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MONEY MARKET FUNDS REFORMS IN THE EU AND THE US: THE QUEST FOR FINANCIAL STABILITY

Abstract:

This article considers the impact of money market funds (MMFs) reforms in the EU and the US on the money market fund industry and the global financial stability. The 2008 financial crisis proved that MMFs are a source of considerable instability to the global financial system, and highlighted their susceptibility to runs. The shareholders' incentive to redeem their shares before others do when there is a perception that the MMF might suffer a loss makes MMFs vulnerable to runs. Given this reality, the article argues that the financial regulators aim to achieve the stability of the entire financial system after the financial crisis warrants the strictness of the new reforms.
Divided into six parts, the article outlines the characteristics and classification of MMFs, and the run and systemic risk posed by MMFs during the financial crises, before assessing the MMFs' reforms in the US and the EU and the impacts of these reforms on the MMFs industry and the global financial stability system. The major component of the US reform is the introduction of the floating net asset value, where a MMF’s share price will fluctuate to reflect the daily market value of the fund assets. In the EU the new regulation provides investors with a high degree of optionality for investing by introducing Low Volatility NAV MMFs. The article concludes that despite the reforms are likely to jeopardize the viability of some categories of MMFs, they enhance the global financial stability, and the complexity of the reforms have made MMFs more appropriate products to financial institutions investors than retail investors.

Keywords:

Money market funds, the US, the EU, reforms and financial stability