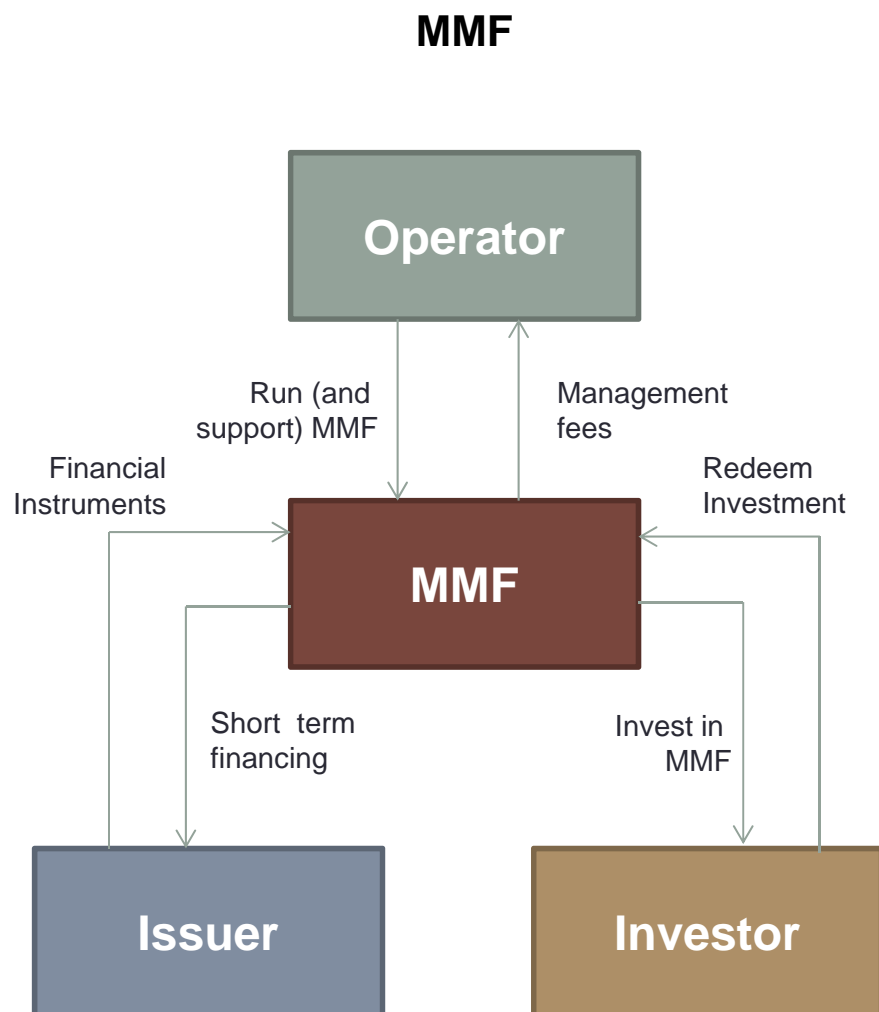


EUROPEAN / AMERICAN MMF

Review of the new regulations

Money Market Funds - MMF



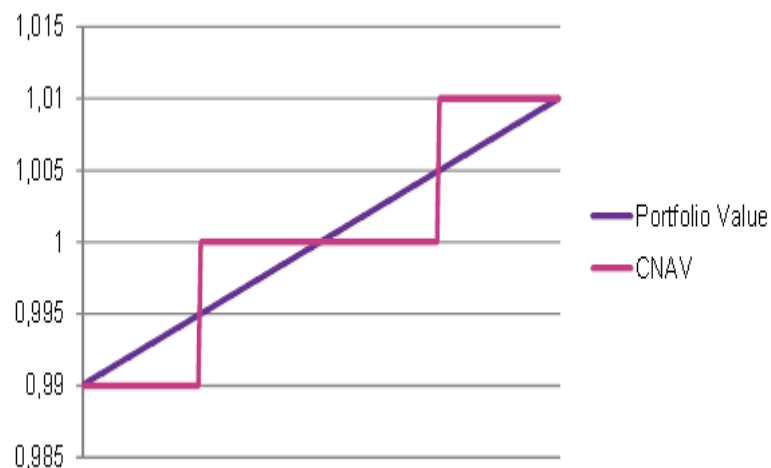
Rationale of the investor's choice

Main reasons

- 1 **Daily liquidity** : same day liquidity or the day after without any penalty,
- 2 **Diversification** : in line with the ESMA rules, the funds have to invest in at least 6 different names with a cap of 20 % per name,
- 3 **Risk** : investment in high quality paper (A2/P2/F2 minimum) with an external rating
- 4 **Depository** : need for an external depository with a strict segregation of the assets

