

MONEY MARKET FUNDS INSTRUMENT 2011**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138 (General rule-making power);
 - (b) section 139(4) (Miscellaneous ancillary matters);
 - (c) section 156 (General supplementary powers);
 - (d) section 157(1) (Guidance); and
 - (e) section 247 (Trust scheme rules);
 - (2) regulation 6(1) (FSA rules) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and
 - (3) the other powers listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. The Annex to this instrument comes into force on 1 July 2011.

Amendments to the Handbook

- D. The modules of the FSA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Conduct of Business sourcebook (COBS)	Annex B
Collective Investment Schemes sourcebook (COLL)	Annex C

Citation

- E. This instrument may be cited as the Money Market Funds Instrument 2011.

By order of the Board
23 June 2011

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<i>CESR's guidelines on a common definition of European money market funds</i>	the Committee of European Securities Regulators' guidelines on a common definition of European money market funds: 19 May 2010 (CESR/10-049). These are available at www.esma.europa.eu
<i>money market fund</i>	an <i>authorised fund</i> or, in the case of an <i>umbrella</i> , a <i>sub-fund</i> (if it were a separate fund) which satisfies the conditions in <i>COLL 5.9.5R</i> (Investment conditions: money market funds) and is not a <i>qualifying money market fund</i> .
<i>short-term money market fund</i>	an <i>authorised fund</i> or, in the case of an <i>umbrella</i> , a <i>sub-fund</i> (if it were a separate fund) which satisfies the conditions in <i>COLL 5.9.3R</i> (Investment conditions: short-term money market funds) and is not a <i>qualifying money market fund</i> .
<i>weighted average life</i>	(in accordance with the definitions section in <i>CESR's guidelines on a common definition of European money market funds</i>) the weighted average of the remaining life (maturity) of each <i>security</i> held in a fund, meaning the time until the principal is repaid in full (disregarding interest and not discounting).
<i>weighted average maturity</i>	(in accordance with the definitions section in <i>CESR's guidelines on a common definition of European money market funds</i>) a measure of the average length of time to maturity of all of the underlying <i>securities</i> in a fund weighted to reflect the relative holdings in each instrument, assuming that the maturity of a floating rate instrument is the time remaining until the next interest rate reset to the money market rate, rather than the time remaining before the principal value of the <i>security</i> must be repaid.

Annex B**Amendments to the Conduct of Business sourcebook (COBS)**

In this Annex, underlining indicates new text.

...

Money market funds

- 13.3.3 **R** A key features document for a short-term money market fund, a money market fund or a qualifying money market fund must include a statement identifying it as such a fund and a statement that the authorised fund's investment objectives and policies will meet the conditions of the definition of short-term money market fund, money market fund or qualifying money market fund, as appropriate.

...

Annex C

Amendments to the Collective Investment Schemes sourcebook (COLL)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

...

Table: contents of the prospectus

4.2.5 R This table belongs to *COLL* 4.2.2R (Publishing the prospectus).

...		
Investment objectives and policy		
3	The following particulars of the investment objectives and policy of the <i>authorised fund</i> :	
	...	
	(qa)	where the <i>authorised fund</i> is a <u>qualifying money market fund, short-term money market fund or money market fund</u> , a statement to that effect <u>identifying it as such a fund</u> and a statement that the <i>authorised fund's</i> investment objectives and policies will meet the conditions specified in the definition of <u>qualifying money market fund, short-term money market fund or money market fund</u> , as appropriate;
	...	
...		

...

4.6.8 R This table belongs to the rule on production and publication of a simplified prospectus (*COLL* 4.6.2R and *COLL* 4.6.6R)

...

...		
Investment information		
(8)	a short description of the <i>scheme's</i> objectives including:	
	...	
	(b)	... ; and

	(c)	... ; <u>and</u>
	(d)	<u>where the scheme is a qualifying money market fund, short-term money market fund or money market fund, a statement identifying it as such a fund and a statement that the scheme's investment objectives and policies will meet the conditions in the definition of qualifying money market fund, short-term money market fund or money market fund, as appropriate;</u>
...		

...

Application

5.1.1 R ...

(4) COLL 5.9 applies to the authorised fund manager and the depositary of an authorised fund which is a UCITS scheme or a non-UCITS retail scheme operating as a money market fund or a short-term money market fund.

...

