESRB scenarios and in cooperation with the ECB, the framework in place is deemed adequate to create a coherent EU-wide stress testing regime for MMFs. Reverse stress tests are also possible under the framework.

The Commission's assessment finds that an immediate reopening of the MMFR would not be justified at this stage.

The assessment team deems the justifications provided by the Commission to be insufficient to explain its inaction. Its reasoning is not adequately supported by evidence and fails to take into account relevant elements the assessment team considers to be significant.

Sub-recommendation D4 recommends a centrally coordinated stress testing regime to address systemic risk. The current stress testing regime is mainly designed for microprudential

[20] "**Guidelines on stress tests scenarios under Article 28 of the MMF Regulation**" , ESMA, March 2018.

purposes, even though a common scenario is used. Generally, micro stress tests are designed to assess the resilience of individual financial institutions and are mainly run by the institutions themselves as part of their institutional risk management. In addition, they tend to ignore the behaviour of competitors as well as interactions across institutions and across economic sectors (so they do not address coordination failures). Finally, system-wide implications of individual behaviours are generally underestimated. Therefore, such stress tests could prove inadequate to support macroprudential supervisory measures. The Commission's targeted consultation on macroprudential policies for NBFI addresses the issue of macroprudential stress tests.

Macroprudential stress tests for oversight/macro surveillance purposes should seek to assess the stability and soundness of the EU MMF sector and its capacity to provide its core economic functions to the system and should be designed to assess the resilience of financial system as a whole rather than individual institutions only. The Bank for International Settlements (BIS) claims in a 2018 publication that a stress test is most effective when its design is closely aligned with the associated policy objectives.[21] Consistency between design and objectives ensures that an exercise provides the type of information authorities need. In this regard, the features of macroprudential stress tests should differ from those of micro stress tests. In particular, macro stress testing should mainly follow a top-down approach, possibly incorporating second-round effects via intermediaries' endogenous reaction to stress.

The stress testing regime envisaged in the Recommendation would assess the ability of MMFs to withstand severe but plausible shocks based on a common scenario. Beyond individual MMF stress tests, this option would allow authorities to estimate the impact of a large shock on MMFs and the ability of money markets to absorb the selling pressures from MMFs. A system-wide approach would ensure that potential coordination failures among MMFs could be identified. It would enable authorities to identify residual and emerging risks and vulnerabilities in MMFs and in the markets in which they operate, also in consideration of the high concentration of the EU MMF sector at both jurisdiction and segment level. If risks and vulnerabilities were identified, remedial actions would need to be considered (at fund level, for group of funds). These could include macroprudential policies to minimise risks to financial stability.

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[21] Baudino, P., Goetschmann, R., Henry, J.,Taniguchi, K. and Zhu, W., "**Stress-testing banks – a comparative analysis**", FSI Insights on policy implementation, No 12, Financial Stability Institute, Bank for International Settlements, November 2018.

5 General remarks

The assessment team has assessed the compliance of the Commission with Recommendation ESRB/2021/9 on reform of money market funds. The Commission is assessed as materially non-compliant. Three of the four recommendations – A, B and D – were not implemented, and as the justifications were not considered adequate, they were all assessed as insufficiently explained. Recommendation C, on the other hand, was implemented and was assessed as largely compliant.

It is important to note that the compliance assessment is based on the Commission's actions and recommendations until the end of 2023. Hence, the key source of information is the Commission's **report on the adequacy of Regulation (EU) 2017/1131 of the European Parliament and of the Council on money market funds from a prudential and economic point of view**, which was published in July 2023.

The assessment team notes that in the Commission launched a **targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFI)** in May 2024. The consultation document includes a chapter on MMFs as well as a number of questions related to the content of the Recommendation, especially with respect to Recommendation D. However, at the time of this assessment, the consultation has not led to concrete steps by the Commission that would change the outcome of the compliance assessment.

Annex
Composition of the assessment team

Approved by the ESRB's Advisory Technical Committee via Written Procedure *ATC/WP/2024/019*.

Chairperson	Institution
Christian Winkler	European Securities and Market Authority
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Imprint and acknowlegements

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The cut-off date for the data included in this report was December 2024.

For specific terminology please refer to the **ESRB glossary** (available in English only).

PDF	ISBN 978-92-9472-395-6, doi:10.2849/0601410, DT-01-25-005-EN-N