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22nd STEP MARKET COMMITTEE MEETING
- Paris, 29 June 2016, 10.30-13.30 CET –

Final Minutes

OPENING AND WELCOME

Mr COUSSERAN, Head of the Monetary policy implementation Directorate, welcomed the participants in the premises of Banque de France (BdF). He explained that BdF strives to foster the financing of the real economy through a number of initiatives such as the reform of the negotiable debt securities market (TCN Market) and its support to the STEP Initiative.

1. REFORM OF THE TCN MARKET

Ms TRICHET explained that the TCN market was created in 1985 for the benefit of all economic players. This market is the second largest commercial-paper market in Europe and the leading market in the euro area. It provides competitive and diversified financing opportunities, in euro and other currencies, in the form of commercial paper and medium term notes. It encompasses a vast ecosystem of investors, especially money market funds, financial and non-financial issuers, arrangers and issuing and paying agents. It has robust post-market infrastructures and its structures, operating rules and market data feature a high degree of transparency. The BdF ensures that issuers comply with issuance rules.

The reform aims at easing the market access for a larger number of issuers from France and other countries, as well as broadening its investor base. It provides new classes of assets, creating solutions for both investors and borrowers through access to broader bases of investors and issuers across different countries. It also meets the needs of economic players with an accrued convergence with international standards without jeopardizing the market's transparency, accessibility or competitiveness.

Mr FAURE explained that one of the recent trends of the NEU CP Market is that it attracts an increasing number of non-financial corporations. As a result, French non-financial corporations tend to obtain more short-term funding directly from the market than their equivalents from other EU countries that tend to rely more on banks. Following the reform, the market should also be opened up to relatively more mid-sized enterprises than today, which account for a major share of growth and jobs and are bound to make greater use of market financing. Mr SCHNEIDER explained that, in his experience, non-financial corporations are more concerned about securing long-term funding from the markets than about the short-term funding that is typically provided by banks. Mr TALLEI confirmed that, against the current monetary policy background, banks can be extremely competitive in some countries. Therefore, the incentives linked to the direct access to the market for non-financial corporations are not decisive. Furthermore, despite the efforts in some countries to establish national CP markets, non-financial corporations that choose to gain direct access to the market typically choose the London marketplace.

Mr HEBEISEN tempered this statement outlining that the present market environment currently favours long term issuances and that, in case of rates going back to a normal configurations, the value of short term instruments for non-financial issuer might come back. Regarding the use of London as a platform for non-financial issuers, he raised the point of expected consequences of the Brexit and pointed out that London is privileged only by issuers who do not have a domestic platform.

Ms TRICHET underlined the importance of diversifying the sources of financing both for financial and non-financial entities, especially short-term financing, with a view to securing short term funding and strengthening financial stability.

The reform covers the following actions:

1) Merge negotiable debt paper with maturities of up to one year (former certificates of deposit issued by credit institutions and commercial paper issued by non-financial corporations) into a new single category called "*titres négociables à court terme*” in the financial and monetary code;
2) Give this paper a new trade name: “Negotiable European Commercial Paper” (NEU CP, pronounced “new CP”) chosen by the marketplace;
3) Align the legal term for securities with maturities of more than one year: “titres négociables à moyen terme” (formerly, “bons à moyen terme négociables”) in the financial and monetary code;
4) No longer request from issuers who write the information memorandum of their NEUCP programme in English (or any other language accepted by the BdF as commonly used in financial markets), to provide a summary in French;
5) Open the market up to more international issuers with broader acceptance of the local accounting standards of countries in the European Economic Area, and of accounting and auditing standards that the European Commission recognises as equivalent to European standards in the case of third-country issuers;
6) Provide efficient post-market electronic tool (new eNEU CP tool developed by Euroclear France) that enables dealers to communicate ISIN code (issue identification codes) on a real time basis.
7) Open up the list of credit rating agencies accepted for NeuCP market access by the French regulation to all of the agencies registered with the European Securities and Markets Authority (ESMA), subject to certain requirements (methodology, 3 years of historical statistical data);
8) Simplify the regulatory texts, with one Order, instead of four previously.

Mr PRÉDOUR explained that the relevant section of the BdF website was adapted as required by the reform. By the same occasion, the NEU CP directory section of the BdF website was adapted to include 2 annual reports of the issuers. Additionally, the layout of the website was also reorganized to converge with the presentation of information of the STEP website.

