Update to the IOSCO Peer Review of Regulation of Money Market Funds

OICU-IOSCO

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Contents

1. Executive Summary

This report (**Report**) sets out the findings of two limited-scope reviews (**Update Reviews**) conducted in 2016 and 2017, respectively, by the International Organization of Securities Commissions (**IOSCO**) to identify progress by IOSCO members in FSB jurisdictions in implementing IOSCO reforms regarding the regulation of money market funds (**MMFs**).

In September 2015, IOSCO published *Peer Review of Regulation of Money Market Funds: Final Report* (**2015 Report**).[1] The 2015 Report set out findings of a thematic review conducted by the IOSCO Assessment Committee (**2015 Peer Review**) of the progress of 31 jurisdictions in adopting legislation, regulation and other policies in relation to money market funds (MMFs) in eight areas (**Reform Areas**).[2]

Key findings from the 2015 Peer Review were provided to the Financial Stability Board (**FSB**) for inclusion in their report to the G20 in 2015, titled *Implementation and the effects of the G20 financial regulatory reforms*.[3] This was published in November 2015 and focused on the progress of implementation of reforms for 24 FSB jurisdictions in three Reform Areas (**Reviewed Reform Areas**):

i. Valuation practices of MMFs — addressing specific valuation issues for MMFs and their portfolios (Reform Area (c) Valuation);

ii. Liquidity management for MMFs — aimed at ensuring MMFs maintain adequate liquidity resources in normal business conditions as well as in stressed market conditions (Reform Area (d) Liquidity Management);

iii. MMFs that offer a stable Net Asset Value (**NAV**) — addressing the risks and issues which may affect the stability of MMFs that offer a stable NAV (Reform Area (e) Stable NAV).

The purpose of this Report is to provide an update on progress in implementing the three areas of reforms mentioned above. The main findings of the two Update Reviews contained in this Report are also included in the Second[4] and Third[5] Annual Reports on *Implementation and*

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1 Available at: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD502.pdf.

2 IOSCO published 15 key policy recommendations relating to eight Reform Areas in the *Policy Recommendations for Money Market Funds* (October 2012), available at: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD392.pdf. The 2015 Peer Review was a Level 1 or Adoption Monitoring review to measure implementation progress of participating jurisdictions against the Reform Areas: (a) Definition of MMF; (b) Limitations to asset types and risks taken; (c) Valuation; (d) Liquidity Management; (e) MMFs that offer a stable NAV; (f) Use of ratings; (g) Disclosure to investors; and (h) Repos.

3 Available at: http://www.fsb.org/wp-content/uploads/Report-on-implementation-and-effects-of-reforms-final.pdf.

4 Available at: http://www.fsb.org/2016/08/implementation-and-effects-of-the-g20-financial-regulatory-reforms-2/.

5 Available at: http://www.fsb.org/2017/07/implementation-and-effects-of-the-g20-financial-regulatory-reforms-third-annual-report/.

Effects of the G20 Financial Regulatory Reforms, published on 31 August 2016 and 3 July 2017, respectively.

Members from 24 participating FSB jurisdictions were asked to report any regulatory reforms in these areas by **8 June 2016** for the 2016 Update Review; and by **7 February 2017** for the 2017 Update Review.

In 2016, it was found that changes in implementation status were warranted for China, Japan and Saudi Arabia (Reform Areas (c) Valuation and (d) Liquidity Management). The Update Review also found that reforms were underway in Brazil, the EU, Russia, Hong Kong, Indonesia and South Africa, however, these did not warrant a change in implementation status.

In 2017, it was found that changes in implementation status were warranted for Japan, Saudi Arabia (Reform Area (d) Liquidity Management) and United States. The Update Review also found that significant reforms took place in Russia, Switzerland and the EU which did not warrant changes in implementation status. Additional implementation efforts were also reported in Australia, Hong Kong, India, Indonesia, Republic of Korea and South Africa.

Overall implementation of the Reported Reform Areas is most advanced in seven participating jurisdictions (approximately 72% of the global market)[6], including three of the largest markets (US, China and Japan), with reforms coming into effect in Japan since 2016.

Most jurisdictions (except three)[7] have implemented the fair value approach for the Valuation of MMF portfolios (Reform Area (c)), but progress in Liquidity Management (Reform Area (d)) is less advanced and less even. EU member jurisdictions have reported a new EU Regulation on Money Market Funds, which came into force in July 2017 (after the Reporting Date). The new regulation, which will apply from July 2018, will contribute towards more complete implementation of IOSCO's recommendations.

For Reform Area (e) (Stable NAV), nine participating jurisdictions continue to permit MMFs that offer a Stable NAV, and further work is needed in some of these jurisdictions to reinforce the resilience of those funds and their ability to meet redemptions.

As of **7 February 2017**:

i. Twenty-one jurisdictions had final implementation measures in force for Reform Area (c) Valuation;

ii. Eight jurisdictions had final implementation measures in force for Reform Area (d) Liquidity Management; and

6 Size based on assets under management (AUM) in FSB jurisdictions (accounting for 83% of global AUM) at end-2014. See 2015 Report, available at: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD502.pdf.

7 Australia, Republic of Korea and South Africa.

iii. Five jurisdictions had final implementation measures in force for Reform Area (e) Stable NAV, with no implementation measures needed for 15 jurisdictions that do not allow MMFs that offer a stable NAV.

Part 2 of the Report provides some background and Part 3 sets out the methodology used in the two Update Reviews. Part 4 of the Report analyses in detail the substance of the changes jurisdictions have undertaken in adopting legislation, regulation and other policies. Finally, Part 5 contains updated tables summarising the implementation status of each participating jurisdiction in areas covered by the Update Reviews.