Two types : CNAV and VNAV

CNAV price mechanism



VNAV have a MtM price with 4 decimals computation

Key differences

Amortization

CNAV use the ACA methodology (Amortized Cost Accounting) on the whole of the portfolio

Tax

CNAV pay a dividend at regular periods without obligation to declare daily profit or loss due to the investments

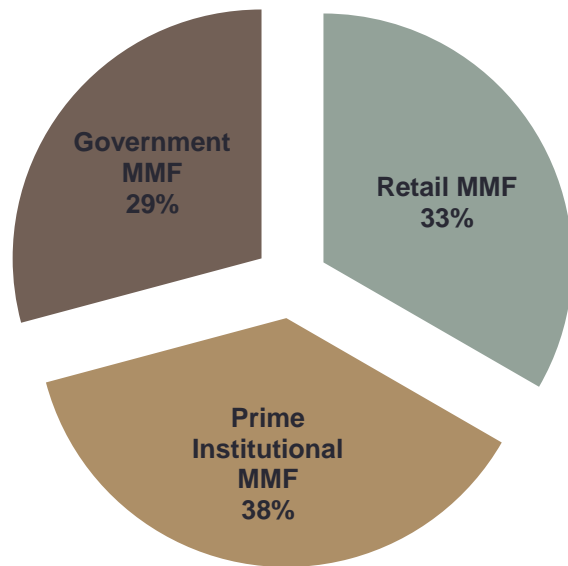
Price stability

CNAV use the « penny rounding » method making possible to keep a stable price within a +/- 50 bps range

ACA and « penny rounding » are the main risks for different international authorities (FSB, IOSCO, ...)

