56, Avenue des Arts
B- 1000 Brussels
T. +32 (0)2 508 37 11 – F. +32 (0)2 511 23 28
secretariat@step-market.org-www.stepmarket.org

AG
D0152D-2014
27.05.2014

18th MEETING OF THE STEP MARKET COMMITTEE
- Brussels, 28 February 2014 -

Final Minutes

WELCOME

The Chairman, Mr G. RAVOET, welcomed all participants. The list of participants is hereby attached (enclosure 1).

Mr G. RAVOET informed them that the STEP Secretariat has contacted the European Association of Corporate Treasurers (EACT) and the European Investment Bank (EIB) to replace the vacancies of Mr K. SCHÖNING and Mr. P. BALAZ) in the Committee. Unfortunately, no new candidates have been nominated.

He introduced Mr A. GIL as new member of the STEP Secretariat.

1. SECRETARIAT REPORT ON STEP LABELLING

Mr A. GIL gave a presentation on the granted and withdrawn STEP labels year-to-date, broken down by programme type and issuer type (enclosure 2). Since January 2014, 2 labels were withdrawn at the request of the issuer and 2 new labels were granted. The number of active programmes amounted to 171; whereas 4 requests for new labels are in the pipeline.

Mr. A. GIL informed that almost three quarters of the programmes correspond to ECP (40%) and French CD (32%). The main type of issuers are financial institutions (65%) followed by non-financial corporations (24%). Together they represent almost 90% of the STEP programmes. The outstanding amount of STEP debt securities amounted to 400 billion euro in January 2014.

2. ECB REPORT ON STEP STATISTICS

Ms S. CORVOISIER, from the ECB statistics' team, gave a presentation on the latest and future developments of the STEP statistics. Her presentation is attached herewith (enclosure 3).

Recent trends in STEP data

The detailed STEP statistics published by the ECB on a weekly basis showed that the STEP market has decreased since the last STEP Market Committee meeting on 18 September 2013 to reach €399.4 bn at the end of January 2014. December 2013 was a month with one of the lowest level (€351.3 bn) but since then the STEP market started to gain some market share. The latest outstanding amount for 21 February 2014 is €395.2 bn stemming from 171 STEP-labelled programmes.

The total outstanding amount of STEP-labelled programmes in January 2014 showed a continuous increase since October 2013. On average the level of 2011 was around €395.2bn, increased to €454.8 bn in 2012 and decreased to €411.9 bn in 2013. With a closer look for one year back to January 2013 (**slide 3 chart bottom**) the outstanding amount continued to decrease from €451.8 bn to €399.4 bn, i.e. a year-on-year decrease of 11.6%. The last data available for 21 February 2014 showed an outstanding amount of around €395.2 bn. The relative development of STEP-labelled securities needs to be compared with an adequate benchmark for euro-denominated short-term debt securities in order to assess the developments in the STEP market during the last years (**slide 4**). The ratio of STEP securities denominated in euro and issued by non-government sectors to euro-denominated issuance of debt securities by worldwide non-government continued to slowly decrease since the 2012 Q3 for the next four quarters in a row and then increase for the last quarter of 2013 to reach around 44%. The decrease of the worldwide benchmark was quite strong since 2012Q1 but the STEP decrease was not so strong. The development of the STEP market during the last months reflects the pattern of the overall short-term market. Looking at the monthly STEP statistics we noticed that December is a month with less activity compared to the other months, except for 2008.

In order to investigate further the STEP market, the development of the STEP securities has been assessed by looking at the volume and yields as well as some breakdowns such as the sector and currency until January 2014.

(**slide 5**) At the end of January 2014, 85.0% of the total outstanding amount of STEP securities was issued by MFIs and 9.7% by the general government sector. The MFIs' share has decreased from December 2013 (87.2%) to January 2014 (85.0%); level which remained almost the same since December 2011. The share of the issuance by the general government sector stayed also stable since December 2010 with an exception for December 2013 with a low share of 7.4%. The distribution among the sectors was thereby almost the same as in December 2010. The decrease of the STEP volume was mainly explained by the decrease of issuance by MFIs. The share of the non-financial corporations (NFC) remained stable from December 2013 (3.5%) to January 2014 (3.6%). As of 21/02/2014, the outstanding amount of MFIs, general government, non-financial corporations and other financial institutions sector is about €346.6 bn, €27.7 bn, €13.6 bn and €7.1 bn, respectively.