2. Background

2.1. 2015 Peer Review

The 2015 Peer Review undertaken by the Assessment Committee was a Level 1 or "Adoption Monitoring Review". It measured progress in implementation only and did not consider the consistency of Adoption Measures.

In relation to each of the Reviewed Reform Areas, the Review considered the status of a number of elements of reform.

In relation to **Valuation** (Reform Area (c)), the reform elements considered were:

- Requirements for MMFs to comply with the general principle of fair value when valuing the securities held in their portfolios on an up-to-date basis.
- Requirements on MMFs to use the amortised cost method only in limited circumstances. That is, whether there are any condition(s) on the use of the amortised cost valuation method.

In relation to **Liquidity Management** (Reform Area (d)), the reform elements considered were:

- Requirements on MMFs to establish sound policies and procedures to know their investors. That is, procedures and policies to monitor its investors aimed at identifying patterns in investors' cash needs.
- Requirements on MMFs to hold a minimum amount of liquid assets (to strengthen their ability to face redemptions and prevent fire sales).
- Requirements on MMFs to periodically conduct appropriate stress testing.
- Requirements on MMFs to have in place tools/measures to deal with exceptional market conditions and substantial redemption pressures.

In relation to **MMFs that offer a stable NAV** (Reform Area (e)), the reform elements considered were whether MMFs with a stable NAV are permitted in the jurisdiction.

- If permitted, whether requirements for MMFs to convert from a stable NAV to a variable NAV were in place.

- If there are no requirements for such conversion, whether requirements were in place to reinforce stable NAV MMFs' resilience and ability to face significant redemptions (i.e. aimed at reducing run risk and the first mover advantage).

2.2. 2015 Peer Review Findings

Overall, the 2015 Peer Review found participating jurisdictions had made progress in introducing implementation measures across the eight Reform Areas. [8] Progress varied between jurisdictions and across Reform Areas.

For the jurisdictions with the largest MMF markets, only the US reported having final implementation measures in all Reform Areas, with China and the EU members still in the process of developing and finalising relevant reforms.

For jurisdictions with smaller MMF markets, implementation progress was less advanced, with only four other participating jurisdictions (Brazil, India, Italy and Thailand, the first three being FSB members) reported having final implementation measures in all Reform Areas.

Of the three Reviewed Reform Areas:

- On **Valuation** (Reform Area (c)), implementation was generally well progressed. However, a number of jurisdictions reported having no requirements for MMFs to comply with the general principle of fair value and/or use the amortized cost method only in limited circumstances. Of the Largest Jurisdictions, China was in the process of introducing further reforms for their MMFs for this Reform Area.

- On **Liquidity Management** (Reform Area (d)), implementation progress was less advanced and uneven, perhaps reflecting that pre-crisis, most jurisdictions did not have requirements in this area. Critically, implementation progress was least advanced for requirements on MMFs to establish sound policies and procedures to know their investors and requirements to hold a minimum amount of liquid assets, with a sizeable number of jurisdictions reporting they are still finalising reforms on these two aspects of this Reform Area.

- On **MMFs that offer a stable NAV** (Reform Area (e)), further work was needed. Twelve jurisdictions reported continuing to permit stable NAV MMFs, including four of the five Largest Jurisdictions (China, Ireland, Luxembourg and the US). Participating jurisdictions which continue to permit stable NAV MMFs had generally chosen to progress

8 The 2015 Peer Review was a Level 1 or Adoption Monitoring review to measure implementation progress of participating jurisdictions against the eight Reform Areas: (a) Definition of MMF; (b) Limitations to asset types and risks taken; (c) Valuation; (d) Liquidity Management; (e) MMFs that offer a stable NAV; (f) Use of ratings; (g) Disclosure to investors; and (h) Repos: available at: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD502.pdf.

implementation measures that aim to reinforce a stable NAV MMF's resilience and ability to face significant redemptions.

3. Update Review Methodology

This Report provides an update on the status of implementation of the three Reviewed Reform Areas for 2016 and 2017, respectively. The Methodology used for the Update Reviews is set out below.

3.1. Objectives and Scope

This Report presents the progress of implementation in the Reviewed Reform Areas for 24 FSB jurisdictions (**Participating Jurisdictions**). A full list of Participating Jurisdictions for the Update Reviews is set out at **Appendix I**.

Participating Jurisdictions were asked to identify progress in adopting legislation, regulation and other policies in relation to MMFs in the Reviewed Reform Areas.

For the purposes of the two Update Reviews, the cut-off dates for reporting implementation progress were **8 June 2016** and **7 February 2017** (**Reporting Dates**).

3.2. Review Team

The Update Review in 2016 was conducted by a team comprised of staff from the Australian Securities and Investments Commission and the IOSCO General Secretariat (**Review Team**). In 2017, the Review Team was comprised of staff from the French Autorité des marches financiers and the IOSCO General Secretariat.

3.3. Review Process

The Update Reviews were desk-based exercises. Participating Jurisdictions were asked to identify whether there had been any legislative or regulatory changes relating to the Reviewed Reform Areas and if so, whether these changes would require a revision to the implementation status reported in the 2015 Report.

Where changes were reported, the Review Team applied the original Methodology developed for the 2015 Peer Review to verify and assess the self-reporting to ensure the key elements that formed the basis of the 2015 Peer Review were applied in a consistent manner.

The original reporting scale, as shown in **Table 1** below, was used by the Review Team to indicate the status of reform activity.

Table 1 — Reporting Scale used for Peer Review

(green)	Final implementation measures in force;
(orange)	Final implementation measures published;
(blue)	Draft implementation measures published;
(yellow)	Draft implementation measures not published;
(grey)	For Reform Area (e) only: No implementation measures needed (as MMFs offering a stable NAV are not permitted in this jurisdiction).

△ = Further reforms are underway in relation to the Reform Area evidenced by published and documented proposals.

