

## PRESS RELEASE

### ESMA consults on stress testing rules for money market funds

The European Securities and Markets Authority (ESMA) has today opened a public consultation on how European money market funds (MMFs) should conduct their internal stress testing. While MMFs invest in highly liquid and low risk short-term debt instruments, they play an important role in the financial system and are interconnected with other key market participants.

The Money Market Funds Regulation (MMFR) requires managers of MMFs to conduct regular stress tests as part of their risk management and regulatory disclosure. Funds must put in place sound stress testing processes, including identifying stress events, or future changes in economic conditions, and assess the impacts these different scenarios may have on (the net-asset-value and/or liquidity of) the MMF.

#### Steven Maijoor, Chair, said:

“MMFs, by investing in short-term debt instruments, are important products for both professional and retail investors – they also play an important role for retirement schemes. To address risks to stability and investor protection, coherent and regular stress testing is an important tool to achieving sound risk management and supervision. The ESMA Guidelines will contribute to ensure the consistent, efficient and effective application of the MMF Regulation.”

ESMA, to capture coherently MMFs’ risks, has developed draft guidelines for their stress testing. The consultation paper is the first step in developing detailed specifications for these stress tests by proposing common parameters and scenarios which take into account the following hypothetical risk factors:

- liquidity changes of the assets held in the portfolio of the MMF;
- credit risk, including credit events and rating events;
- changes in interest and exchange rates;
- redemptions;
- spread changes of indexes to which interest rates of portfolio securities are tied; and
- macro-economic shocks.

#### ESMA guidelines to be updated annually

In March 2018, ESMA published its 2017 Guidelines on stress tests for MMFs, which will be updated following the consultation so that managers of MMFs have the information needed to



fill-in the required fields in the reporting template. The guidelines need to be updated at least every year taking into account the latest market developments.

Stakeholders' views are especially sought on the draft methodology, risks factors, data and the impact calculation. The consultation is open for comments from interested parties until 1 December 2018. ESMA will use the feedback received to finalise its Guidelines in Q1 2019.



## Notes for editors

### 1. [Money Market Fund Regulation](#)

- ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

It achieves these objectives through four activities:

- assessing risks to investors, markets and financial stability;
  - completing a single rulebook for EU financial markets;
  - promoting supervisory convergence; and
  - directly supervising specific financial entities.
- ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

Further information:

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