Two structurally-different markets

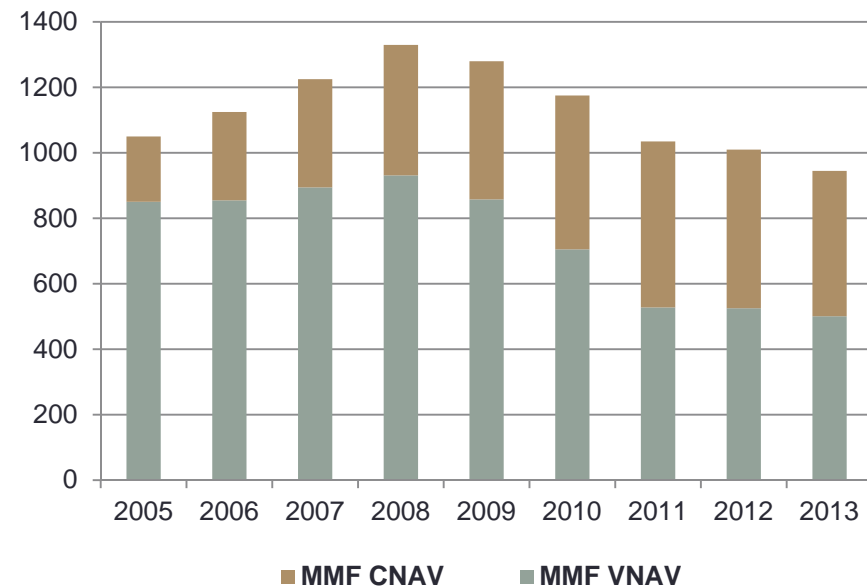
US MMF



Source : IMMFA, October 2013

A full CNAV market of \$2 600Yds

European MMF

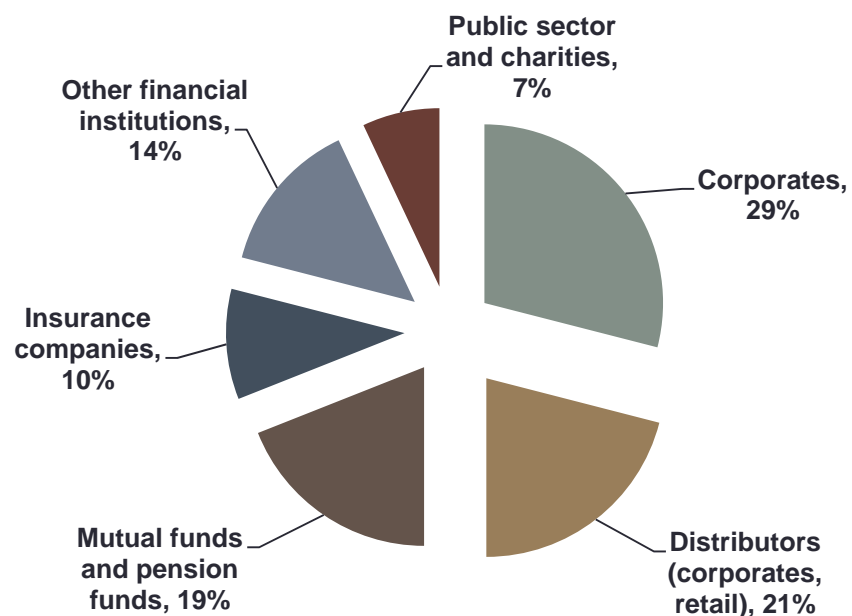


Source : IMMFA, October 2013

A market of €953 Mds€ with a split 53%/47%
VNAV/CNAV

European CNAV investors are mainly institutional

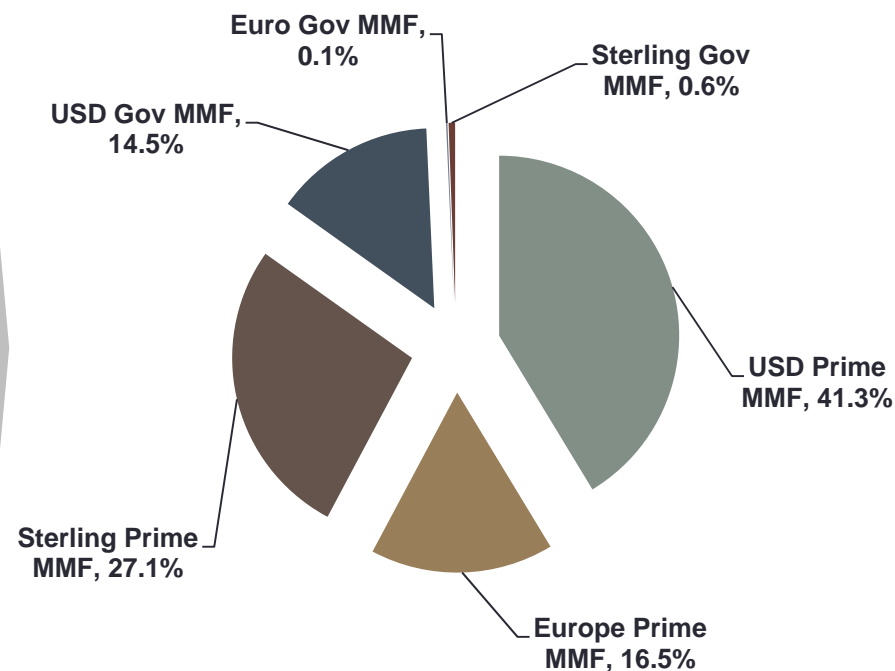
CNAV MMF investors



Source : IMMFA, October 2013

Only 21 % from retail

CNAV distribution



Source : IMMFA, October 2013

55% in US dollar
85% of Prime MMF

Main investments in bank papers (~90-95%)

Euro Prime
CNAV MMF
(87Mds\$)

	Allocation	Banks	Govies	Corpo
France	34%	28,4%	4,6%	1%
Germany	15,5%	14%	0,7%	0,7%
UK	10,2%	10,2%	0%	0%
US	5,7%	2,7%	0%	3%

Sterling Prime
CNAV MMF
(143Mds\$)

	Allocation	Banks	Govies	Corpo
France	15,5%	14%	1,5%	0%
Germany	12,1%	11,6%	0%	0,5%
UK	15,7%	15,1%	0,4%	0,2%
US	6,5%	5,5%	0%	0,7%

Dollar Prime
CNAV MMF
(219Mds\$)

	Allocation	Banks	Govies	Corpo
France	17%	16,1%	0,8%	0,1%
Germany	7,8%	7,7%	0%	0,1%
UK	7,3%	7,2%	0%	0,1%
US	15,2%	7,4%	5,7%	2,1%

US MMF regulations decided by the SEC in July 2014

3 types of funds

Floating NAV MMF	<ul style="list-style-type: none"> • Conversion of the existing Prime MMF • Mark to Market valuation + 4 digits (1,0000\$)
Retail MMF	<ul style="list-style-type: none"> • No change for the CNAV Retail MMF • « fees and gates » principle and shadow price with 4 digits
Government MMF	<ul style="list-style-type: none"> • No change for the Government CNAV MMF with a minimum of 99,5% in cash or T-Bills • No « fees and gates »