♦ = The rating reported is for the element of a Reform Area which is least progressed. One or more element of a Reform Area is further progressed than the reported rating.

It should be noted that the findings of the Update Reviews are based on information provided by the Participating Jurisdictions. This includes copies of relevant legislation, regulations or guidance. Where necessary, the Review Team has sought to clarify and verify the statements made by Participating Jurisdictions in their submissions. However, the Review Team has not sought independent confirmation of the matters reported by Participating Jurisdictions in their submissions for the Update Reviews.

4. Key Findings

4.1. Overview

4.1.1. 2016

In 2016, changes to implementation status was required for three jurisdictions: China, Japan and Saudi Arabia. As a result of measures coming into force, the augmentation in China's status for Reform Area (c) (Valuation) brings the status in all three Reform Areas to "Final implementation measures in force". Following a consultation to reform rules, Japan's status for all three Reform Areas has been raised to "Draft implementation measures published". And in Saudi Arabia, a resolution to adopt the amended Investment Funds Regulations covered one of the two applicable Reform Areas bringing the status for Reform Area (c) (Valuation) to "Draft implementation measures published".

Two jurisdictions (Brazil and Russia) also reported legislative or regulatory changes since the 2015 Peer Review. However, these changes did not materially change the implementation of the MMF Reforms in each of the relevant Reform Areas as assessed in 2015 and as such did not require any revision to the implementation status reported in the 2015 Peer Review.

Another three jurisdictions (Hong Kong, Indonesia and South Africa) reported planned reforms in relation to one or more Reform Area, however, there is no change to implementation status on the basis that the proposed guidance is not published and cannot be publicly verified.

At the European Level, discussions over the Regulation on Money Market Funds were still ongoing as at the Reporting Date for 2016. They successfully ended in November 2016. However, as the Regulation is not yet officially adopted and published, the status for each Reform Area in EU jurisdictions was not changed.

4.1.2. 2017

In 2017, changes to implementation status was required for three jurisdictions: Japan, Saudi Arabia and United States. Following the 2016 consultation, rules have come into force and Japan's status for all three Reform Areas is amended to "Final implementation measures in force". In Saudi Arabia, final rules have come into force thus for Reform Area (c) (Valuation), the implementation status is changed to "Final implementation measures in force" and for Reform Area (d) (Liquidity Management), the implementation status remains at "Draft implementation measures not published", with different stages of progress reflected in the ♦ symbol (and deletion of the Δ symbol). Required compliance periods for these rules have since come to pass in the United States, which did not involve a change in implementation status (as the United States was already deemed to have "Final implementation measures in force" at the time of the 2015 Peer Review) but required a minor amendment (the deletion of the Δ symbol) to indicate that no further actions are pending with respect to these rules.

In Russia, Switzerland and the EU, significant reforms are underway or have taken place that impact on the Reforms Areas without resulting in a change in the implementation status. Russia reports reforms changing the way MMFs are categorized but confirm that regulation is still in place to regulate MMFs as "market financial instruments funds" which continue to meet the elements that were found to be in place in the 2015 Peer Review. In Switzerland, while new Guidelines substantially meets most elements under Reform Area (d) (Liquidity Management), the status still remains "Draft implementation measures not published" with different stages of progress reflected in the ♦ symbol because the Guidelines lack requirements for MMFs to establish sound policy and procedures to know their investors, consequently their implementation status remains unchanged.

At the European level, an agreement was reached over the Regulation on Money Market Funds between the European Council and European Parliament representatives on 7 December 2016. However, as of the 7 February 2017 Reporting Date, the final text was not yet published and did not warrant any changes to the implementation status of EU jurisdictions. The EU's MMF Regulation subsequently entered into force on 21 July 2017 and is described below (see below **4.4.3**).

Two jurisdiction (India and Republic of Korea) reported regulatory changes since 2015 to strengthen the implementation of the MMF Reforms in elements which were already met and as such did not require any revision to the implementation status reported in the 2015 Peer Review.

Another four jurisdictions (Australia, Hong Kong, Indonesia and South Africa) reported planned reforms in relation to one or more Reform Areas, however, there is no change to implementation status on the basis that the proposed guidance is not published and cannot be publicly verified.

4.2. Changes in Reported Implementation Status in 2016

4.2.1. China

In the 2015 Report, China's implementation status for Reform Area (c) (Valuation) was "Draft implementation measures not published" with different stages of progress reflected in the ♦ symbol. The status for both Reform Areas (d) (Liquidity Management) and (e) (MMFs that offer a stable NAV) was "Final implementation measures in force".

On 17 December 2015, the China Securities Regulatory Commission (**CSRC**) and People's Bank of China (**PBoC**) jointly released draft *Measures for Supervision and Administration of MMF*. The new Measures took effect on 1 February 2016.

The provisions relevant to the Reviewed Reform Areas are:

- New rules on valuation practices which provides that MMFs shall adopt prudent and appropriate accounting and valuation methods. In addition, the use of the amortised cost method is limited to the precondition that the fund NAV can fairly reflect the value of the fund portfolio. If the amortized cost method cannot fairly reflect the value of the fund in certain conditions, the MMF can adopt another valuation method. In addition, the measures also require that when the shadow NAV of the fund substantially deviates (>25bp) from the stable NAV, the fund manager should take prompt action to adjust the value of the portfolio within five trading days;

- Improving funds' liquidity management by introducing some ratios of daily- and weekly-maturing assets; allowing funds to extend their use of repos in case of larger-then-expected redemption pressures; or introducing a mandatory redemption fee in case the amount of the fund's liquid assets falls below a preset threshold;

- More emphasis on responsibilities of the fund management companies in monitoring the level of deviation, and expressly specifies the trigger for the use of variable NAV.

Although these reforms measures were summarised in the 2015 Report, they were not considered by the Review Team then because the reforms were not in effect.

