



ESRB

European Systemic Risk Board

European System of Financial Supervision

Press release

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Systemic vulnerabilities in Money Market Funds

The 2020 financial market turmoil revealed that the regulatory reforms implemented after the global financial crisis did not address all sources of systemic risks in the money market fund sector. To this end, the European Systemic Risk Board (ESRB) publishes today an **issues note on money market funds (MMFs)**, which sets out the ESRB's analysis of systemic vulnerabilities in MMFs and preliminary policy considerations on how to reform MMFs. The macroprudential perspective taken in this issues note can inform the broader debate on MMF reforms and the European Commission review of the MMF Regulation (MMFR) ¹in 2022.

There is an underlying tension between the two primary economic functions of MMFs: they offer on-demand liquidity to investors and provide short term funding to borrowers (mainly EU banks), but cannot dispose of their assets easily in all market conditions. This tension might become of systemic concern especially during market stress, as observed at the onset of the COVID-19 pandemic. In such circumstances, MMFs can face both higher redemption requests from investors and a lack of sufficient portfolio liquidity to meet this increased demand. This is particularly the case for those MMFs that invest primarily in non-public debt. The tension can also be exacerbated by funds that offer a quasi-stable net asset value, as these face an additional valuation constraint in already challenging circumstances.

The issues note outlines the preliminary policy considerations on how to reform MMFs in the specific context of the EU's regulatory framework. The ESRB policy work will focus on those policy options that would address vulnerabilities within MMFs themselves, being mindful of wider work underway internationally. There are three key desired outcomes of this policy work. First, to remove

¹ Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds

first-mover advantages for investors, which was also a key consideration in the previous ESRB Recommendation of 2012 ([ESRB/2012/1](#)). Second, not to limit the proposals to specific type of funds but to consider the vulnerabilities of the entire sector. Third, to ensure the resilience and functioning of MMFs without the need for central banks to step in during crisis.

The ESRB will further analyse a range of issues, including the wider markets in which MMFs operate, the behaviour and expectations of investors in MMFs, as well as the structure of MMFs and the liquidity management tools available to them, with a view to adopting a Recommendation by the end of 2021.

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