Regarding the issuance currency (**slide 6**), since the beginning of 2012 the issuance of STEP securities denominated in EUR continued to decrease strongly from €364.4 bn in January 2012 to reach its lowest level in December 2013 (€260.5 bn) and then increased in January 2014 by 13.3% (€295.3 bn). The euro-denominated STEP issuance reached its highest level in March 2012 since the launch of the STEP market in 2006 with a volume of around €389.9 billion meaning a share of 82.8%. Since mid-2011 we observed a continuous increase in the USD funding until January 2013 followed by a strong decrease for the two first quarters in 2013, then a decrease the next two months and then back to the high level of the end of 2012 (around €75 bn) followed again by a decrease until December 2013 (€53.0 bn) and in increase of €11.0 bn in January 2014. The EUR share in January 2014 was 74%, starting with a share greater than 80% at the beginning of the STEP market. On average the USD share was around 16.2% for the whole year 2013 and reached 16.0% in January 2014.

(**slide 7**) The new maturity brackets have been implemented and are already displayed in this presentation. Due to the market conditions the yields continuously decreased since the end of 2011 from around 1.4% in August 2011 to 0.1% until November 2013 and since then increased to 0.2% in January 2014. The yields remained quite stable since one year with a peak on 23/01/2013 for the STEP total issuance with a maturity of 10-40 days that has been checked and confirmed by the issuer. The Euribor corridors between the maturity 1-month and 3-months narrowed; therefore the STEP yields were also more concentrated. (**slide 8**) The yields of STEP total issuance with a maturity of 0-7 days were closer to 0, below the Eonia.

More detailed information on volumes and yields is available with the monthly briefing and dashboard.

(**slide 9**) This slide displayed the main contributors to the STEP market for January 2014. The programmes are sorted regarding the difference in the outstanding amounts between December 2013 and January 2014.

<u>New developments and prospects</u>

The STEP Market Committee members received from the STEP Market Secretariat the monthly note and dashboard prepared by the ECB STEP team on a monthly basis since December 2013 (reference period: November 2013). The members are more than welcome to comment on these documents and the ECB STEP team will try to incorporate them as far as it is feasible.

The issue, currently restricting the automatic dissemination of outstanding amounts per individual programme to a weekly frequency, concerns the restriction of two Security Settlement Systems (Euroclear France and Nederland). Since the end of October 2012 on-going tests of encrypted e-mails including four data xml files are taking place. The xml files from Euroclear France are almost finalised. There are still some issues regarding the identification and correctness of data provided by Euroclear Nederland. This automatic daily reporting should take place in 2014Q2 according to a recent e-mail sent by Euroclear France (responsible for the data transmission of Euroclear France and Nederland) to the ECB.

An additional enhancement concerns the automatic reporting of the xml file from the STEP Market Secretariat, which includes descriptive/qualitative information on the programmes and issuers and is necessary for the mapping with the quantitative information received from the various data providers. This is in the testing phase and should be implemented in the new STEP release in 2014Q2.

Last but not least the STEP task force on statistics decided in 2011 to implement new requirements in order to better fit the issuers and investors' needs. Some additional formats of files such as xls and xml will be made available on the ECB STEP website. At the moment html tables and csv files are available to upload STEP time series as well as some series available on the ECB Statistical Data Warehouse (SDW). Another requirement referred to new maturity brackets. Indeed the present tables display some maturity brackets that should be improved in order to better compare STEP issue yields and issue prices to the usual benchmarks such as EONIA and EURIBOR. These new requirements from the STEP task force have been implemented in the last STEP release 3.3 in November 2013. They are visible on the ECB STEP website as well as on the ECB SDW as displayed on the **slide 13**.

Mr M. BRUNING explained that some major debt issuers do not use the STEP label which may be consequently losing market share. More specifically, he elaborated on the example of Bank of China which has four branches in Europe. They act quite independently and some are perhaps not aware of the STEP label. Mr F. HEBEISEN confirmed that the Paris branch of Bank of China is issuing French Certificats de Dépot[1].

Mr P. BILLOT asked for an increased marketing effort and Mr R. HOULT highlighted the need to coordinate a common message to improve the efficiency of the marketing effort. Marketing aspects were further addressed under the ITEM "Any Other Business".

Mr G. RAVOET raised a question regarding the volatility observed in the STEP statistics by currency (p.6 of the presentation). Two explanations were proposed: banks could be now issuing more in the US market; alternatively, some investors (e.g. money market funds) could be retiring from this market.

3. STEP+ INITIATIVE

[1] This program having a STEP label.