5.2.2 R This table belongs to COLL 5.2.1R

Rule	ICVC	ACD	Manager of an AUT	Depositary of an ICVC	Trustee of an AUT
...					
<u>5.2.9AR</u>		<u>x</u>	<u>x</u>		
5.2.10(R) (1)	...				
...					

...

Guidance on assessing liquidity and quality of money-market instruments

5.2.7I G ...

(2) Where an approved money-market instrument forms part of the scheme property of a qualifying money market fund, short-term money market fund or money market fund, the authorised fund manager should adequately monitor that the instrument continues to be of high quality, taking into account both its credit risk and its final maturity.

[**Note:** *CESR's UCITS eligible assets guidelines* with respect to article 4(2) of the *UCITS eligible assets Directive*. Paragraph 11 of *CESR's guidelines on a common definition of European money market funds*.]

...

5.2.9A R The ability to hold up to 10% of the *scheme property* in ineligible assets under *COLL 5.2.8R(4)* is subject to the following limitations:

- (1) for a *qualifying money market fund*, the 10% restriction is limited to *high quality money market instruments* with a maturity or residual maturity of not more than *397 days*, or regular yield adjustments consistent with such a maturity, and with a weighted average maturity of no more than *60 days*;
- (2) for a *short-term money market fund* or a *money market fund*, the 10% restriction is limited to *high quality approved money-market instruments* as determined under *COLL 5.9.6R* (*High quality money market instruments*).

...

5.6.5C R Where a *scheme* is a *short-term money market fund* or a *money market fund*, the ability to hold up to 20% of *scheme property* in ineligible assets under *COLL 5.6.5R(2)* is limited to *high quality approved money-market instruments* as determined under *COLL 5.9.6R* (*High quality money market instruments*).

Money Market funds

5.6.5D R *Approved money-market instruments* held within a *non-UCITS retail scheme* which is a *short-term money market fund* or *money market fund* must also satisfy the criteria in *COLL 5.2.7FR* to *COLL 5.2.7HR* (*Approved money-market instruments*).

...

After COLL 5.7 insert the following new sections. The text is not underlined.

5.8 Investment powers and borrowing limits for feeder UCITS [to follow]

5.9 Investment powers and other provisions for money market funds

Application

5.9.1 R This section applies to the *authorised fund manager* and the *depository* of an *authorised fund* and to an *ICVC* which is a *UCITS scheme* or a *non-UCITS retail scheme* operating as a *money market fund* or a *short-term money market fund*.

Explanation

- 5.9.2 G (1) This section contains *rules* on the types of permitted investments which *schemes* operating as *short-term money market funds* and *money market funds* may invest in. These *rules* are in addition to the requirements in *COLL 5.2* (for *UCITS schemes*) and *COLL 5.6* (for *non-UCITS retail schemes*).
- (2) The purpose of these *rules* is to protect *consumers* by ensuring that an *authorised fund* or *sub-fund* which describes itself as a ‘money market’ fund operates in a more restricted fashion, and aims to maintain the capital value of the fund and provide a return in line with money market rates.

Investment conditions: short-term money market funds

- 5.9.3 R A *short-term money market fund* must satisfy the following conditions:
- (1) its primary investment objective must be to maintain the principal of the *scheme* and aim to provide a return in line with money market rates;
 - (2) it must invest only in *approved money-market instruments* and *deposits with credit institutions*;
 - (3) it must, on an ongoing basis, ensure the *approved money-market instruments* it invests in are of high quality, as determined by the *authorised fund manager*;
 - (4) it must:
 - (a) provide daily net asset value and price calculation and daily subscription and *redemption of units*; or
 - (b) where it is a *non-UCITS retail scheme* marketed solely through employee savings schemes and to a specific category of investor that is subject to divestment restrictions, provide weekly subscription and *redemption* opportunities to investors;
 - (5) it must limit its investment in *securities* to those with a residual maturity until the legal redemption date of less than or equal to 397 *days*;
 - (6) it must ensure that its *scheme property* has a *weighted average maturity* of no more than 60 *days*;
 - (7) it must ensure that its *scheme property* has a *weighted average life* of no more than 120 *days*;
 - (8) it must not take direct or indirect exposure to equity or *commodities*, including via *derivatives*;

- (9) it must only use *derivatives* in line with the money market investment strategy of the *scheme* and where using *derivatives* that give exposure to foreign exchange must do so only for the purposes of hedging;
- (10) it must only invest in non-base currency *securities* where its exposure is fully hedged;
- (11) it must limit its investment in other *collective investment schemes* as follows:
 - (a) if it is a *UCITS scheme*, *collective investment schemes* which satisfy the requirements of *COLL 5.2.13R*; or
 - (b) if it is a *non-UCITS retail scheme*, *collective investment schemes* which satisfy the requirements of *COLL 5.6.10R*;

which meet the definition of a “Short-Term Money Market Fund” in *CESR’s guidelines on a common definition of European money market funds*; and

- (12) it must aim to maintain a fluctuating net asset value or a constant net asset value.

