

Money Market Funds under Regulation 2017/1131 (MMFR) in a Nutshell

What you should know about MMFs

ELVINGER HOSS LUXEMBOURG LAW

WWW.ELVINGERHOSS.LU

Money Market Funds under Regulation 2017/1131 (MMFR) in a Nutshell

What you should know about MMFs

October 2026

ELVINGER HOSS LUXEMBOURG LAW

WWW.ELVINGERHOSS.LU

Money Market Funds under Regulation 2017/1131 (MMFR) in a Nutshell

October 2026

Elvinger Hoss Prussen
2, place Winston Churchill
L-1340 Luxembourg

www.elvingerhoss.lu

Disclaimer

This memorandum provides an overview of the regulatory regime applicable to money market funds ("**MMFs**") under Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds, as amended (the "**MMFR**"). It must not be considered as an exhaustive presentation and no action should be taken or omitted based on this document. In all instances, proper legal or other advice should first be taken. Elvinger Hoss Prussen shall not incur any liability in relation to the information provided herein or in relation to any actions taken or omitted based on this document.

Table of contents

1. WHAT IS A MONEY MARKET FUND? 4

2. GENESIS OF THE MMFR 4

3. SCOPE OF APPLICATION (ARTICLES 1, 3 AND 6 MMFR) 5

4. AUTHORISATION (ARTICLES 4 AND 5 MMFR) 5

5. THE FOUR TYPES OF MMF AT A GLANCE (ARTICLE 3 MMFR) 6

6. ELIGIBLE ASSETS 7

- 6.1 ELIGIBLE ASSETS (ARTICLE 9(1) AND (3) MMFR) 7
- 6.2 PROHIBITED ACTIVITIES (ARTICLE 9(2) MMFR) 7
- 6.3 KEY ELIGIBILITY CONDITIONS BY ASSET CLASS 8

7. INTERNAL CREDIT QUALITY ASSESSMENT PROCEDURE (ICAP) 9

8. MAIN DIVERSIFICATION AND CONCENTRATION RULES (ARTICLE 17 MMFR) 10

9. PORTFOLIO AND LIQUIDITY REQUIREMENTS BY FUND TYPE (ARTICLES 24 AND 25 MMFR) 11

10. PROHIBITION OF EXTERNAL SUPPORT: ARTICLE 35 MMFR AND THE ESMA POSITION 12

11. OTHER RECURRING COMPLIANCE OBLIGATIONS 13

- 11.1. KNOW-YOUR-CUSTOMER POLICY (ARTICLE 27 MMFR) 13
- 11.2. STRESS TESTING (ARTICLE 28 MMFR) 13
- 11.3. TRANSPARENCY (ARTICLE 36 MMFR) 13

12. TOKENISATION OF MMFs: MARKET MODELS 14

- 12.1 “NATIVELY TOKENISED FUND STRUCTURE” 14
- 12.2 “MIRRORING FUND STRUCTURE” 14
- 12.3 TOKENISED SHARE CLASS OR SUB-FUND WITHIN AN EXISTING (TRADITIONAL) MMF 14

CONTACT 15

1. What is a Money Market Fund?

An MMF is a collective investment undertaking, qualifying either as a UCITS or as an AIF, that invests in short-term assets with a residual maturity not exceeding 397 days (or, for standard MMFs, up to 2 years under conditions), and that aims either to offer returns in line with money market rates, or to preserve the value of the investment, or both.

MMFs are designed to invest in short-term instruments while pursuing diversification, liquidity and stability of the invested capital. They provide short-term funding to financial institutions, corporates and public authorities, while offering investors a liquidity-management tool combining a high degree of liquidity, diversification and stability of capital with a return based on money market rates.

Their structure and operation are subject to specific requirements under the MMFR. Certain MMFs may maintain a constant net asset value ("**NAV**") per unit (e.g. EUR 1, USD 1 or GBP 1), accruing and distributing income daily either in cash or through the issuance of new units/shares; those funds value their assets using the amortised cost method rather than mark-to-market pricing. When maintaining a constant NAV, those MMFs are subject to stricter eligibility, maturity and liquidity rules, under MMFR.

2. Genesis of the MMFR

Following the 2008 financial crisis, regulators sought to address entities and activities capable of generating systemic risk while sitting outside the traditional banking sector – the so-called "shadow banking" sector.

The direct precursor to the MMFR was the CESR (ESMA's predecessor) guidelines on a common definition of European money market funds of 19 May 2010 (CESR/10-049), which distinguished between money market funds and short-term money market funds.

