

EU Money Market Funds Reform Guide

LGIM Liquidity Funds Plc.



The EU Money Market Funds Regulation (the “**Regulation**”) introduces a framework of requirements for liquidity, diversification, valuation and reporting for money market funds (“**MMFs**”) that are established, managed and/or marketed in the European Union.

Under the Regulation, MMFs must be classified as either: (a) short-term MMFs; or (b) standard-term MMFs.

In addition, the Regulation provides for three structural options for MMFs.

MONEY MARKET FUND STRUCTURES

Public debt constant net asset value (“Public Debt CNAV”)

These funds must invest 99.5% of assets in public or government debt instruments and/or reverse repurchasing agreements (repos) collateralised with government debt and cash. These funds are permitted to maintain a constant dealing Net Asset Value (“**NAV**”).

Public Debt CNAV MMFs may only be short-term MMFs.

Low volatility net asset value (“LVNAV”)

These funds are permitted to maintain a constant dealing NAV provided certain criteria are met, including ensuring that the mark-to-market¹ NAV of the fund does not deviate from the dealing NAV by more than 20bps.

LVNAV MMFs can only be short-term MMFs.

Variable net asset value (“VNAV”)

These funds offer a fluctuating dealing NAV by daily market pricing of the underlying assets. VNAV funds can be either short-term MMFs (maximum weighted average maturity/weighted average life of 60/120 days) or standard MMFs (maximum weighted average maturity/weighted average life of six months/one year).

THE PROPOSED STRUCTURE OF LGIM LIQUIDITY FUNDS PLC

LGIM plans to convert its existing Constant NAV MMFs (the “LGIM Liquidity Funds”) to LVNAV MMFs.²

The LVNAV structure retains the operational benefit of a constant price, with liquidity and mark-to-market constraints similar to those which the LGIM Liquidity Funds already operate.

Converting the LGIM Liquidity Funds from **Constant NAV to LVNAV** will enable us to continue to provide capital stability and same day liquidity for our investors with minimal disruption.

For strategic cash allocations with a longer investment horizon, LGIM already offers variable NAV pooled funds, as well as separately managed accounts to client specific guidelines.

1. A method for valuing assets based on their most recent market price.

2. The operational feasibility of Euro LVNAV distribution share classes is dependent on continued regulatory approval of the reverse distribution mechanism (RDM) employed to reflect negative interest rates. We will inform clients of any potential change to the product line up as soon as the regulatory position on RDM is made clear.

KEY FEATURES OF THE LOW VOLATILITY NAV STRUCTURE

Pricing

Investors will be able to subscribe and redeem LVNAV shares at a constant NAV rounded to two decimal places (i.e. 1.00), providing the fund level mark-to-market valuation does not deviate from the constant dealing NAV by more than 20bps. If the valuation deviation exceeds 20bps, investors would need to subscribe and redeem at a mark-to-market NAV rounded to four decimal places.

Liquidity

LVNAV MMFs will be required to hold at least 10% of assets maturing within one day and 30% of assets maturing within a week to meet sudden redemption requests and/or adverse market conditions.

The Regulation specifies trigger points for board decisions regarding the imposition of liquidity fees and redemption gates to protect investors at times of stress.

The board of directors of the LGIM Liquidity Funds Plc (the “**Fund Board**”) will be consulted in the following prescribed scenarios:

- If weekly liquidity drops below 30%, and daily net redemptions exceed 10% of the relevant fund’s net assets, the Fund Board may decide to apply fees on redemptions, implement redemption gates (limiting redemptions to a maximum of 10% of the fund’s assets for up to 15 working days), suspend redemptions (for up to 15 working days), or take no action.
- If weekly liquidity drops below 10%, the Fund Board are required to decide either apply fees on redemptions or suspend redemptions (for up to 15 working days).

The LGIM Liquidity Funds have operated to similar mark-to-market and liquidity constraints for some time. We therefore expect to be able to maintain a constant NAV of 1.00 and avoid implementing liquidity fees or redemption gates except in extraordinary circumstances or a systemic shock.

FUND DEALING CUT-OFFS

LGIM does not envisage any changes to the dealing cut-offs of the LGIM Liquidity Funds, however any such changes will be notified to clients in advance.

MONEY MARKET FUND RATINGS

A money market fund rating is the rating agency’s opinion of the fund’s ability to maintain daily capital stability and provide same day liquidity. We value this external oversight and intend to continue to maintain triple-A money market fund ratings for the LGIM Liquidity Funds.