[**Note:** box 2, paragraphs 1, 2, 3 (first sentence), 5, 6, 7, 8, 11, 12 and 13 of *CESR’s guidelines on a common definition of European money market funds*]

- 5.9.4 G For the purposes of *COLL 5.9.3R(12)*, a constant net asset value should be taken as referring to an unchanging face net asset value where income in the fund is accrued daily and can either be paid out to the *unitholder* or used to purchase more *units* in the *scheme*. An *authorised fund* with a constant net asset value should generally value *scheme property* on an amortised cost basis which takes the acquisition cost of the *security* and adjust this value for amortisation of premiums (or discounts) until maturity.

[**Note:** definition of “Constant NAV Money Market Funds” in *CESR’s guidelines on a common definition of European money market funds*]

Investment conditions: money market funds

- 5.9.5 R In addition to satisfying the conditions in *COLL 5.9.3R(1)*, (2), (3), (4), (8), (9) and (10), a *money market fund* must:
- (1) limit investment in *securities* to those with a residual maturity until the legal redemption date of less than or equal to two years, provided that the time remaining until the next interest rate reset date is less than or equal to 397 *days*. Floating rate securities should reset to a money market rate or index;
 - (2) ensure its *scheme property* has a *weighted average maturity* of no more than 6 *months*;

- (3) ensure its *scheme property* has a *weighted average life* of no more than 12 months;
- (4) limit its investment in other *collective investment schemes* as follows:
 - (a) if it is a *UCITS scheme*, *collective investment schemes* which satisfy the requirements of *COLL 5.2.13R* (Investment in collective investment schemes); or
 - (b) if it is a *non-UCITS retail scheme*, *collective investment schemes* which satisfy the requirements of *COLL 5.6.10R* (Investment in collective investment schemes);

which meet the definition of a “Money Market Fund” or a “Short-Term Money Market Fund” in *CESR’s guidelines on a common definition of European money market funds*; and

- (5) have a fluctuating net asset value.

[**Note:** box 3, paragraphs 1, 3, 4, 5, 6 and 7 of *CESR’s guidelines on a common definition of European money market funds*]

High quality money market instruments

- 5.9.6 R In determining whether *approved money-market instruments* are high quality in accordance with *COLL 5.9.3R(3)*, the *authorised fund manager* must take into account a range of factors including, but not limited to:
- (1) the credit quality of the instrument; an instrument will be considered not to be high quality unless it is:
 - (a) an *approved money-market instrument* which has been awarded one of the two highest available short-term credit ratings by each recognised credit rating agency that has rated the instrument or, if the instrument is not rated, it is of an equivalent quality as determined by the *authorised fund manager’s* internal rating process; or
 - (b) for a *money market fund*, an *approved money-market instrument* of investment grade quality which is issued or guaranteed by one of the following:
 - (i) a central authority of an *EEA State* or, if the *EEA State* is a federal state, one of the members making up the federation; or
 - (ii) a regional or local authority of an *EEA State*; or
 - (iii) the European Central Bank or a central bank of an *EEA State*; or

- (iv) the European Union or the European Investment Bank;
- (2) the nature of the asset class represented by the instrument;
- (3) for structured financial instruments, the *operational risk* and *counterparty risk* inherent within the structured financial transaction; and
- (4) the liquidity profile.