Numerous international and European reports followed, from the G20, the Financial Stability Board ("**FSB**"), IOSCO (October 2012) and the European Systemic Risk Board. MMFs were identified as having struggled, during the crisis, to honour redemption requests and preserve the value of their units; the FSB and IOSCO in particular flagged the heightened risk created by MMFs promising a stable or constant NAV based on an amortised-cost accounting method, which appeared to encourage the risk of mass redemptions driven by the mismatch between the fund's unit value and the real market value of its assets.

3. Scope of application (Articles 1, 3 and 6 MMFR)

Under Article 1 MMFR, the Regulation lays down rules applicable to money market funds established, managed or marketed in the Union. The MMFR applies to any undertaking that is:

- a UCITS within the meaning of Directive 2009/65/EC or an AIF within the meaning of Directive 2011/61/EU;
- which invests in short-term assets; and
- which has the distinct or cumulative objectives of offering returns in line with money market rates or of preserving the value of the investment.

Article 6 MMFR, which restricts the use of the name "money market fund" to funds authorised under the MMFR, also provides that a fund with characteristics "substantially similar" to those described in Article 1 MMFR must likewise be authorised under the MMFR. This is not an optional categorisation: every fund meeting the criteria above falls within scope.

4. Authorisation (Articles 4 and 5 MMFR)

Authorisation under the MMFR is mandatory and, once granted, is recognised across all Member States.

For UCITS (Article 4), the competent authority must be satisfied that the fund is able to comply with all MMFR requirements, and must receive: (a) the fund's constitutional documents and the type of MMF; (b) identification of the MMF manager; (c) identification of the depositary; (d) a description of the fund, or any information about it made available to investors; (e) a description of the arrangements and procedures required by the MMFR; and (f) any other information requested by the competent authority to verify compliance.

For AIFs (Article 5), the competent authority must also be satisfied that the fund is able to comply with all MMFR requirements and in addition, an AIFM already authorised under AIFMD is only approved to manage the fund as an MMF once the MMF's competent authority approves its application, which must include the written agreement with the depositary, information on delegation arrangements for administration and portfolio management, and information on investment strategy, risk profile and other characteristics of the AIF-MMF. The competent authority must inform the AIFM on whether the AIF is authorised or not (which may be established in another Member State) within two months.

Where a fund has multiple compartments, an individual compartment may be authorised as an MMF, provided this is consistent with the fund's constitutional documents and prospectus.

5. The four types of MMF at a glance (Article 3 MMFR)

The MMFR distinguishes four types of MMF, the main characteristics of which are described in the table below.

SHORT-TERM MMF			STANDARD MMF
Government ("public debt") Constant Net Asset Value (CNAV) MMF	**Low Volatility Net Asset Value (LVNAV) MMF**	**Variable Net Asset Value (VNAV) MMF — Short-term**	**Variable Net Asset Value (VNAV) MMF — Standard**
Permitted investments			
99.5% in MMI* that are EU sovereign issued or guaranteed assets, reverse repurchase agreements secured with government issued or guaranteed assets, and cash	Any government or non-government MMI* and other eligible assets	Any government or non-government MMI* and other eligible assets	Any government or non-government MMI* and other eligible assets
Instrument Maturity (max)			
397 days	397 days	397 days	2 years, with 397 days reset
Portfolio WAM (max)			
60 days	60 days	60 days	6 months
WAL (max)			
120 days	120 days	120 days	12 months
Daily Liquid Assets (min)			
10%	10%	7.5%	7.5%
Weekly Liquid Assets (min)			
30%	30%	15%	15%
Subscription/redemption price			
Constant NAV	Constant NAV	Variable NAV	Variable NAV

* Money Market Instruments

6. Eligible assets

6.1 ELIGIBLE ASSETS (ARTICLE 9(1) AND (3) MMFR)

Subject to further conditions set out in Articles 9 to 16 MMFR, an MMF may invest exclusively in the following categories of eligible assets:

- money market instruments;
- eligible securitisations and asset-backed commercial paper ("**ABCPs**");
- deposits with credit institutions;
- financial derivative instruments;
- repurchase agreements that fulfil the conditions in Article 14 MMFR;
- reverse repurchase agreements that fulfil the conditions in Article 15 MMFR; and
- units or shares of other MMFs;
- may hold ancillary liquid assets.

Most instruments held by an MMF must have received a favourable internal credit quality assessment as a result of the internal credit quality assessment procedure ("**ICAP**") implemented by the management company (Articles 19 to 23 MMFR). Please refer to section 7 below.