Mr F. HEBEISEN gave a presentation on the latest developments of the STEP+ Initiative (enclosure 4). Three groups (named workstreams, WS) have been working in parallel since the launch of the proposal on 27 January 2014. These groups are studying several aspects of the initiative: trading and liquidity (WS1), partial data disclosure for risk managers (WS2), and the so-called multilateral compression, a mechanism to relief credit lines (WS3). WS3 also deals with the possibility of establishing a transaction-based index; however, as Mr G. RAVOET pointed out, a benchmark will only be built if the initiative is widely adopted.

An improvement of the ECB eligibility would be a major advantage for the European Commercial Paper (ECP) according to Mr R. HOULT; i.e. a KfW bond is “repoable”, but KfW ECP is not. Third party valorization could be beneficial to address this pitfall. Mr J. CURRY reminded that assets below 3 months are revalued weekly, Price transparency should be improved at issuer’s level.

The STEP+ initiative includes the involvement of electronic trading platforms. Existing platforms are expected to join the initiative, but no figures are available about the associated costs at this stage. Mr F. HEBEISEN clarified that Eurex and e-MID have been involved as advisors. Other platforms like Bloomberg or Tradeweb should consider joining the initiative.

Mr F. TALLEI stressed that the critical success factor for implementing the STEP+ initiative will be the involvement of both buy-side and sell-side of the short term paper market, whereas the development of an multi market venue would be less challenging . Mr G. RAVOET clarified that an increase in transparency and/or ECB eligibility could enhance this prospect. Nevertheless, the ECB has not given its opinion on the latter.

4. ANY OTHER BUSINESS

Mr G. RAVOET updated the participants on the latest developments regarding EURIBOR.

Mr F. HEBEISEN came back to the importance of promoting STEP and avoiding the perception that STEP+ has been launched because the STEP label did not work.

STEP is currently perceived as a quality assurance and the requirements for issuers are not harsh. Furthermore, STEP is far less expensive than listing. Additionally, ECB is accepting STEP paper although it is not a secured market.

These supporting arguments should be addressed through effective marketing in order to target the issuers. More specifically, presentations at sectorial conferences were cited as an effective strategy to reach these potential users. It was agreed to initially build a list of relevant investors that are not currently using the STEP label.

Mr F. HEBEISEN also reported that lack of transparency was mentioned at the first STEP+ meeting as an issue. Nevertheless, STEP offers more information than any similar market as the

ECB receives information on all transactions. If enforcing STEP label as a mandatory label should be envisaged, Ms E. TRICHET offered the cooperation of Banque de France to open a dialogue with other central banks. Consequently, Mr J. CURRY pointed out that STEP label could be then publicly-funded in order to reduce or remove the fees for issuers and, thus, increase the adoption. Mr M. SCHNEIDER said that the cost disincentive should not be overstated when trying to understand how to involve new issuers. Mr J. CURRY explained that the main difference between the current situation in the US and the EU is the availability of information. Therefore, the main added-value of the STEP label is to tackle the lack of information available on the EU market.

In order to carry out the promotion of STEP label, standardized marketing documents would be helpful. Benefits of STEP label for the issuer should be listed. Mr P. SIMEON proposed allowing the use of the STEP brand in the marketing material of the owners of STEP paper (e.g. Money Market Funds) as an option to add value to the label. Indeed, these entities would get a quality certification and STEP label would get higher visibility.

Finally, Mr M. SCHNEIDER raised a point regarding the yearly updates required to issuers in accordance to the STEP convention. First option is to request and replace the documents on a yearly basis: information memorandum plus mandatory documents (rating confirmation, and annual reports). The second option would be to provide the documents only once: Info memo plus mandatory documents (rating confirmation and annual reports). Mandatory documents would not be replaced in this option. New documents would be delivered as supplements to the original document. Nevertheless, legal advice would recommend to amend the STEP Market Convention in order to accept yearly updates registering the variation in the programmes. The aim is to keep the STEP information package as simple as possible.

Mr F. HEBEISEN also asked if a P&L for 2013 detailing the revenues and costs of the initiative could be communicated to the Market Committee in due course by the STEP Secretariat. This could help to build realistic marketing plan for the promotion of the label. Under the light of this document, a conference call could be organized between the STEP Secretariat and some volunteers from the Market Committee to envisage marketing actions before the summer.

5. DATE AND PLACE OF NEXT MEETING

The exact date and place of the next meeting will be decided in due course.

Enclosures:
1-D0064A-2014-List of Participants
2-D0068A-2014-Presentation on STEP labelling
3-D0070-2014-ECB Presentation on STEP Statistics
4-D0071-2014-Presenation on STEP+ Initiative