SFAMA
Swiss Funds & Asset Management Association

Guidelines

Guidelines for Money Market Funds

6 June 2012

(Status as of 4 May 2016)

I Basic principles, aims and binding force

The Guidelines are part of the self-regulation regime of the Swiss fund industry. They are subsidiary to the "Code of Conduct of the Swiss Funds & Asset Management Association SFAMA" (SFAMA Code of Conduct) issued by SFAMA. **1**

The Guidelines are aimed at adding more specific detail to the statutory protection for investors, in particular against confusion or deception (Art. 12.1 CISA) in that only those collective investment schemes under Swiss law that comply with the following Guidelines may call themselves "money market funds". **2**

A distinction is drawn here between "Short-Term Money Market Funds", which have a very short weighted average maturity (WAM) and weighted average life (WAL), and "Money Market Funds" with a longer WAM and WAL. **3**

The Guidelines apply to Swiss fund management companies pursuant to Art. 28 et seqq. CISA and investment companies with variable capital (SICAVs) pursuant to Art. 36 et seqq. CISA in respect of all collective investment schemes under Swiss law that are distributed as funds that pursue objectives similar to those of money market funds, i.e. that seek to **4**

- maintain the principal of the collective investment scheme, and
- provide daily liquidity, and
- aim to provide a return in line with money market rates;

or that bear the designation "money market fund" (or a corresponding equivalent wording such as "liquid" or "cash"), i.e. to both **4a**

- securities funds pursuant to Art. 53 et seqq. CISA, and
- other funds for traditional investments pursuant to Art. 68 et seqq. CISA.

Compliance with the present Guidelines must also be ensured if tasks are delegated. The fund management company or SICAV must ensure that its agents comply with the provisions of the present Guidelines in full when carrying out the functions delegated to them. **5**

II Guidelines

Principles

A General provisions

1. Any Swiss collective investment scheme that falls within the scope of the present Guidelines (cf. margin no. 4f) must comply with the present Guidelines. **6**

2. Irrespective of its name, a money market fund must indicate in its prospectus as well as in its fund contract or investment regulations and – where required by law – in the simplified prospectus or Key Investor Information Document (KIID) whether it is a “Short-Term Money Market Fund” or a “Money Market Fund”. **7**

3. A money market fund must provide appropriate information to investors on the risk and reward profile of the collective investment scheme so as to enable them to identify any specific risks linked to the investment strategy of the collective investment scheme. **8**

Valuation of assets

4. The assets of collective investment schemes are to be valued at their current market value. In the case of assets traded on a stock exchange or another regulated market open to the public (referred to below collectively as “exchanges”), this corresponds to the market price, which is in principle taken as being the last price paid. **8a**

5. If trading takes place on more than one exchange, the last price paid on the main market is to be used (Art. 88 para.1 CISA). **8b**

   If there is no paid price available for the main market, a paid price from a representative secondary market may be used instead. Such prices must be checked for plausibility against the bid and ask prices available on the main market. **8c**

Exceptions / special cases

6. Assets for which there is no reliable market price, or which are not traded on an exchange, are to be valued at the price that would probably be obtained in a diligent sale at the time of valuation (Art. 88 para.2 CISA). The following methods may be used to determine such prices (please note that this is not an exhaustive list): **8d**

   Bonds and other debt securities and rights (including discount paper) as well as money market instruments (i.e. instruments with an original term to maturity or interest rate adjustment period of up to 12 months) **8e**

   - Valuation on the basis of the current price of securities which are comparable in terms of maturity and credit rating and are traded on an exchange; or
   - Valuation on the basis of the current market yield on comparable securities.
   - As a substitute method, money market instruments with maturities of up to 90 days may be valued using amortized cost accounting.

In the event of pronounced changes in the market environment or a change in the credit rating of the asset, the valuation is to be adjusted accordingly.

If a material part of the portfolio is invested in money market instruments valued in such a manner, the fund management company / SICAV must ensure that thresholds and escalation procedures are in place to ensure that corrective actions are promptly taken when valuation using amortized cost accounting no longer provides a reliable approximation of the price of the instruments and would exceed a deviation threshold of 10 basis points at the level of the overall portfolio.

Liquidity management

7. To ensure daily redemptions of units can be met (notwithstanding weekly redemptions of units in the case of other funds for traditional investments subject to approval by the supervisory authority), the fund management company / SICAV must hold a minimum amount of liquid assets. **8f**

8. The fund management company / SICAV determines the proportion of liquid assets, in particular with regard to the requirements in respect of daily/weekly maturity. **8g**

   In determining this proportion, it must consider both the possible single and subsequent redemptions of units as well as the specific circumstances of individual markets. **8h**

   The fund management company / SICAV must conduct regular and appropriate stress tests to check the liquidity in the case of various hypothetical or historical events, such as a rise in short-term interest rates, large-scale unit redemptions, downgrades of portfolio assets, and credit events. The fund management company / SICAV must take appropriate measures should these stress tests reveal insufficient liquidity. **8i**

9. To make it possible to absorb considerable and unexpected unit redemptions, the fund contract / articles of incorporation must also provide for the deferral of repayment, temporarily and by way of exception, in the event of large-scale redemptions that might significantly impair the interests of the remaining investors. **8j**

B Short-Term Money Market Funds

A Short-Term Money Market Fund must (in the case of points 1-3 and 5-13) / may (in the case of point 4): **9**

1. have the primary investment objective of maintaining the principal of the collective investment scheme and aim to provide a return in line with money market rates; **10**

2. invest in money market instruments and sight or time deposits which comply with the requirements set out in Art. 74 CISO and Art. 70.1e CISO. These apply mutatis mutandis to money market funds that are not securities funds; **11**