6.2 PROHIBITED ACTIVITIES (ARTICLE 9(2) MMFR)

An MMF may not:

- invest in assets other than the eligible assets listed above;
- short sale money market instruments, securitisations, ABCPs or units or shares of other MMFs;
- take direct or indirect exposure to equity or commodities, including via derivatives, certificates, or indices representing them;
- enter into securities lending or borrowing agreements, or any other arrangement encumbering the assets of the MMF; or
- borrow or lend cash.

6.3 KEY ELIGIBILITY CONDITIONS BY ASSET CLASS

- Money market instruments (Article 10 MMFR): must have an initial or residual maturity of 397 days or less (up to 2 years for standard MMFs under conditions, with interest rates reset at least every 397 days), and must generally have received a favourable credit assessment under the ICAP (subject to specific carve-outs for sovereign, ECB, EIB and similar issuers).

- Securitisations and ABCPs (Article 11 MMFR): eligible only if sufficiently liquid and meeting defined conditions (favourable credit assessment, no re-securitisation, etc.), subject to a global limit of 15% (20% for simple, transparent and standardised ("**STS**") securitisations).

- Deposits with credit institutions (Article 12 MMFR): must be repayable on demand or withdrawable at any time, mature within 12 months, and be held with a credit institution having its registered office in a Member State or in a third country subject to equivalent prudential rules.

- Financial derivative instruments (Article 13 MMFR): eligible only for hedging interest rate or foreign exchange risk inherent in the MMF's other investments, whether exchange-traded or OTC; OTC counterparties must be subject to prudential supervision and belong to approved categories, and OTC derivatives must be reliably and verifiably valued daily.

- Repurchase agreements (Article 14 MMFR): used only temporarily (maximum 7 working days) for liquidity management purposes; cash received may only be placed on deposit or invested in liquid debt securities or money market instruments issued or guaranteed by qualifying sovereign or supranational issuers; cash received by an MMF as part of a non-centrally cleared (by an EU authorised CCP) repurchase agreement cannot exceed 10% (otherwise 15%); and the MMF must be able to terminate the agreement at any time on no more than 2 working days' notice.

- Reverse repurchase agreements (Article 15 MMFR): the underlying must consist of eligible money market instruments (excluding securitisations and ABCPs) issued by issuers independent from, and not highly correlated with, the counterparty, must be sufficiently diversified; assets received may not be sold, reinvested, pledged or transferred; the MMF may terminate the agreement at any time on no more than 2 working days' notice; and the market value of assets received must at all times be at least equal to the value of the cash advanced. Exceptions are provided for EU sovereign issued or guaranteed assets (compliant with Article 17-7 MMFR).

- Units or shares of other MMFs (Article 16 MMFR): the target MMF must be registered in the ESMA register of authorised MMFs; no more than 10% of the target fund's net assets may in aggregate be invested in units or shares of other MMFs; the target fund may not hold units or shares of the acquiring fund; and where both funds are managed (directly or by delegation) by the same manager or an affiliate, no subscription or redemption fees may be charged.

7. Internal Credit Quality Assessment Procedure (ICAP)

Money market instruments, securitisations and ABCPs are subject to eligibility conditions and to a favourable credit quality assessment resulting from the management company's ICAP (Article 20 MMFR). The assessment must take into account minimum factors and general principles, including: issuer type and credit/default risk; instrument-level default risk, short-term nature, asset class and liquidity profile; for structured instruments, inherent operational and counterparty risk; and, for securitisation exposures, the credit risk of the issuer, the structure of the securitisation, and the credit risk of the underlying exposures.

Under Article 19 MMFR and Chapter 3 of Commission Delegated Regulation (EU) 2018/990, the management company or AIFM must establish, implement and consistently apply a prudent ICAP, based on information of sufficient quality, up to date and drawn from reliable sources, and on prudent, systematic and continuous assessment methods grounded in historical experience and empirical data, including back-testing. General principles to observe include process effectiveness, continuous monitoring, annual review of assessments and methodologies, avoidance of excessive reliance on external credit ratings, and prompt correction of errors.

Article 21 MMFR requires the ICAP, and each individual credit assessment, to be documented, covering the design and operation of the ICAP, the rationale for the criteria used and their review frequency, all material changes to the ICAP, its organisation and internal control structure, the full history of internal credit assessments of instruments and issuers, and the person(s) responsible; records must be kept for at least three accounting years and made available to the CSSF on request. Under Article 23 MMFR, the ICAP must be approved by senior management, the governing body and, where relevant, the supervisory function of the management company, which must have a good understanding of the ICAP and receive full reporting on it.