[**Note:** box 2, paragraphs 3 (second sentence) and 4 and box 3, paragraph 2 of *CESR's guidelines on a common definition of European money market funds*]

Calculating weighted average life and weighted average maturity

- 5.9.7 R (1) When calculating the *weighted average life* for *securities* (including structured financial instruments) for the purposes of *COLL 5.9.3R(7)* and *COLL 5.9.5R(3)*, the maturity calculation must be based on either:
- (a) the residual maturity of the instruments; or
 - (b) if the financial instrument embeds a put *option*, the exercise date of the put *option* if the following conditions are fulfilled at all times;
 - (i) the put *option* can be freely exercised by the *authorised fund manager* at its exercise date;
 - (ii) the strike price of the put *option* remains close to the expected value of the instrument at the next exercise date; and
 - (iii) the investment strategy of the *scheme* implies that there is a high probability that the *option* will be exercised at the next exercise date.
- (2) Where calculating the *weighted average life* for floating rate *securities* and structured financial instruments, the *security's* stated final maturity should be used and not the interest rate reset dates.
- (3) When calculating the *weighted average life* and *weighted average maturity* for the purposes of *COLL 5.9.3R(6)* and (7), and *COLL 5.9.5R(2)* and (3), an *authorised fund manager* must take into account the impact of *derivatives*, *deposits* and *efficient portfolio management*.

[**Note:** definition of “weighted average life” (second sentence) and box 2, paragraphs 9 and 10 of *CESR's guidelines on a common definition of European money market funds*]

CESR guidelines

- 5.9.8 G In addition to the parts of the *CESR's guidelines on a common definition of European money market funds* specifically referred to in this section, the *authorised fund managers* should have regard to the other parts of those guidelines when applying the *rules* in this section.

...

Amend the following as shown.

Sale and redemption: guidance

- 6.2.17 G ...
- (4) *CESR's guidelines on a common definition of European money market funds* recommend that, for a UCITS scheme which is a short-term money market fund or a money market fund, the settlement period in COLL 6.2.16R(5) should expire at the close of business on the third business day.

[Note: paragraph 14 of *CESR's guidelines on a common definition of European money market funds*]

...

Valuation points

- 6.3.4 R ...
- (6B) *UCITS schemes* operating as short-term money market funds must have at least one valuation point every business day at which the valuation is carried out on an amortised cost or mark to market basis.
- (6C) *Non-UCITS retail schemes* operating as short-term money market funds must have at least one valuation point every business day or, where the scheme is marketed solely through employee savings schemes or to a specific category of investors that is subject to redemption restrictions, at least one every week at which the valuation is carried out on an amortised cost or mark to market basis.
- (6D) *Money market funds* must value with the appropriate frequency as required in (6B) or (6C) on a mark to market basis.

...

...

Valuation and pricing guidance

- 6.3.6 G This table belongs to COLL 6.3.2GG(2)(a) and COLL 6.3.3R (Valuation).

...

1	The valuation of scheme property	
	...	
	(2B)	<u>Short-term money market funds may value approved money-market instruments on an amortised cost basis.</u>
	[Note: paragraph 21 of CESR's guidelines on a common definition of European money market funds]	
...		

...

Maintaining the value of a qualifying money market fund or a short-term money market fund

- 6.3.13 R The *authorised fund manager* of a *qualifying money market fund or a short-term money market fund* valuing *scheme property on an amortised cost basis* must:

...

- 6.3.14 G The *authorised fund manager* should advise the *depository* when the mark to market value of a *qualifying money market fund or a short-term money market fund* valuing *scheme property on an amortised cost basis* varies from its amortised cost value by 0.1%, 0.2% and 0.3% respectively. The *authorised fund manager* of a *qualifying money market fund or short-term money market fund* should agree procedures with the *depository* designed to stabilise the value of the *scheme* in these events.

...

Restrictions on the use of the term 'money market fund'

- 6.9.8A R An authorised fund or a sub-fund may only be named or marketed as a 'money market fund' if it is:

(1) a qualifying money market fund; or

(2) a short-term money market fund; or

(3) a money market fund.

[Note: Box 1, paragraph 2 of CESR's guidelines on a common definition of European money market funds]

...

Names of schemes, sub-funds, and classes of units

- 8.2.3 R (1) *The authorised fund manager must ensure that the name of the scheme, a sub-fund or a class of unit is not undesirable or misleading.*
- (2) *An authorised fund or a sub-fund may only be named or marketed as a ‘money market fund’ if it is:*
- (a) *a short-term money market fund; or*
- (b) *a money market fund.*

[Note: Box 1, paragraph 2 of CESR’s guidelines on a common definition of European money market funds]

...

Table: contents of qualified investor scheme prospectus

- 8.3.4 R This table belongs to COLL 8.3.2R.

...	
3	Investment objectives and policy
...	
(6)	<i>Where the scheme is a money market fund or a short-term money market fund, a statement identifying it as such a fund and a statement that the scheme’s investment objectives and policies will meet the conditions in the definition of money market fund or short-term money market fund, as appropriate.</i>
...	