Mr TALLEI asked if the reform included provisions to adapt to the negative interest rate environment. Ms TRICHET explained that the reform does not alter the legal features of the securities and that the regulation already stipulates that the remuneration of negotiable debt securities shall be freely determined. Mr HEBEISEN explained that the reform has been achieved through a long consultation and cooperation process with the regulatory authorities and professional associations that has started in 2014, when the negative interested rate was perceived as a temporary anomaly. This specific point was for this reason not on the agenda. Moreover, the technical features on the French short term debt market allow to issue with negative yield and process issues with negative coupons. However, the improvements to the TCN market aim at achieving more convergence and standardization in line with the objectives of the STEP Initiative.

2. SECRETARIAT REPORT ON STEP LABELLING

The number of STEP labels has slightly decreased from 166 for the last meeting to 163 on 28 June 2016. The 3 withdrawals were justified by the issuers due to changes in their funding strategy that led them to discontinue the programmes.

Mr GIL updated the participants about the number of outdated programmes and the activities undertaken to make sure that appropriate actions are taken when outdated programmes are spotted by the new sanity checks. He pointed out the case of 2 programmes which have broken their 3 years deadline for several months and have been facing difficulties to update their Information Memorandum, in breach with the rules of the Market Convention. Mr HEBEISEN asked that a formal notification of deadline should be sent to them. He pointed out that the MC is already in a position to withdraw the label of these programmes, at least on a temporary basis, until the update is provided. He insisted on the reputational risk of STEP in case of difficult event on a STEP programme which does not fulfill the Market Convention requirements, especially if an issuer comes under the spotlights of financial news. He asked for action and follow up on this matter. The members of the STEP Market Committee supported the efforts to track programmes with outdated documents as a key added-value of STEP.

3. ECB REPORT ON STEP STATISTICS

Mr PETIT gave a presentation on the recent and future developments of STEP statistics.

The ECB observes a decreasing trend in the issuance of euro-denominated short-term debt securities. Accordingly, the overall outstanding amount linked to the STEP programmes is diminishing in the last months; however, it is important to note that the outstanding amounts of programmes by non-governmental issuers are increasing, a continuous trend already pointed out at the last STEP Market Committee.

Similarly, the trends that are observed since 2014 regarding the currency of issuance are confirmed: the market share for issuances in other currencies than Euro is driven by FX arbitrage mainly as pointed out in previous meetings. In May 2016, the share of STEP papers denominated in EUR was 60,6%, compared to 26,8% for USD. Developments on issuing yields remained consistent with other available benchmark rates (e.g. EONIA or Euribor spot week). The extreme dispersion of the data for some maturities rendered impossible to build yield curves as the test versions presented by Mr PETIT in the previous meeting.

Approximately, half of the STEP issuances are currently eligible as collateral for ESCB operations according to the eligible marketable assets criteria. Mr PETIT reported for the first time on the role of the STEP papers in the market operations of the ECB. As of December 2015, around 4% of the euro-denominated STEP paper was mobilized as collateral.

Mr MUÑIZ pointed out that the STEP initiative cannot control the external shocks to the short-term debt market; therefore, the use of total outstanding amounts and overall market share of STEP securities compared to worldwide issuance of short term debt securities could be considered as an indicator of the evolution of STEP.

Regarding the operations for the production of the STEP statistics, Monte Titoli can be considered as fully integrated in the reporting system. Conversely, the integration of Interbolsa has seen delays and the testing phase could only be initiated in the weeks prior to the meeting. Additionally, Mr PETIT explained that the STEP statistics are now advertised through the monthly news feed on the ECB website. Finally, he pointed out that some reporting problems have been identified with some of the data providers and that he expects these reporting issues to be solved in the coming weeks.

4. MARKETING OF THE STEP LABEL

Mr HEBEISEN shared an updated version of the presentation on the marketing plan of the STEP label. Mr RAVOET suggested to include more statistical information from the ECB publications in order to show the tangible benefits of the STEP label. Mr HEBEISEN pointed out that the short term debt market is not expected to recover over the next couple of years; however, it is important to build awareness about the STEP label now in order to ensure the growth when the markets will become more active again.

For that reason, the marketing effort will focus in 2 actions. On one side, members of the committee and the Secretariat will meet the main Central Securities Depositories as they should be especially interested by the STEP information. On the other side, a short video will be produced in order to explain the benefits of STEP in order to assess their exposures.

Mr HEBEISEN asked the participants to share with the secretariat any information about risk-related seminars that could be used to promote STEP.

5. AOB

The members of the STEP committee were informed that their mandate will come to an end by the end of the year 2016. In that context, the secretariat will launch all the necessary actions for the renewal of the active members that wish to extend their mandate and to ensure the smooth continuity of the committee beyond the end of 2016.

6. DATE AND PLACE OF THE NEXT MEETING

The next meeting will be organized during November 2016.