On Reform Area (c) (Valuation), the measures appear to address both the general principle of fair value as well as introducing a limited use of the amortised cost method. Based on the above, in 2016 the status for Reform Area (c) (Valuation) changed to "Final implementation measures in force". China is now rated "Final implementation measures in force" for all Reviewed Reform Areas. This remains the case in 2017.

4.2.2. Japan

See below **4.3.1**.

4.2.3. Saudi Arabia

See below **4.3.2**.

4.3. Changes in Reported Implementation Status in 2017

4.3.1. Japan

In the 2015 Report, Japan's implementation status was "Draft implementation measures not published" for each of the Reviewed Reform Areas.

On 13 May 2016, the Investment Trusts Association Japan (**JITA**) published a consultation paper to reform rules for self regulation covering two types of MMF funds in Japan, namely, the "money management fund" and the "money reserve fund".

The proposed rules, which would have the force of law, set out the following draft requirements:

- On Valuation, the proposed rules require fair value or mark-to-market valuation as the general approach to valuation. And alternatively, allows the use of the amortised cost method.
  - In particular, the amortised cost method is to be permitted for the bonds whose creditworthiness is deemed equivalent to that of Japanese government bonds or credit rating of A-/A-2 or higher, provided that the remaining life is one year or less.
  - However, if the market value of such securities deviate 25bps from the NAV, it will be reported to the board of the asset management company. If the deviation exceeds 50bps asset managers are required to take appropriate actions in consultation with auditing firms or accountants and will be reported to the regulatory authorities.
- On Liquidity Management, the proposed rules set out the following requirements:
  - Asset managers are required to manage the funds' cash-flows in line with the investors' liquidity demands, with the cooperation of the distributors; to hold a minimum amount of liquid assets at 30% of NAV; to conduct stress testing quarterly; to have in place tools and measures to deal with exceptional market conditions and substantial redemption pressures. On the latter, asset managers must include in the investment trust contract with each beneficiary certain provision regarding the redemption of the funds which allows suspensions to redemptions in case of "unavoidable events".[9]

[9] The term "unavoidable events" is defined as including cases where asset managers consider that fair treatment among investors cannot be assured due to events such as suspension of settlement function and redemption requests exceeding expectation.

- The Japan Financial Services Agency (**JFSA**) report that the proposed rules JITA guidance covers know your customer by requiring distributors to inform asset managers in advance of redemptions of a certain amount by large customers. The proposed rules also state asset managers, in consultation with the distributor, should determine the appropriate limit on the size of daily redemption. The MMF operators will be required to understand their clients' liquidity profile, in collaboration with MMF distributors, to manage their liquidity risks, according to the new MMF rules.

- On Stable NAV Funds, Japan continues to permit funds with stable NAVs and does not have requirements for MMFs to convert from a stable NAV to a variable NAV. In order to reinforce stable NAV funds' resilience and ability to face significant redemptions, the proposed rules, however, require asset managers to have contractual provisions with each beneficiary to allow suspensions to redemptions. This requirement is cited by the JFSA as a means for asset managers to prevent run risk and the first mover advantage in case of "unavoidable events". For the 2015 Peer Review, these contractual provisions allowing suspensions of redemptions in case of a run existed only as market practice.

JITA published the rules in July 2016. The publication of the proposed rules warranted a change to Japan's implementation status in 2016 to "Draft implementation measures published".[10]

In 2017, the JFSA reported that the final rules have come into effect as of 1 December 2016.

Consequently, for all three Reform Areas the status in 2017 is changed to "Final implementation measures in force".

4.3.2. Saudi Arabia

In the 2015 Report, Saudi Arabia's implementation status for Reform Area (c) (Valuation) was "Draft implementation measures not published" with further reforms underway reflected in the Δ symbol. The status for Reform Area (d) (Liquidity Management) was "Draft implementation measures not published" with different stages of progress reflected in the ♦ symbol and further reforms underway reflected in the Δ symbol. As stable NAV MMFs are not permitted in Saudi Arabia, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated.

On 8 June 2016, the Capital Market Authority (**CMA**) issued a Board resolution to adopt the amended Investment Funds Regulations.[11]

The regulations address the following aspects of the Reviewed Reform Areas:

[10] The JITA rules are only available in Japanese. See: Rule on MMF and Detailed Rule on MMF available at: https://www.toushin.or.jp/profile/article/.

[11] Available at: https://www.cma.org.sa/en/market/news/pages/cma_n_2066.aspx.

- On Valuation, requirements are introduced for public funds, of which MMFs are a specialised subset, to generally comply with the principle of full and fair valuation and to use the amortised cost method in specified circumstances.

- On Liquidity Management, requirements for the fund manager to continually ensure that at least 10% from the fund's NAV are cash or investments with maturity period or residual maturity not exceeding 7 days. Other aspects of this Reform Area have not been addressed.

The publication of the proposed regulations warrants the following changes in reported status of implementation in 2016.

For Reform Area (c) (Valuation), the implementation status is changed to "Draft implementation measures published", reflecting the fact both elements of this Reform Area are the subject of the proposed regulation.

For Reform Area (d) (Liquidity Management), the implementation status remains at "Draft implementation measures not published", with different stages of progress reflected in the ♦ symbol and further reforms underway reflected in the Δ symbol.

In 2017, the Saudi authorities confirmed that these regulations entered into force on 6 November 2016.

Consequently in 2017, for Reform Area (c) (Valuation), the implementation status is changed to "Final implementation measures in force" and for Reform Area (d) (Liquidity Management), the implementation status remains at "Draft implementation measures not published", with different stages of progress reflected in the ♦ symbol (and deletion of the Δ symbol).

4.3.3. United States

In the 2015 Report, the United States' implementation status for all three Reform Areas was "Final implementation measures in force" with further reforms underway reflected in the Δ symbol.