...

Money market funds

- 8.4.4A R *The authorised fund manager of a qualified investor scheme which operates as a money market fund or short-term money market fund must satisfy the conditions in COLL 5.9.3R (Investment conditions: short-term money market funds) and COLL 5.9.5R (Investment conditions: money market funds) respectively.*

[Note: box 2 and box 3 of CESR’s guidelines on a common definition of European money market funds]

- 8.4.4B R *Approved money-market instruments held within a qualified investor scheme which is a short-term money market fund or money market fund must also satisfy the criteria in COLL 5.2.7FR to COLL 5.2.7HR (Approved money-market instruments).*

- ...
- 8.5.9 R ...
- (4A) Where a *scheme* operates as a *short-term money market fund*, the value of the *scheme property* must be determined either on an amortised cost or mark to market basis.
- (4B) Where a *scheme* operates as a *money market fund*, the value of the *scheme property* must be determined on a mark to market basis.
- (5) The Subject to (5A), the *scheme* must have a *valuation point* on each *dealing day*.
- (5A) Where a *scheme* operates as a *money market fund* or a *short-term money market fund* which is marketed solely through employee savings schemes or to a specific category of investors that are subject to *redemption* restrictions, the *scheme* may have at least one *valuation point* every week.
- ...

Maintaining the value of a short-term money market fund

- 8.5.9A R The authorised fund manager of a short-term money market fund which values scheme property on an amortised cost basis must:
- (1) carry out a valuation of the *scheme property* on a mark to market basis at least once a week and at the same *valuation point* used to value the *scheme property* on an amortised cost basis; and
- (2) ensure that the value of the *scheme property* when valued on a mark to market basis, does not differ by more than 0.5% from the value of the *scheme property* when valued on an amortised cost basis.
- [Note: paragraph 21 of CESR's guidelines on a common definition of European money market funds]
- 8.5.9B G The authorised fund manager should advise the depositary when the mark to market value of a short-term money market fund valuing scheme property on an amortised cost basis varies from its amortised cost value by 0.1%, 0.2% and 0.3% respectively. The authorised fund manager of a short-term money market fund should agree procedures with the depositary designed to stabilise the value of the scheme in these events.
- ...

TP 1 Transitional Provisions

TP 1.1

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...					
<u>17</u>	<u>[to follow]</u>				
<u>18</u>	<u>[to follow]</u>				
<u>19</u>	<u>[to follow]</u>				
<u>20</u>	<u>[to follow]</u>				
<u>21</u>	<u>COLL 4.2.5R (3)(qa)</u>	<u>R</u>	<u>Where a <i>scheme</i> meets the conditions in <u>COLL 5.9.3R (Investment conditions: short-term money market funds) or <u>COLL 5.9.5R (Investment conditions: money market funds) on 30 June 2011 an authorised fund manager need not include the statement in <u>COLL 4.2.5R (3)(qa).</u></u></u></u>	<u>1 July 2011 to 31 December 2011</u>	<u>1 July 2011</u>
<u>22</u>	<u>COLL 4.6.8R(8)(d)</u>	<u>R</u>	<u>Where a <i>scheme</i> meets the conditions in <u>COLL 5.9.3R or <u>COLL 5.9.5R on 30 June 2011 an authorised fund manager need not include the statement in <u>COLL 4.6.8R(8)(d).</u></u></u></u>	<u>1 July 2011 to 31 December 2011</u>	<u>1 July 2011</u>
<u>23</u>	<u>COLL 5.9.3R and <u>COLL 5.9.5R</u></u>	<u>R</u>	<u>The conditions in <u>COLL 5.9.3R and <u>COLL 5.9.5R that a money market fund or a short-term money</u></u></u>	<u>1 July 2011 to 31 December 2011</u>	<u>1 July 2011</u>

			<u>market fund</u> must satisfy do not apply to <u>investments acquired prior to 1 July 2011.</u>		
<u>24</u>	<u>COLL 8.3.4R(6)</u>	<u>R</u>	Where a <u>scheme</u> meets the conditions in <u>COLL 5.9.3R</u> or <u>COLL 5.9.5R</u> on 30 June 2011 an <u>authorised fund manager</u> need not include the statement in <u>COLL 8.3.4R(6)</u> .	<u>1 July 2011 to 31 December 2011</u>	<u>1 July 2011</u>