3. ensure the money market instruments the collective investment scheme invests in are of high quality, as determined by the fund management company or SICAV. In making this determination, a range of factors are to be taken into account, in **12**

particular:

a. the credit quality of the instrument,

b. the nature of the asset class represented by the instrument,

c. for structured financial instruments, the operational and counterparty risk inherent within the structured financial transaction, and

d. the liquidity profile;

4. for the purposes of point 3a., consider a money market instrument not to be of high quality unless it has been awarded one of the two highest short-term credit ratings by each credit rating agency that has rated the instrument and the internal rating process of the fund management company / SICAV designed in accordance with the type, scope and complexity of the money market fund also deems the credit rating to be equivalent; or, if the instrument is not rated, it is of an equivalent quality as determined by the internal rating process of the fund management company / SICAV; **13**

5. limit investment in securities to those with a residual maturity until the legal redemption date of no more than 397 days; **14**

6. provide daily NAV and unit price calculation, and daily subscription and redemption of units. An exception in this regard is the weekly subscription and redemption of units in funds in the "other funds" category subject to the approval of the supervisory authority; **15**

7. ensure its portfolio has a weighted average maturity (WAM) of no more than 60 days; **16**

8. ensure its portfolio has a weighted average life (WAL) of no more than 120 days; **17**

9. when calculating the WAL for securities, including structured financial instruments, base the maturity calculation on the residual maturity until the legal redemption of the instruments. However, if a financial instrument embeds a put option, the exercise date of the put option may be used instead of the legal residual maturity only if the following conditions are fulfilled at all times: **18**

   - the put option can be freely exercised by the fund management company or SICAV at its exercise date,
   - the strike price of the put option remains close to the expected value of the instrument at the next exercise date, and
   - the investment strategy of the collective investment scheme implies that there is a high probability that the option will be exercised at the next exercise date;

10. take into account, for both the WAL and WAM calculations, the impact of financial derivative instruments, deposits and efficient portfolio management techniques; **19**

11. not take direct or indirect exposure to equity or commodities, including via derivatives; and only use derivatives in line with the money market investment strategy of the collective investment scheme. Derivatives which give exposure to **20**

foreign exchange may only be used for hedging purposes. Investment in non-base currency securities is allowed provided the currency exposure is fully hedged;

12. limit investment in other collective investment schemes (target funds) to those which comply with the definition of a Short-Term Money Market Fund; **21**

13. have a fluctuating net asset value. **22**

C Money Market Funds

A Money Market Fund must: **23**

1. comply with points 1, 2, 3, 4, 6, 9, 10 and 11 of the above criteria for Short-Term Money Market Funds. **24**

In addition, a Money Market Fund can (point 2) / must (points 3-6) / may (point 7): **25**

2. as an exception to the requirement in point 4 of Part II B, hold sovereign issuance of at least investment grade quality. In accordance with Art. 74.2 a-i CISO, 'sovereign issuance' should be understood as money market instruments issued or guaranteed by: **26**

   a. the Swiss National Bank,

   b. the central bank of a member state of the European Union,

   c. the European Central Bank,

   d. the European Union,

   e. the European Investment Bank,

   f. the Organization for Economic Cooperation and Development (OECD),

   g. another state including its constituent parts,

   h. a public international body of which Switzerland or at least one member state of the European Union is a member,

   i. a public body;

3. have a fluctuating net asset value; **27**

4. limit investment in securities to those with a residual maturity until the legal redemption date of no more than 2 years, provided that the time remaining until the next interest rate reset date is no more than 397 days. Floating rate securities should reset to a money market rate or index; **28**

5. ensure its portfolio has a weighted average maturity (WAM) of no more than 6 months; **29**

6. ensure its portfolio has a weighted average life (WAL) of no more than 12 months; **30**

7. limit investment in units of other collective investment schemes to those which comply with the definitions of a Short-Term Money Market Fund or a Money Market Fund. **31**

III Other provisions

A Minimum standard

The supervisory authority has recognized these Guidelines as a minimum standard (FINMA Circular 2008/10 Self-Regulation as a Minimum Standard). **32**

B Entry into force and transitional provisions

The amendments to the present Guidelines were approved by the Board of Directors of Swiss Funds & Asset Management Association SFAMA on 4 May 2016. They enter into force on 1 January 2017. **33**

[rescinded] **34**

In the case of money market paper with maturities in excess of 90 days already held before 1 October 2016, margin no. 8e must be complied with in full within a reasonable period – but no later than 300 days after the present Guidelines enter into force – taking due account of the investors’ interests. **34a**

Appendix

Definitions

Weighted Average Maturity (WAM): The WAM is a measure of the average length of time to maturity of all of the underlying securities in a collective investment scheme weighted to reflect the relative holdings in each instrument, assuming that the maturity of a floating rate instrument is the time remaining until the next interest rate reset to the money market rate, rather than the time remaining before the principal value of the security must be repaid. In practice, the WAM is used to measure the sensitivity of a money market fund to changing money market interest rates. **35**

Weighted Average Life (WAL): The WAL is the weighted average of the remaining life (maturity) of each security held in a collective investment scheme, meaning the time until the principal is repaid in full (disregarding interest and not discounting). Contrary to what is done in the calculation of the WAM, the calculation of the WAL for floating rate securities and structured financial instruments does not permit the use of interest rate reset dates and instead only uses a security's stated final maturity. The WAL is used to measure the credit risk, as the longer the reimbursement of principal is postponed, the higher is the credit risk. The WAL is also used to limit the liquidity risk. **36**

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