In 2017, the US Securities and Exchange Commission reported that there have been no regulatory or legislative changes in the United States since the publication of the 2015 Report. However, required compliance periods for these reforms had fully come to pass as of 14 October 2016.

Consequently, to clarify that no further actions are pending with respect to these reforms, the Δ symbols (reflecting further reforms underway in relation to the Reform Area) have been removed. For all three Reform Areas, the implementation status is 'Final implementation measures in force'.

4.4. Significant Reforms Not Affecting Implementation Status

In 2017, Russia, Switzerland and the EU noted reform progress, which materially affected the Reform Areas but the Review Team determined this did not require any revision to the implementation status reported in the 2015 Peer Review.

4.4.1. Russia

In the 2015 Report, Russia's implementation status for Reform Area (c) (Valuation) was "Final implementation measures in force" and Reform Area (d) (Liquidity Management) was "Draft implementation measures not published" with different stages of progress reflected in the ♦ symbol. As stable NAV MMFs are not permitted in Russia, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated.

In 2016, the Bank of Russia reported legislative changes[12] which improved on the requirement reported for the 2015 Peer Review and did not result in a change to Russia's implementation status.

In 2017, the Bank of Russia reported that on 5 September 2016 it adopted Ordinance № 4129-U "On Asset Composition and Structure of Joint-Stock Investment Funds and Unit Investment Funds", under which "money market fund" was deleted from the list of unit investment fund categories. This simplification in its regulation means that the nine MMFs currently in Russia are now regulated under the category of "market financial instruments funds", which can be open-end unit investment funds, interval unit investment funds or closed-end unit investment fund, and are offered to non-qualified investors.

The regulation is expected to affect the three Reform Areas as follows:

- Reform Area (c) (Valuation) — All unit investment funds (including MMFs) are subject to Ordinance № 3758-U "On Determining the Value of Net Assets of Investment Funds Including on the Procedure of Calculating the Average Annual Value of Net Assets of the Unit Investment Fund and Net Assets of the Joint-Stock Investment Fund, Calculated Value of Investment Unit Investment Funds, Value of the Property Transferred as Payment for Investment Units" which envisages that the value of assets are calculated at a fair value in accordance with IFRS.

- Reform Area (d) (Liquidity Management) — Ordinance № 4129-U "On Asset Composition and Structure of Joint-Stock Investment Funds and Unit Investment Funds" contains a new minimum liquid asset requirement, which is equally applicable to all kinds of open funds (including MMFs). The requirement states the ratio of liquid assets

12 According to the Bank of Russia Direction of 25 August 2015 № 3758-U "On determination of NAV for investment funds" (effective from 1 January 2016), investment funds assets' values and the amount of liabilities shall be estimated at fair value according to the IFRS 13 "Fair Value Measurement". Thus asset valuation on the amortization cost basis is not allowed. Previously, amortized cost accounting had to be used for domestic and foreign government bonds that are not traded on the secondary market due to their issue/circulation conditions. (Article 14 of the Regulation on the Procedure and Terms of the joint-stock investment funds net assets value estimation, the mutual funds net assets value estimation, the mutual funds investment units calculated value estimation, and also the joint-stock investment funds net assets value per share estimation, approved by FFMS Order No. 05-21/pz-n of 15 June 2005).

should exceed the greater of 5% or the smallest of the six biggest monthly units' outflows in the course of 36 months.

- Reform Area (e) (MMFs that offer a stable NAV) — Market financial instrument funds are not allowed to use stable or constant NAV.

While new regulation has been adopted and is in place, the overall effect of the reforms appears to continue to address the elements of the three Reform Areas that Russia was found to have met in the 2015 Report. Consequently, Russia's implementation status remains unchanged.

4.4.2. Switzerland

In the 2015 Report, Switzerland's implementation status for Reform Area (c) (Valuation) was "Final implementation measures in force" and Reform Area (d) (Liquidity Management) was "Draft implementation measures not published" with different stages of progress reflected in the ♦ symbol. As stable NAV MMFs are not permitted in Switzerland, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated.

In 2017, Swiss FINMA reported that there has been an important change in relation to the Swiss MMF regulation.

On 4 May 2016, the Swiss Funds Association (**SFAMA**) issued the revised "Guidelines on Money Market Funds".[13] These Guidelines entered into force on 1 January 2017. Swiss FINMA confirmed that it recognises this self-regulation of the SFAMA as the minimum standard applicable to Swiss fund management companies and SICAVs (Swiss investment companies with variable capital). As such the guidelines are binding rules like formal laws or legal ordinances. The aim of the Guidelines is to fully implement IOSCO's *Policy Recommendations for Money Market Funds*.[14]

The main amendments relate to:

- Broader scope of the guidelines: All collective investment schemes (**CIS**) which are distributed as funds that pursue objectives similar to those of MMFs have to comply with the guidelines.

- New provisions regarding the valuation of assets: The CIS's assets are to be valued at their current market value. Only in special cases, as a substitute method, money market instruments with maturities of up to 90 days may be valued using amortized cost accounting.

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13 Available at: https://www.sfama.ch/en/self-regulation-model-documents/fund-management/available-documents.

14 Available at: https://www.sfama.ch/en/publications/circulars/zirk14-2016e-richtlinie-fuer-geldmarktfonds.pdf/@@download/file.

- New provisions regarding the liquidity management: Among others, the fund management company/SICAV must hold a minimum amount of liquid assets to ensure daily redemptions of units can be met.

- New provisions regarding the use of ratings: The fund management company / SICAV must have an internal rating process designed in accordance with the type, scope and complexity of the MMF.

In particular, the Guidelines affect the three Reform Areas as follows:

- On Reform Area (c) (Valuation) — the Guidelines continue to require adherence to general principle of fair value and amortized cost accounting may only be used as a substitute method in limited circumstances.