Only Prime CNAV MMF are impacted by the 2a-7 rule from SEC (38% of the US market)

Some details

« Fees and gates » :

- « Fees » : Possibility for a liquidity fee when assets less than 1 week are below 30 % ; Obligation below 10% (100bp)
 - « Gates » : Possibility to freeze the repayment when liquid assets are below the 30% for a maximum of 10 days
- ⇒ Gates already in place in Europe for AIF and UCITS

New regulation :

- diversification ratio at 5% maximum per group
- stress tests mandatory and KYC policy
- More transparency

Tax :

- Tax simplification for floating NAV
- Wash sale in case of losses

Transposition of the US regulations in Europe ?

Funding structure

1 061Yds€ of eligible assets for European MMF with 62% of sovereign or supras

Source : BCE, Dec 2012

Type	%	Total (k€)
Supra	15%	154 703
Sovereign	47%	499 136
Covered	16%	172 977
Other (banks, corporates, ...)	22%	234 800

Less securitization in the European Banking system compared to the US

Possible risks in Europe

4 Errors to avoid

- 1 **Diversification** : being too strict on diversification ratios will increase the sovereign part rather than banks (38% of bank issuances are MMF)
- 2 **Liquidity** : the 1 wk minimum liquidity ratios at 30% may push investments to US treasuries
- 3 **Gates** : gates already exists in UCITS and AIF regulations.
- 4 **Gvt MMF** : the European prime CNAV are 85% of the CNAV market with investments at around 90-95% in banks. Some US funds have already communicated a conversion of their Prime CNAV funds to Gvt MMF(Fidelity, Federated),

ECON commission proposal

CNAV/VNAV

- 3 types of CNAV : Retail CNAV, Govt CNAV and LVNAV (Low volatility Net Asset Value) with ACA for investments up to 90 days, MtM above
- 2 types of VNAV : short term and standard : differences in diversification and liquidity ratios

Capital buffer

- Disparition of the capital buffer proposal
- Obligation of liquidity fees and gates on redemption in case of market stress for the CNAV

Diversification

- 5 % for a bank and 8 % for a group for Short term MMF,
- 10 % for a bank and 15 % for a group for Standard MMF

Liquidity

- Daily liquidity ratio at 10 % and weekly at 20 % for a short term or a standard VNAV
- Daily liquidity ratio at 15 % and weekly at 30 % for a CNAV

ECON commission proposal

WAM / WAL

- WAM capped at 60 days and WAL at 120 days for Short term MMF
- WAM capped at 6 months and WAL at 12 months for Standard MMF

Eligible assets

- Money market papers, deposits, repo and reverse, derivatives for hedging purposes,
- Ban of other MMF parts investments
- Investment in ABS or ABCP possible but still restrictive conditions :eligible at the LCR and assets with 397 days residual maturiy maximum and capped at 10 % of the assets.

Ratings

- Ban of external ratings usage for a fund
- Obligation to have an internal rating methodoly

Expected consequences

Diversification

- Negative for banks funding from short term MMF (5% bank / 8 % group ratio)
- Positive for Govies investment

Eligible Assets

- Negative for ABCP/ABS due to asset duration limitation
- No possibility to invest in other MMF parts : reduction of the duration in bank papers

Liquidity

- Management of the funds in barbell due to 1wk ratio (30 or 20 %) : either very short term or investment at the WAL (120 days or 12 months),
- Very short duration due to the WAM/WAL rule : reduction of the duration in bank papers
- Initial duration for term money (cd's or deposits) for Crédit Agricole Group : 4 months in average for US MMF, 11 months in average for European MMF.

Ratings

- The lack of external rating may push investors to leave.
- Proposal : keep the actual framework with an obligation for an internal rating and a rotation in rating agencies

European MMF regulation

Heavy discussions

Three sides in Europe :

- Pro VNAV : France, Germany, Spain and Italy
- Pro CNAV : Irlande, Luxembourg, UK
- Anti CNAV : mainly other countries of EU where CNAV are forbidden

The ECON commission adopted the text on February 26th:

- Compromise between CNAV and VNAV
- But, only the very first step for the adoption of the regulation

Next Steps

Vote at the European parliament on April 27th-30th session,

Vote at the European council possibly before 30th of June

Value date of the regulation ?

- 1 If we have a positive vote at the Parliament in April: best estimate is H2 2016,
- 2 If we have a blocking vote at the Parliament : best estimate H1 2018