SPONSOR SUPPORT

The Regulation expressly prohibits sponsor support. This means that fund managers or sponsors cannot provide financial assistance in order to maintain the share price of an underperforming fund.

REVIEW

The Regulation stipulates that, after five years, the European Commission will review and provide a report on how the Regulation is functioning.

USEFUL LINKS

[Money Market Fund Ratings Comparison \(IMMFA\)](#)

[ESMA Final Report on Money Market Fund Rules](#)

LGIM is a leading provider of liquidity solutions. Find out more at lgim.com/liquidity.

LGIM LIQUIDITY TEAM MANAGEMENT

LGIM has a team-based approach to liquidity management, which forms a strategic part of our asset management capability. We draw on the expertise of over 80 investment professionals from our liquidity and fixed income teams globally.

SPOTLIGHT ON LEGAL & GENERAL INVESTMENT MANAGEMENT

We are one of Europe’s largest asset managers and a major global investor, with assets under management of £983.3 billion (as at 31 December 2017). We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.


Assets under management include derivative positions and assets managed by LGIM America, an SEC Registered Investment Advisor.

Summary of fund types permitted under the Regulation:

New fund categories	Public Debt (CNAV)	Low Volatility NAV (LVNAV)	Short term variable NAV (VNAV)	Standard variable NAV (VNAV)
Fund type	Short Term MMF	Short Term MMF	Short Term MMF	Standard MMF
Eligible investments	99.5% of portfolio to be invested in public debt securities, reverse repo secured with government securities, and cash Currency unrestricted	Money market instruments, securitisations and ABCP, deposits, derivatives, repo, reverse repo, other MMF	Money market instruments, securitisations and ABCP, deposits, derivatives, repo, reverse repo, MMF	Money market instruments, securitisations and ABCP, deposits, derivatives, repo, reverse repo, MMF
WAM / WAL	60 days / 120 days	60 days / 120 days	60 days / 120 days	180 days / 365 days
Minimum liquidity	30% weekly, includes 10% daily	30% weekly, includes 10% daily	15% weekly, includes 7.5% daily	15% weekly, includes 7.5% daily
Mandatory fees and gates	Apply when weekly liquidity falls below 10%	Apply when weekly liquidity falls below 10%	No	No
Discretionary fees and gates	Existing UCITS provisions on fund suspensions apply MMFR extra provisions apply on convergence of 2 events: (i) weekly liquidity drops below 30% and (ii) daily net redemptions exceed 10%	Existing UCITS provisions on fund suspensions apply MMFR extra provisions apply on convergence of 2 events: (i) weekly liquidity drops below 30% and (ii) daily net redemptions exceed 10%	Existing UCITS provisions on fund suspensions apply	Existing UCITS provisions on fund suspensions apply
Liquid asset restrictions	Minimum 12.5% cash, reverse repo, deposits Maximum 17.5% govt. securities to 190 days Other MMF not permitted	Minimum 12.5% cash, reverse repo, deposits Maximum 17.5% govt. securities to 190 days Other MMF not permitted	Minimum 7.5% cash, reverse repo, deposits Maximum 7.5% other MMF	Minimum 7.5% cash, reverse repo, deposits Maximum 7.5% other MMF
Valuation method	Amortised cost accounting for all securities	Amortised cost accounting for securities up to 75 days. Securities over 75 days at market/ model. Securities more than 10bp away from market to be valued at market or model.	At market or model	At market or model
NAV - rounding	Fund collar – 50bp rounding (either side)	Fund collar – 20bp rounding (either side)	N/A	N/A
Fund valuation	To 2 decimal places - €/\$1.00	To 2 decimal places - €/\$1.00	To 4 decimal places - €/\$1.0000	To 4 decimal places - €/\$1.0000
Shadow NAV calculation	Required: daily “shadow” NAV to be calculated on a per asset M2M basis.	Required: daily “shadow” NAV to be calculated on a per asset M2M basis.	N/A	N/A
Review clause	Regulation reviewed 5 years post implementation Review to assess use of alternative product structure and feasibility of establishing 80% EU public debt quota	Regulation reviewed 5 years post implementation Review to assess regime for LVNAV product	Regulation reviewed 5 years post implementation	Regulation reviewed 5 years post implementation

Source: Institutional Money Market Fund Association (IMMFA)

TO FIND OUT MORE

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