- On Reform Area (d) (Liquidity Management) — the Guidelines provide for policies for funds to hold a minimum amount of liquid assets; to conduct regular and appropriate stress tests (to check the liquidity in the case of various hypothetical or historical events); to provide for temporary/exceptional deferral of repayments (in the event of large-scale redemptions that might significantly impair the interests of the remaining investors). While the Guidelines do require MMFs to "determine the proportion of liquid assets, in particular with regard to the requirements in respect of daily/weekly maturity. In determining this proportion, it must consider both the possible single and subsequent redemptions of units as well as the specific circumstances of individual markets", this does not confirm that requirements on minimum knowledge of the liability side of the portfolio are in place.

- On Reform Area (e) (MMFs that offer a stable NAV) — Swiss FINMA confirmed that constant NAV MMFs are not allowed in Switzerland.

Due to the lack of requirements for MMFs to establish sound policy and procedures to know their investors under Reform Area (d), the Review Team is of the opinion that the implementation status for Reform Area (d) (Liquidity Management) should remain "Draft implementation measures not published" with different stages of progress reflected in the ♦ symbol.

4.4.3. European Union

Authorities from EU jurisdictions reported additional ongoing MMF reforms which continued after the 7 February 2017 Reporting Date. As such, the implementation status of EU jurisdictions remain unchanged as a result of the following developments.

On 4 September 2013, the European Commission published a Proposal for a Regulation on Money Market Funds[15] with a view to increasing MMFs' robustness and making them more resilient to runs. Regulatory developments in this area will affect the implementation status for European member jurisdictions in each of the three Reform Areas.

[15] Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52013PC0615.

In April 2015, the European Parliament published a compromise proposal, modifying the European Commission's project. In June 2016, the European Union Council published a compromised text[16] based on the European Parliament project amending it on several parts.

In 2017, European authorities reported that trilogue negotiations successfully ended in November 2016[17] and an agreement was reached over the Regulation on Money Market Funds between the Council and Parliament representatives on 7 December 2016.

The Review Team confirmed that the European Parliament approved the text on 5 April 2017 and the regulation was subsequently adopted by the European Council on 16 May 2017. The final text was published in the Official Journal on 30 June 2017.[18] The regulation entered into force on 20 July 2017. The application of the regulation will take place after 12 months of the entry into force. It applies to new funds from 21 July 2018 and to existing funds (who benefit from an 18-month transition period) from 21 January 2019.

The regulation lays down rules for MMFs, in particular the composition of their portfolios and the valuation of their assets, to ensure the stability of their structure and to guarantee that they invest in well-diversified assets of a good credit quality. It also introduces common standards to increase the liquidity of MMFs, to ensure that they can face sudden redemption requests. It establishes common rules to ensure that the fund manager has a good understanding of investor behaviour, and to provide investors and supervisors with adequate information.

In particular, the regulation is expected to affect the three Reform Areas as follows:

- Reform Area (c) (Valuation) — The regulation proposes a new category of MMF: the Low Volatility Net Asset Value (**LVNAV**) MMF. Among other features, the LVNAV MMF is limited in the use of the amortised cost method for valuation of its assets. Amortised cost accounting is only to be used with regards to 75 day-maturing assets, as long as their constant value does not deviate by more than 10 bps compared to their applicable mark-to-market value, provided further that the constant value of the fund shall not deviate by more than 20 bps compared to its net asset value. If under a 90 day-period, a LVNAV MMF is subject to the above-mentioned conditions and for an aggregated 15 day-period, redeem shares based on its NAV per share and not its constant value per share, the fund shall cease to be a LVNAV.

  With regards to variable net asset value (**VNAV**) MMFs, they shall value the assets of the fund based on a prudent approach. Should a VNAV values its assets in accordance with a mark-to-model methodology, it shall not use an amortised cost valuation method for VNAV and LVNAV.

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16 Available at: http://europa.eu/rapid/press-release_IP-16-2226_en.htm.

17 Available at: http://www.europarl.europa.eu/news/en/news-room/20161116IPR51304/money-market-funds-breakthrough-agreement-between-meps-and-slovak-presidency

18 *Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds*, Official Journal of the European Union (30 June 2017), available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1131&from=EN.

- Reform Area (d) (Liquidity Management) — There are additional requirements applicable to liquidity management for all MMFs, which shall comply with a daily and a weekly liquidity ratio. Under some specific conditions, breach of such ratio may, on an optional or automated basis, trigger the application of penalty fees, gates or suspension.

- Reform Area (e) (MMFs that offer a stable NAV) — Constant NAV funds are short-term MMF only. There are only two types of MMFs allowed to be constant NAV funds:

    - Public debt constant NAV funds investing at least 99.5% of its assets on government or equivalent debts, subject to spreading conditions, in addition to reverse repurchase agreements secured with government debt and in cash; and
    - LVNAV MMFs, subject to conditions.

4.5. Other Reforms Not Affecting Implementation Status

In both 2016 and 2017, respondents also noted additional reform progress, which are either planned or did not materially change the implementation of the reforms already in place. As such the Review Team determined that these did not require any revision to the implementation status reported in the 2015 Peer Review.

4.5.1. Argentina

In the 2015 Report, Argentina's implementation status for Reform Area (c) (Valuation) was "Final implementation measures in force" and Reform Area (d) (Liquidity Management) was "Draft implementation measures not published" with different stages of progress reflected in the ♦ symbol. As stable NAV MMFs are not permitted in Argentina, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated.

On 18 January 2016, the Comisión nacional de valores (**CNV**) issued General Resolution Nº 653, which modified the valuation criteria of assets traded in foreign markets (equity shares, corporate bonds, and Treasury bonds). The Argentinian authorities reported that these assets are not in the portfolios of MMFs.

Consequently, there is no change to Argentina's implementation status.