The CSSF pays particular attention to: the central role of the Luxembourg management company/AIFM and a clear description of the roles and responsibilities of all parties involved; validation of, and reporting on, the ICAP to senior management and the board; the management company's role within ICAP-related committees, including any veto right over credit assessments; the functional and hierarchical split between credit-analysis and credit administration/risk teams within the group (including whether they sit within the asset management or banking arm); segregation between credit analysts and portfolio managers; and the management company's oversight (initial and ongoing due diligence) of any ICAP activities delegated to other group entities.

8. Main diversification and concentration rules (Article 17 MMFR)

The main diversification limits, from which derogations may apply, are summarised below.

EXPOSURE	LIMIT
Money market instruments, securitisations and ABCPs issued by the same body (the "5%/10% rule")	5% of MMF assets; increased to 10% for VNAV MMFs, provided the aggregate value of positions exceeding 5% does not exceed 40% of total assets
Global limit for securitisations and ABCPs	20%
Bank deposits with the same credit institution	10%
Non-cleared OTC derivatives (counterparty exposure)	• Aggregate risk exposure: 5% • Aggregate amount of cash provided to the same counterparty: 15%
Repurchase agreements (cash received)	• Non-cleared: 10% • Cleared: 15%
Reverse repurchase agreements (cash provided)	• Non-cleared: 15% to the same counterparty • Cleared: 15% per transaction
Other MMFs	5% per MMF; 17.5% aggregate maximum
Combined group exposure (money market instruments, deposits and repo counterparty exposure within the same corporate group) (the "20% rule")	20%
Sovereign instruments	Up to 100% with maximum 30% per issue with a minimum of 6 issues
Concentration	maximum 10% held in money market instruments, securitisations and ABCPs issued by the same body (unless sovereign instruments)

9. Portfolio and liquidity requirements by fund type (Articles 24 and 25 MMFR)

Portfolio-level maturity limits and liquidity buckets differ by type of MMF and are summarised below.

SHORT-TERM MMF			STANDARD MMF
Public debt CNAV MMF (short-term only)	**LVNAV MMF (short-term only)**	**Short-term VNAV MMF**	**Standard VNAV MMF (Article 25)**
WAM limit			
< 60 days	< 60 days	< 60 days	< 6 months
WAL limit			
< 120 days (in principle)	< 120 days (in principle)	< 120 days (in principle)	< 12 months
Daily Liquid Assets			
10%	10%	7.5%	7.5%
Weekly Liquid Assets*			
30%	30%	15%	15%

WAM (weighted average maturity) measures a fund's sensitivity to money market interest rate changes; WAL (weighted average life) measures the fund's credit risk exposure, based on the time to full repayment of principal, disregarding interest rate reset dates.

Where the liquidity thresholds for public debt CNAV and LVNAV MMFs are breached, the board of the management company must consider liquidity fees, redemption gates, suspension of redemptions and other safeguard mechanisms in accordance with specific procedures provided for in Article 34 MMFR.

* The CSSF issued guidance in October 2026 to set out their expectations in relation to enhanced MMF liquidity levels and risk management practices. In particular, the CSSF applies the market resilience levels of 40% Weekly Liquid Assets for Public debt CNAV MMFs and LVNAV MMFs, and of 20% Weekly Liquid Assets for Short-term VNAV MMFs and Standard VNAV MMFs. These market resilience levels are a benchmark to identify situations that warrant further attention/scrutiny by MMF managers, particularly within their risk management teams.

10. Prohibition of external support: Article 35 MMFR and the ESMA position

Article 35 MMFR prohibits external support being provided to an MMF by a third party. External support is defined as "direct or indirect support offered to an MMF by a third party, including a sponsor of the MMF, that is intended for or in effect would result in guaranteeing the liquidity of the MMF or stabilising the NAV per unit or share of the MMF".

In its Public Statement of 9 July 2020 (ESMA34-39-1096) on "Actions to mitigate the impact of COVID-19 on the EU financial markets – External support within the meaning of Article 35 of the MMF Regulation", ESMA exercised its coordination function under Article 31 of the ESMA Regulation (Regulation (EU) No 1095/2010) to promote a consistent supervisory approach by national competent authorities ("**NCAs**") to the Article 35 prohibition, in the context of the significant liquidity challenges faced by certain MMFs in March 2020 as a result of sizeable investor redemptions combined with a rapid deterioration of liquidity in money markets, in particular the EU and US commercial paper markets.

In particular, ESMA clarified two of the illustrative examples of external support listed in the second subparagraph of Article 35(2) MMFR:

Purchase of assets at an inflated price (Article 35(2), second subparagraph, point (b)): for the purposes of assessing whether a third party is providing this form of external support, transactions relating to the MMF's assets are not regarded as executed at an inflated price where they are carried out on arm's length terms.

