EU Money Market Fund Reform
Final Regulation Published in the Official Journal of the European Union

Executive Summary

- The new Regulation that will apply to all Money Market Funds (MMFs) domiciled, managed or marketed in the European Union has been published in the Official Journal of the European Union. This event concludes the multi-year legislative process and starts the clock ticking towards the implementation deadline.
- Existing MMFs will have to comply by 21st January 2019, new MMFs will be subject to the Regulation from 21st July 2018. There will be no impact to Goldman Sachs Asset Management’s (GSAM) current products until closer to the applicable compliance date.
- There are no material changes to the previously agreed text that was published by the European Council in December 2016.
- The Regulation will change the MMF landscape for investors in EU-domiciled MMFs by providing new categories of funds and requirements for them to abide by. We expect further technical guidelines to be issued by the European Securities and Markets Authority (ESMA) in the coming months, following a Consultation starting in May 2017.
- We recognise there will be significant changes to MMFs for all investors to consider, and will continue to partner with our clients to provide relevant information and insight throughout the transition. Following our experience in the US, we will continue to engage with our client base to provide comprehensive Liquidity Solutions.

The main provisions of the Regulation:

- Four defined categories of MMF: Public Debt CNAV, Low Volatility NAV, Short Term VNAV and Standard VNAV
- Fee and Gate provisions to be codified for Public Debt CNAV and Low Volatility NAV Funds
- Increased Liquidity and Diversification requirements for all MMFs

EU MONEY MARKET REFORM TIMELINE

Source: GSAM.

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New Money Market Fund Categories

- Short Term MMFs investing in Public Debt will be able to continue to use a constant net asset value (CNAV) provided certain criteria are met, under the Public Debt CNAV category.

- A new category of Short Term MMF, the Low Volatility Net Asset Value (LVNAV), has been created. An LVNAV must meet certain criteria, including the calculation of a daily Mark-to-Market net asset value (a variable NAV), in order to issue/redeem shares at a CNAV. The current Short Term 'Prime' CNAV funds may transition to this LVNAV model.

- All other MMFs will have to convert to variable net asset value (VNAV), operating either as Short Term or Standard VNAV per the parameters below.

### SUMMARY OF POST-REFORM EU MONEY MARKET FUND CATEGORIES

<table>
<thead>
<tr>
<th></th>
<th>Public Debt CNAV</th>
<th>Low Volatility NAV</th>
<th>Short Term VNAV</th>
<th>Standard VNAV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maximum Weighted Average Maturity (WAM)</strong></td>
<td>60 days</td>
<td>60 days</td>
<td>60 days</td>
<td>180 days</td>
</tr>
<tr>
<td><strong>Maximum Weighted Average Life (WAL)</strong></td>
<td>120 days</td>
<td>120 days</td>
<td>120 days</td>
<td>360 days</td>
</tr>
<tr>
<td><strong>Maximum Individual Security Maturity</strong></td>
<td>397 days</td>
<td>397 days</td>
<td>397 days</td>
<td>2 years*</td>
</tr>
<tr>
<td><strong>Minimum Daily Liquidity</strong></td>
<td>10%</td>
<td>10%</td>
<td>7.5%</td>
<td>7.5%</td>
</tr>
<tr>
<td><strong>Minimum Weekly Liquidity</strong></td>
<td>30%</td>
<td>30%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Accounting Method</strong></td>
<td>Amortised Cost Accounting</td>
<td>Amortised Cost Accounting up to 75 days</td>
<td>Mark to Market or Mark to Model</td>
<td>Mark to Market or Mark to Model</td>
</tr>
<tr>
<td><strong>New Fees and/or Gate Provisions</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Eligible Investments</strong></td>
<td>Govt Debt, Reverse Repo, Cash</td>
<td>Money Market Instruments (Govt, Corp, Asset Backed Commercial Paper etc.), Cash</td>
<td>Money Market Instruments (Govt, Corp, Asset Backed Commercial Paper etc.), Cash</td>
<td>Money Market Instruments (Govt, Corp, Asset Backed Commercial Paper etc.), Cash</td>
</tr>
<tr>
<td><strong>Threshold to Trade at Constant NAV</strong></td>
<td>50bps</td>
<td>20 bps</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

* Securities may have a maximum final maturity of up to 2 years but must have an interest rate reset within 397 days.

Source: GSAM.

Recap of the Key Provisions of the Regulation

- An **LVNAV MMF** can publish a Constant NAV (to 2 decimal places, i.e. 1.00) each day if a Net Asset Value calculation to 4 decimal places is within 20 basis points of the 1.00 figure (i.e. between 0.9980 and 1.0020).

- Provisions for **'Fees and/or Gates'** to be applied to redemptions when liquidity levels fall below prescribed levels must be included for Public Debt CNAV and LVNAV funds. These will operate by either applying a charge or limiting redemption outflows as follows:
  - If the weekly liquidity in the fund falls below 30% and there are net daily outflows exceeding 10% of assets under management, the Fund’s Board must convene and decide if any action is required. Potential measures include the application of fees to reflect the cost of selling assets, limiting redemptions to 10% of the funds assets or the suspension of redemptions for up to 15 working days. The Board may instead decide that no action is required.
  - If the weekly liquidity in the fund falls below 10%, the board must convene to decide what action is to be taken; either the application of fees or the suspension of redemptions for up to 15 working days.

- **Increased diversification requirements** over and above the existing UCITS and ESMA Money Market Fund Guidelines for deposits, other MMF holdings, instruments such as ABCP and reverse repo counterparties.

- **Sponsor support will be prohibited** and there is no requirement for any capital buffer to be maintained.

- There are also a number of provisions for internal credit processes, stress testing and reporting that will primarily impact Asset Managers.

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