4.5.2. Australia

In the 2015 Report, Australia's implementation status for all three Reform Areas was "Draft implementation measures not published", with different stages of progress in Reform Area (d) (Liquidity Management) additionally reflected by the ♦ symbol.

In 2017, the Australian Securities and Investments Commission (**ASIC**) reported that the legislation underpinning the regulation of managed investment schemes has not changed since its response to the 2015 Peer Review.

Additionally, in July 2016, ASIC issued Consultation Paper 263 (Risk management systems of responsible entities: Further proposals), through which ASIC consulted on whether further guidance should be issued to Responsible Entities on what is required to comply with the obligation to have adequate risk management systems in place. Specifically, whether stress testing (and/or analysis of liquidity risks of the business and schemes it operates) be undertaken by Responsible Entities as frequently as appropriate (at a minimum, annually).

The proposed guidance appears to strengthen existing regulation and ASIC is yet to finalise its guidance. Consequently, there is no change to Australia's implementation status.

4.5.3. Brazil

In the 2015 Report, Brazil's implementation status for both Reform Areas (c) (Valuation) and (d) (Liquidity Management) was "Final implementation measures in force". As stable NAV MMFs are not permitted in Brazil, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated.

On December 17, 2014, the Brazilian Securities and Exchange Commission (**CVM**) enacted CVM Instruction No. 555/14 which replaces CVM Instruction 409/04. The Instruction took effect on 1 October 2015. The CVM reports that there were no material changes relating to Money Market Fund Regulation and functioning concerning the three Reform Areas.

The requirements for the Reform Areas continue to exist under the new instrument with some key differences (which do not affect implementation status) as noted below:

- On Valuation, the 2015 Report noted that mark-to-market valuation is required to be calculated on a daily basis. This continues to be the case, however CVM Instruction 555/14 (article 56, item I) contemplates the possibility of funds that do not offer daily liquidity to their shareholders calculating and disclosing the value of shares and net assets in a frequency compatible with the liquidity of the fund, as long as it is expressly provided for in the by-laws of a Fund. However, all MMFs in Brazil offer daily liquidity to their shareholders, as such mark-to-market valuation continues to be required to be conducted daily in practice.

- On Liquidity Management, the 2015 Peer Review noted that redemption in kind is only permitted in respect of qualified investors. This continues to be the case provided it is established in the by-laws of a Fund. CVM Instruction 555/14 further sets out that under exceptional market conditions/substantial redemption pressures (article 39, §2), redemption payment in financial assets is possible, provided it is approved by a fund General Shareholder Meeting, called if the fund remains closed for redemptions for a period exceeding five consecutive days.

Consequently, there is no change to Brazil's implementation status.

4.5.4. Hong Kong

In the 2015 Report, Hong Kong's implementation status for Reform Area (c) (Valuation) was reported as "Final implementation measures in force" and for Reform Area (d) (Liquidity Management) was "Draft implementation measures not published" with different stages of progress reflected in the ♦ symbol. As stable NAV MMFs are not permitted in Hong Kong, implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated.

In 2016 and 2017 the Hong Kong Securities and Futures Commission (**SFC**) reported they are in the process of developing regulatory guidance/requirements on liquidity risk management on SFC-authorized funds.

The proposed guidance will cover requirements on MMFs to hold a minimum amount of liquid assets to strengthen the funds' ability to face redemptions and prevent fire sales. SFC aims to issue the public consultation by end-2017.

While the planned activities are noted, there is no change to Hong Kong's implementation status on the basis that the proposed guidance is not published and cannot be publicly verified.

4.5.5. India

In the 2015 Report, India's implementation status for all three Reform Areas was "Final implementation measures in force", expect for Reform Area (e) (MMFs that offer a stable NAV) which was not rated as stable MMFs that offer stable NAV are not permitted in India.

In 2017, the Securities and Exchange Board of India (**SEBI**) reported that additional regulatory measures have been undertaken in Reform Area (d) (Liquidity Management). On 31 May 2016, SEBI issued circular on "Restriction on redemption in Mutual Funds"[19] which set out a number of requirements before MMFs are able to impose restrictions on redemptions. This circular was issued to bring more clarity around the provisions on restriction of redemption in MMF schemes, with a view to protect the interest of the investors. In particular, the circular provides that restriction may be imposed when there are circumstances leading to a systemic crisis or event that severely constricts market liquidity or the efficient functioning of markets. The circular also introduces other procedural and time limits around the use of restrictions on redemptions as well as disclosure obligations.

The Review Team agrees that the additional regulations strengthen the liquidity management practices. Consequently, there is no change to India's implementation status.

4.5.6. Indonesia

In the 2015 Peer Review, Indonesia's implementation status for Reform Area (c) (Valuation) was "Final implementation measures in force" and for Reform Area (d) (Liquidity Management) was "Draft implementation measures not published" with different stages of

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[19] See SEBI/HO/IMD/DF2/CIR/P/2016/5 available at: http://www.sebi.gov.in/cms/sebi_data/attachdocs/1464693701007.pdf

progress reflected in the ♦ symbol. As stable NAV MMFs are not permitted in Indonesia implementation status for Reform Area (e) (MMFs that offer a stable NAV) was not rated.

In 2016 and 2017, the Indonesia Financial Services Authority (**OJK**) reported they are in the process of drafting reforms to their collective investment scheme (**CIS**) regulatory framework, which includes, among other things, increasing liquidity risk measures and management and use of ratings requirements for MMFs and all types of CIS.

Reforms being considered include requirements to periodically conduct appropriate stress testing for funds that are susceptible to runs. Such funds will likely be required to have in place appropriate asset-liability management systems, requiring funds at all times to be able to measure their liabilities, and have assets that match their liability structure, in both size and liquidity. To support such asset-liability management frameworks, the OJK (together with market participants) will also consider designing a securities liquidity classification system, in which individual securities will be designated a liquidity "score" or "rating".

