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Money market funds

MEPs vote for light touch regulation of risky shadow banking fund schemes

The European Parliament's economic and monetary affairs committee today voted on draft new EU rules on money market funds. The Greens hit out at the vote, which would lead to weaker rules on these sensitive funds. After the vote, Green MEP and financial affairs spokesperson **Eva Joly** stated:

"MEPs have today voted for a light touch regulation of sensitive money market funds, which function like shadow banks. This vote is a blow for efforts to improve the stability of the financial system and a gift to the financial lobby, and we hope EU governments will not follow suit.

"The Financial Stability Board (FSB) and the European Systemic Risk Board (ESRB) had recommended phasing-out some of these funds (the so-called Constant Net Asset Value Money Market Funds), as they generate and spread systemic risk. These funds function like savings banks and these shadow banks should clearly face the same level of rigorous regulation but Thursday's vote could see them continue to avoid meaningful regulation. Today's vote must be corrected, otherwise the EU will be at odds with international efforts to regulate the shadow banking sector, under the G20's agenda."

Green financial and economic affairs spokesperson **Sven Giegold** added:

"Already weak proposals from the EU Commission were further weakened by today's vote. The Commission's proposal to introduce a capital buffer of 3% on shadow banks - similar to normal banks - was already a lot weaker than the recommended full phase-out of these funds. MEPs today voted to remove the obligation for a capital buffer however, following intense industry lobbying. Only one new branded category of funds would be submitted to an unambitious phasing-out period of at least five years. This is three years longer than in the US and therefore unacceptable. For all other categories of shadow banks there will be no phasing-out at all. MEPs also voted down a Green amendment aimed at restricting remuneration as provided for in the banking regulation.

"This vote is a blow to the European Parliament's hitherto laudable role in strengthening financial regulation in response to the financial crisis. If it is maintained in the final legislation, it will also be a setback for the badly-needed regulation of this sector. We hope the plenary will correct today's bad result."

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Responsible MEPs

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