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EU fails to regulate the shadow banking sector

Money Market Funds

The European Parliament today adopted the draft European regulation on money market funds, as agreed in the inter-institutional negotiations. The Greens/EFA group voted against the proposal, citing inadequate supervision of these funds, which operate as shadow banks. Greens/EFA member of the European Parliament's Economic and Monetary Affairs committee **Molly Scott Cato** comments:

"Ten years ago, the subprime crisis plunged the world economy into turmoil and showed the urgent need for improved regulation. Unfortunately, a majority of MEPs have chosen to prioritise the demands of the financial sector, instead of regulating these funds in the interest of citizens. These funds function like savings banks and should clearly face the same rigorous demands as banks. While they might give the illusion of offering similar advantages to bank deposits, they remain highly exposed to market risks. The watering down of these rules governing shadow banks is part of a pattern of regulatory rollback that Greens have been drawing attention to for some time. The EU is once again failing to properly regulate the financial sector, leaving citizens at risk from a future financial crisis."

Background

Money market funds are financial entities which offer short-term cash management. They are a key component of what it is called the shadow banking system of financial intermediaries performing activities similar to the classic banks, but subject to less stringent regulatory requirements. These funds, which issue shares that can be redeemed on demand by investors, have the reputation of being as safe as bank deposits, yet providing a higher yield.

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Responsible MEPs



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