Implementation measures are currently being drafted and may be published later in 2017 or early 2018.

While the planned activities are noted, there is no change to Indonesia's implementation status on the basis that the proposed guidance is not published and cannot be publicly verified.

4.5.7. Republic of Korea

In the 2015 Report, Korea's implementation status for Reform Area (c) (Valuation) was "Draft implementation measures not published". The status for Reform Area (d) (Liquidity Management) was "Draft implementation measures not published" with different stages of progress reflected in the ♦ symbol. The status for Reform Area (e) (MMFs that offer a stable NAV) was "Final implementation measures in force".

In 2017, the Korean FSS reported regulation and self-regulatory organization (**SRO**) standards on MMF liquidity risk management requirements. Additionally, the Korean authorities also reported requirements on disclosure to investors.

While, the regulation requires MMFs to formulate, establish and specify risk management criteria, it does not appear to require "periodic stress testing" as a criterion. As not all elements of Reform Area (d) (Liquidity Management) are satisfied, consequently the implementation status remains "Draft implementation measures not published" with different stages of progress reflected in the ♦ symbol.

4.5.8. South Africa

In the 2015 Report, South Africa's implementation status for Reform Area (c) (Valuation) was "Draft implementation measures not published" and the status for both Reform Areas (d) (Liquidity Management) and (e) (MMFs that offer a stable NAV) was "Final implementation measures in force".

In 2016 and 2017, the South African Financial Services Board reported they are progressing reforms in relation to valuation.

These reforms are expected to set out, for the first time, legislated requirements for the valuation of CIS. Valuation standards have until now been set by industry standards.

The Financial Services Board also reported that liquidity management requirements for MMFs will also be reviewed in early 2017 as part of the periodic review of regulations pertaining to the prudential management/administration of CIS portfolios.

While the planned activities are noted, there is no change to South Africa's implementation status on the basis that the proposed guidance is not published and cannot be publicly verified.

5. Summary of Implementation Status

5.1. Update of Implementation Progress

Table 2 — Implementation Status by Reform Area and Year

		Valuation (c)			Liquidity Management (d)			MMFs that offer a stable NAV (e)		
Jurisdiction	**Implementation Status**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Argentina	No change – Other regulation				♦	♦	♦			
Australia	No change – Other regulation				♦	♦	♦			
Brazil	No change – Other regulation									
Canada	No change				♦	♦	♦			
China	Reforms in effect	♦								
France	No change – Reforms underway (EU)	△	△	△	♦△	♦△	♦△	△	△	△
Germany	No change – Reforms underway (EU)	△	△	△	♦△	♦△	♦△	△	△	△
Hong Kong	No change – Plans not published				♦	♦	♦			
India	No change – Other regulation									
Indonesia	No change – Plans not published				♦	♦	♦			
Italy	No change – Reforms underway (EU)	△	△	△	△	△	△	△	△	△
Japan	Reforms in effect									
Mexico	No change	△	△	△	♦△	♦△	♦△	△	△	△
Netherlands	No change – Reforms underway (EU)	△	△	△	♦△	♦△	♦△	△	△	△
Republic Korea	No change				♦	♦	♦			
Russia	No change – New legislation				♦	♦	♦			
Saudi Arabia	Reforms in effect	△			♦△	♦△	♦			
Singapore	No change				♦	♦	♦			
South Africa	No change – Plans not published									
Spain	No change – Reforms underway (EU)	△	△	△	△	△	△	△	△	△
Switzerland	No change				♦	♦	♦			
Turkey	No change				♦	♦	♦			
UK	No change – Reforms underway (EU)	△	△	△	♦△	♦△	♦△	△	△	△
US	Reforms in effect	△	△		△	△		△	△	

Legend

Green	Final implementation measures in force;
Orange	Final implementation measures published;
Blue	Draft implementation measures published;
Yellow	Draft implementation measures not published;
Grey	For Reform Area (e) only: No implementation measures needed (as MMFs offering a stable NAV are not permitted in this jurisdiction).

△ = Further reforms are underway in relation to the Reform Area.
♦ = The rating reported is for the element of a Reform Area which is least progressed. One or more element of a Reform Area is further progressed than the reported rating.

The table sets out implementation status as of the following Reporting Dates:

- **31 March 2015**
- **8 June 2016**
- **7 February 2017**

Appendix I – List of Participating Jurisdictions in the Update Reviews

1. Argentina (Comisión Nacional de Valores);
2. Australia (Australian Securities and Investments Commission);
3. Brazil (Comissão de Valores Mobiliários);
4. Canada (Ontario Securities Commission and Quebec Autorité des marchés financiers);
5. China (China Securities Regulatory Commission);
6. France (Autorité des marchés financiers);
7. Germany (Federal Financial Supervisory Authority);
8. Hong Kong SAR (Securities and Futures Commission);
9. India (Securities and Exchange Board of India);
10. Indonesia (Indonesia Financial Services Authority (OJK));
11. Italy (Commissione Nazionale per le Società e la Borsa);
12. Japan (Financial Services Agency);
13. Mexico (Comisión Nacional Bancaria y de Valores);
14. The Netherlands (Netherlands Authority for the Financial Markets);
15. Republic of Korea (Financial Services Commission/Financial Supervisory Service);
16. Russia (The Bank of Russia);
17. Saudi Arabia (Capital Markets Authority);
18. Singapore (Monetary Authority of Singapore);
19. South Africa (Financial Services Board);
20. Spain (Comisión Nacional del Mercado de Valores);
21. Switzerland (Swiss Financial Market Supervisory Authority);
22. Turkey (Capital Markets Board);
23. United Kingdom (Financial Conduct Authority); and
24. United States of America (Securities and Exchange Commission).