

Regulation (EU) 2017/1131 of the European Parliament and of the Council
of 14 June 2017 on money market funds (Text with EEA relevance)

CHAPTER II

Obligations concerning the investment policies of MMFs

Section III

Credit quality of money market instruments, securitisations and ABCPs

Article 19

Internal credit quality assessment procedure

- 1 The manager of an MMF shall establish, implement and consistently apply a prudent internal credit quality assessment procedure for determining the credit quality of money market instruments, securitisations and ABCPs, taking into account the issuer of the instrument and the characteristics of the instrument itself.
- 2 The manager of an MMF shall ensure that the information used in applying the internal credit quality assessment procedure is of sufficient quality, up-to-date and from reliable sources.
- 3 The internal assessment procedure shall be based on prudent, systematic and continuous assessment methodologies. The methodologies used shall be subject to validation by the manager of an MMF based on historical experience and empirical evidence, including back testing.
- 4 The manager of an MMF shall ensure that the internal credit quality assessment procedure complies with all of the following general principles:
 - a an effective process is to be established to obtain and update relevant information on the issuer and the instrument's characteristics;
 - b adequate measures are to be adopted and implemented to ensure that the internal credit quality assessment is based on a thorough analysis of the information that is available and pertinent, and includes all relevant driving factors that influence the creditworthiness of the issuer and the credit quality of the instrument;
 - c the internal credit quality assessment procedure is to be monitored on an ongoing basis and all credit quality assessments shall be reviewed at least annually;
 - d while there is to be no mechanistic over-reliance on external ratings in accordance with Article 5a of Regulation (EC) No 1060/2009, the manager of an MMF shall undertake a new credit quality assessment for a money market instrument, securitisations and ABCPs when there is a material change that could have an impact on the existing assessment of the instrument;
 - e the credit quality assessment methodologies are to be reviewed at least annually by the manager of an MMF to determine whether they remain appropriate for the current portfolio and external conditions and the review shall be transmitted to the [F^IFCA]. Where the manager of the MMF becomes aware of errors in the credit quality assessment methodology or in its application, it shall immediately correct those errors;

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- f when methodologies, models or key assumptions used in the internal credit quality assessment procedure are changed, the manager of an MMF is to review all affected internal credit quality assessments as soon as possible.

Textual Amendments

- F1** Word in Art. 19(4)(e) substituted (31.12.2020) by [The Money Market Funds \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/394\)](#), regs. 1(3), **12(1)** (with savings in [S.I. 2019/680](#), reg. 11); 2020 c. 1, Sch. 5 para. 1(1)

Article 20

Internal credit quality assessment

1 The manager of an MMF shall apply the procedure laid down in Article 19 to determine whether the credit quality of a money market instrument, securitisation or ABCP receives a favourable assessment. Where a credit rating agency registered and certified in accordance with Regulation (EC) No 1060/2009 has provided a rating of that money market instrument, the manager of the MMF may have regard to such rating and supplementary information and analysis in its internal credit quality assessment, while not solely or mechanistically relying on such rating in accordance with Article 5a of Regulation (EC) No 1060/2009.

2 The credit quality assessment shall take into account at least the following factors and general principles:

- a the quantification of the credit risk of the issuer and of the relative risk of default of the issuer and of the instrument;
- b qualitative indicators on the issuer of the instrument, including in the light of the macroeconomic and financial market situation;
- c the short-term nature of money market instruments;
- d the asset class of the instrument;
- e the type of issuer distinguishing at least the following types of issuers: national, regional or local administrations, financial corporations, and non-financial corporations;
- f for structured financial instruments, the operational and counterparty risk inherent within the structured financial transaction and, in case of exposure to securitisations, the credit risk of the issuer, the structure of the securitisation and the credit risk of the underlying assets;
- g the liquidity profile of the instrument.

The manager of an MMF may, in addition to the factors and general principles referred to in this paragraph, take into account warnings and indicators when determining the credit quality of a money market instrument referred to in Article 17(7).

Article 21

Documentation

1 The manager of an MMF shall document its internal credit quality assessment procedure and credit quality assessments. Documentation shall include all of the following:

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- a the design and operational details of its internal credit quality assessment procedure in a manner that allows [^{F2} the FCA] to understand and evaluate the appropriateness of a credit quality assessment;
 - b the rationale for and the analysis supporting the credit quality assessment, as well as the manager of the MMF's choice of criteria for, and the frequency of, the review of the credit quality assessment;
 - c all major changes to the internal credit quality assessment procedure, including identification of the triggers of such changes;
 - d the organisation of the internal credit quality assessment procedure and the internal control structure;
 - e complete internal credit quality assessment histories on instruments, issuers and, where relevant, recognised guarantors;
 - f the person or persons responsible for the internal credit quality assessment procedure.
- 2 The manager of an MMF shall keep all the documentation referred to in paragraph 1 for at least three complete annual accounting periods.
- 3 The internal credit quality assessment procedure shall be detailed in the fund rules or rules of incorporation of the MMF and all documents referred to in paragraph 1 shall be made available upon request to the [^{F3}FCA].

Textual Amendments

- F2** Words in Art. 21(1)(a) substituted (31.12.2020) by [The Money Market Funds \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/394\)](#), regs. 1(3), **12(2)(a)** (with savings in S.I. 2019/680, reg. 11); 2020 c. 1, Sch. 5 para. 1(1)
- F3** Word in Art. 21(3) substituted (31.12.2020) by [The Money Market Funds \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/394\)](#), regs. 1(3), **12(2)(b)** (with savings in S.I. 2019/680, reg. 11); 2020 c. 1, Sch. 5 para. 1(1)

Article 22

Delegated acts for the credit quality assessment

The [^{F4}Treasury may by Regulations specify] the following points:

- (a) the criteria for the validation of the credit quality assessment methodology, as referred to in Article 19(3);
- (b) the criteria for quantification of the credit risk, and of the relative risk of default of an issuer and of the instrument, as referred to in point (a) of Article 20(2);
- (c) the criteria for establishing qualitative indicators on the issuer of the instrument, as referred to in point (b) of Article 20(2);
- (d) the meaning of material change as referred to in point (d) of Article 19(4).

Textual Amendments

- F4** Words in Art. 22 substituted (31.12.2020) by [The Money Market Funds \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/394\)](#), regs. 1(3), **12(3)** (with savings in S.I. 2019/680, reg. 11); 2020 c. 1, Sch. 5 para. 1(1)

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Article 23

Governance of the credit quality assessment

1 The internal credit quality assessment procedure shall be approved by the senior management, the governing body, and, where it exists, the supervisory function of the manager of an MMF.

Those parties shall have a good understanding of the internal credit quality assessment procedure and the methodologies applied by the manager of an MMF, as well as a detailed comprehension of the associated reports.

2 The manager of an MMF shall report to the parties referred to in paragraph 1 on the MMF's credit risk profile, based on an analysis of the MMF's internal credit quality assessments. Reporting frequencies shall depend on the significance and type of information and shall be at least annual.

3 Senior management shall ensure, on an ongoing basis, that the internal credit quality assessment procedure is operating properly.

Senior management shall be regularly informed about the performance of the internal credit quality assessment procedures, the areas where deficiencies were identified, and the status of efforts and actions taken to improve previously identified deficiencies.

4 Internal credit quality assessments and their periodic reviews by the manager of an MMF shall not be performed by the persons performing or responsible for the portfolio management of an MMF.

Changes to legislation:

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Changes and effects yet to be applied to :

- [Regulation revoked by 2023 c. 29 Sch. 1 Pt. 1](#)