European MMF Reform: March 2019 Dashboard

European Money Market Fund Reform Complete

European money market fund (MMF) reform formally concluded on 21 March 2019, two months later than originally anticipated, following the last-minute European Commission ruling that reverse distribution mechanisms (RDMs) would not be permitted.

The low volatility net asset value (LVNAV) fund type has become the largest fund type in Europe by assets under management (AUM), accounting for 71% of converted short-term funds. On 15 March 2019, LVNAVs accounted for EUR560 billion, while Public Debt constant net asset value (CNAV) and short-term variable net asset value (VNAV) funds accounted respectively for EUR79 billion and EUR21 billion (excluding funds not covered by iMoneyNet).

Euro funds represented 56% of the AUM converted in March. Most delayed conversion until as late as possible. Negative yields only affected euro funds, and RDMs were necessary to pass these yields on to investors while maintaining stable prices on individual fund shares. Sterling and US dollar funds, unaffected by RDM issues, mostly converted earlier in 2019. Euro funds have seen outflows, decreasing by over 12% from January to mid-March. This was partly seasonal, but some investors appear unwilling or unable to accept varying share prices.

Average overnight and one-week liquidity of rated funds are at around 30% and 40% respectively as of end-February. This is markedly higher than regulatory and rating criteria levels, likely the result of increased investor sensitivity to the new liquidity limits, and a desire to mitigate the risk of redemptions during the conversion period.

What to Watch

Post-Reform Liquidity Levels: Fitch believes liquidity levels will decrease from those seen during the conversion period, but that the average weekly liquidity level will settle at between 5% and 10% above pre-conversion levels in the post-reform era, especially for LVNAV funds.

Eurozone Interest Rates: Fitch believes the ECB is unlikely to raise interest rates before the end of 2020. Stable-value (distributing) share classes in euro LVNAVs will remain unviable until market yields sustain positive levels.

Five-Year Review: The reform includes a five-year review, due in 2022. Work on that review could begin as soon as this year. The review will include the possibility of setting an 80% EU public debt quota in Public Debt CNAV and evaluating LVNAV as a potential alternative.

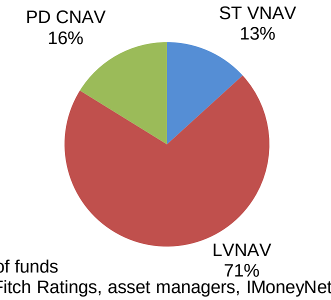
Rating Impact: Neutral

Fitch has affirmed the ratings on all funds converted to date, because all the main rating metrics have remained broadly within criteria limits. Any outflows have been managed with funds meeting redemptions and maintaining sufficient liquidity.

Cedric Verone
Analyst
cedric.verone@fitchratings.com

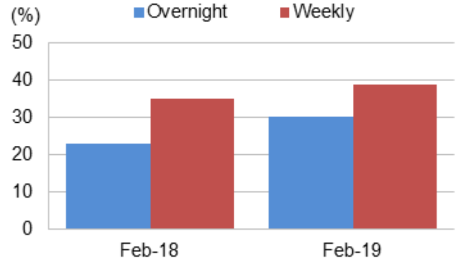
Abis Soetan
Director
abisodun.soetan@fitchratings.com

Most Funds Converted to LVNAV



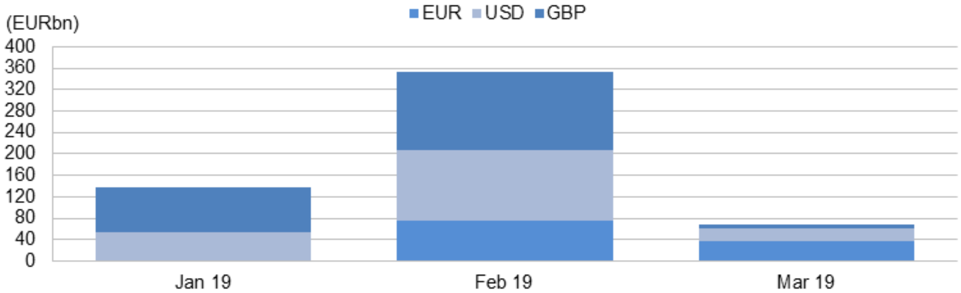
Number of funds
Source: Fitch Ratings, asset managers, IMoneyNet

Overnight and Weekly Liquidity Increased



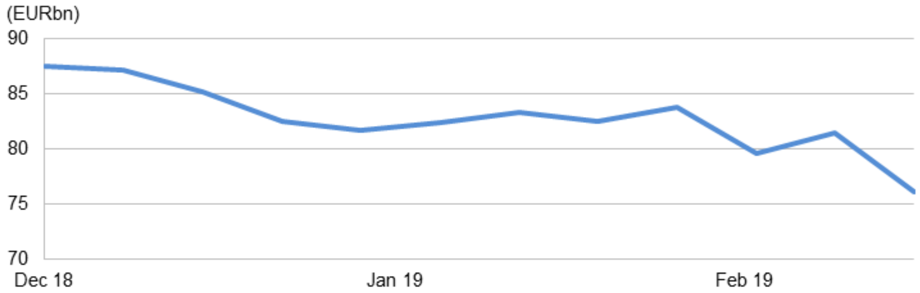
Source: Fitch Ratings, IMoneyNet

Euro Funds Accounted for 56% of Conversions in March



Source: Fitch Ratings, Bloomberg, Lipper, asset managers

Euro Funds Experienced Outflows



Source: Fitch Ratings, asset managers, IMoneyNet