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CZECH REPUBLIC

Consultation Paper on the common definition of European money market funds

Statement of the Czech National Bank

Czech National Bank welcomes the possibility to express its opinion on the CESR Level 3 consultation paper on common definition of European money market fund (MMF) with following proposals and comments:

Categorization

From retail investor protection perspective it does not seem necessary to differentiate between short- term and longer- term MMF. Such a labeling will hardly deliver added value to average retail investor of money market fund.

In case both categories should be preferred it would be useful primarily to define money market fund in general only (based on longer-term original proposal) and simultaneously stipulate short term MMF as its subcategory.

Below we comment on requirements regarding longer- term money market fund.

Quality of money market instruments

Requirements inspired by MiFID definition, in particular application of the highest available credit rating awarded by each of recognized rating agencies, are from practical point of view very strict. In some member states it might be impossible for money market funds to invest in domestic money market instruments at all. We suggest to use criteria stipulated by current EFAMA recommendation and thus to require longer- term MMF to invest in high quality investment grade money market instruments or deposits.

Legal or residual maturity for floating rate securities

We suggest to use criteria stipulated by current EFAMA recommendation and thus to require that longer- term money market funds may invest in floating rate securities with a final or residual maturity of less than or equal to 2 years; and they may also invest up to maximum 10 percent of their assets in floating rate securities with a residual maturity of in between 2 and 5 years.

Weighted Average Maturity (WAM)

We suggest to use criteria stipulated by current EFAMA recommendation and thus to require that longer term longer- term money market fund have a weighted average maturity (WAM) of no more than one year.

Weighted Average Life (WAL)

We suggest to use criteria stipulated by current EFAMA recommendation and thus to require that longer term longer- term money market fund have a weighted average life (WAL) of no more than 18 months.

Structured financial instruments

As regards question 16 whether structured financial instruments should be taken into account in the WAL calculation through their expected average life or legal final maturity- we prefer the first option.

Transitional period

Finally we would like to point out that the transitional period of 12 months for existing money market funds to comply with the criteria might be too short for money market funds in some jurisdictions to adjust its portfolio to the new definition.