Action aimed at maintaining liquidity or NAV (Article 35(2), second subparagraph, point (e)): an indication that a third party's action has the direct or indirect objective of maintaining an MMF's liquidity profile or NAV per unit or share is where that third party executes transactions solely with the MMFs to which it is affiliated.

11. Other recurring compliance obligations

11.1. KNOW-YOUR-CUSTOMER POLICY (ARTICLE 27 MMFR)

A manager of an MMF shall implement a procedure and undertake adequate due diligences with a view of anticipating the effect of several concurrent investor redemptions (considering the type/ profile of investors, their holdings and inflows and outflows behaviours). If the holding by one single investor exceed the daily liquidity requirements applicable to the MMF, additional conditions have to be considered. In case of financial intermediaries, the manager of the MMF shall request relevant information to manage efficiently the liquidity and investor concentration of the MMF.

11.2. STRESS TESTING (ARTICLE 28 MMFR)

MMFs must conduct stress tests at least semi-annually, with a detailed report provided to the board of the management company and to the relevant NCA (which reports to ESMA), in accordance with ESMA's guidelines on stress test scenarios under the MMFR.

11.3. TRANSPARENCY (ARTICLE 36 MMFR)

Towards investors: public debt CNAV MMFs and LVNAV MMFs must calculate and publish daily a mark-to-market variable NAV alongside the constant/low-volatility NAV; all MMFs must disclose weekly a maturity breakdown, credit profile, WAM, WAL, top ten holdings, total asset value and net yield; and the prospectus and fund documents must state that an MMF is not a guaranteed investment or a bank deposit, and that investors bear the risk of capital loss.

Towards NCAs: reporting is required quarterly or annually, depending on a EUR 100 million asset threshold, in accordance with Article 37 MMFR and Commission Implementing Regulation (EU) 2018/708.

12. Tokenisation of MMFs: Market models

Beyond the MMFR framework described above, MMFs have emerged as one of the fund categories most actively used for tokenisation in practice. Market practice to date shows three broad, no-exclusive models for tokenising an MMF, summarised below for commercial reference; each remains subject to the same MMFR eligibility, diversification, liquidity, valuation, transparency and external-support requirements discussed elsewhere in this memorandum, which tokenisation does not disapply.

12.1 "NATIVELY TOKENISED FUND STRUCTURE"

The MMF itself is issued in tokenised/dematerialised form from inception, with fund shares recorded directly on a blockchain as the authoritative register of ownership.

12.2 "MIRRORING FUND STRUCTURE"

Traditionally issued MMF shares digitally represented on a blockchain, while the traditional share register remains the authoritative record of ownership.

12.3 TOKENISED SHARE CLASS OR SUB-FUND WITHIN AN EXISTING (TRADITIONAL) MMF

An existing, already-authorised MMF creates a dedicated share class or sub-fund, whose units are represented on-chain under the native or mirroring tokenisation, alongside its traditional, non-tokenised share classes.

Discover more about Fund Tokenisation: scan the QR code or visit our website to read our dedicated brochure.

www.elvingerhoss.lu

Contact



Olivia Moessner
Partner
oliviamoessner@elvingerhoss.lu
Phone: +352 446644 5203

View full profile

Expertise

Olivia Moessner's practice concentrates on collective asset management and investment funds.

Olivia advises a number of investment fund promoters and other financial institutions in relation to the set-up and structuring of their Luxembourg investment fund operations. Her practice encompasses a broad range of investment funds (UCITS, ELTIFs, Part II funds, SIFs and RAIFs) implementing various liquid and semi-liquid investments strategies.

Career and memberships

Member of the Board of ALFI (Association of the Luxembourg Fund Industry) and co-chair of the ALFI Regulatory Board.

Co-chair of ALFI's UCITS eligible assets and money market funds working groups, and member of numerous working groups within ALFI and EFAMA (European Fund and Asset Management Association) focusing on key European topics such as ELTIFs, ETFs, pension funds, SFTR and PRIIPs.

Adjunct lecturer at the University of Luxembourg, Master in Investment Funds Law.

Regular speaker at conferences.

Member of the Luxembourg Bar since 2001.

Notes

ELVINGER HOSS LUXEMBOURG LAW

WWW.ELVINGERHOSS.LU

LUXEMBOURG
HONG KONG
PARIS
Elvinger Hoss Prussen
www.elvingerhoss.lu

NEW YORK
Elvinger Sàrl PLLC
www.elvinger.us