



Press release

25 January 2022

ESRB recommends increasing the resilience of money market funds

The European Systemic Risk Board (ESRB) has today published a policy [recommendation](#) aimed at increasing the resilience of money market funds. As the financial market turmoil of 2020 showed, the regulatory changes that followed the global financial crisis did not go far enough in terms of mitigating systemic risks in the money market fund sector. Consequently, the ESRB is now recommending policy reforms aimed at addressing the remaining sources of systemic risk, which will also reduce the need for central bank intervention in crisis situations. The ESRB's recommendation builds on its issues note of July 2021 on money market funds, which sets out its analysis of systemic vulnerabilities.¹ It also reflects policy discussions at the international level, including the Financial Stability Board's proposals of 11 October 2021.²

In view of the forthcoming revision of the [Money Market Fund Regulation](#), the ESRB recommends that the European Commission:

- **reduce threshold effects** that increase first-mover advantages, including by amending the features that make money market funds similar to deposit-taking institutions;
- **reduce liquidity transformation** by diversifying asset portfolios and improving their liquidity through requirements to hold public debt assets and by making sure that such liquidity can be used when needed;
- **facilitate the use of liquidity management tools** that impose trading costs on redeeming investors;
- **enhance monitoring and stress-testing frameworks.**

¹ See also the press release entitled "[Systemic vulnerabilities in Money Market Funds](#)", which accompanied publication of the issues note.

² See Financial Stability Board (2021), "[Policy Proposals to Enhance Money Market Fund Resilience](#)", October.

European Systemic Risk Board

Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@esrb.europa.eu, website: www.esrb.europa.eu

The ESRB has published a detailed [report](#) explaining the economic rationale for its recommendation and providing an impact assessment for its main proposals. The report concludes that the recommended reforms would not prevent money market funds from performing their economic functions – i.e. providing short-term funding to issuers (mainly EU banks and non-financial corporations) and serving as cash management vehicles for investors. The report also identifies the main shortcomings of the short-term debt securities market in which money market funds operate.

For media queries, please contact William Lelieveldt, tel.: +49 69 1344 7316.

European Systemic Risk Board

Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@esrb.europa.eu, website: www.esrb.europa.eu