Press release | 29.04.2015

Money market funds

Risky shadow banking funds to get light touch regulation under new EU law

The European Parliament 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, which function like shadow banks. After the vote, Green MEP and financial affairs spokesperson **Eva Joly** stated:

“MEPs have today kept their heads in the sand and voted for light touch regulation of sensitive money market funds, which function like shadow banks. Instead of heeding the advice of regulators and voting to improve the stability of the financial system, MEPs have caved in to the financial sector lobby.

"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. MEPs have ignored this. 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.

"These funds function like savings banks and should clearly face the same level of rigorous regulation. Instead, 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. A Green amendment aimed at restricting remuneration, as in the banking sector, was also rejected.

"This vote is a blow to the European Parliament's hitherto laudable role in strengthening financial regulation in response to the financial crisis. The ball is now in the court of EU governments. 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."

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Responsible MEPs



Eva Joly

Member

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