32nd STEP MARKET COMMITTEE MEETING

- Conference call, 22nd June 2021, 14.30-17.30 –

OPENING AND WELCOME

The Chairman, Mr J.L. SCHIRMANN, opened the meeting by thanking the participants for their availability.

1. SECRETARIAT REPORT ON STEP LABELLING OPERATION

Ms A. MAES gave a presentation on the evolution of the number of STEP labelled programmes and on new prospects. She explained that the total number of STEP labelled programmes was 202. Since the beginning of the year, 6 programmes have been STEP labelled and 2 programmes have been withdrawn.

The STEP Secretariat kept on receiving annual/exceptional updates (several per week), as well as requests for pre-screening of new programmes. There were 1 open requests for which the STEP Secretariat was waiting for the signed documentation or was in negotiations with.

Ms A. MAES also explained that there were 8 programmes beyond the three years and three months limit established for renewals. The STEP Secretariat sent reminders and was following up with these programmes.

Mr R. CORDERO inquired about the number of non-financial corporate issuers. Ms A. MAES replied that from 199 active issuers the distribution was: 79 issuers were non-financial corporations (corporates non-bank), 8 were other financial intermediaries (special purpose vehicles), 3 were insurance corporations or pension funds, 93 were monetary financial institutions (national central banks or corporate banks), 8 were general governments and 7 were supranational or international organizations.

2. VIEWS ON THE MARKET

Mr P. BILLOT started by noting that the situation is not very different from the last STEP Market Committee. The market is relatively stable in terms of amounts outstanding. He added that there is a huge difference between the demand of short-term assets, that remains very robust, and the offer that is not sufficient to feed the Money Markets Funds. As a consequence, the valuation of short-term assets is very expensive at the moment.

Mr M. BRUNING confirmed the comments made by Mr P. BILLOT. He also highlighted that from the issuance side there had been a drop in the corporate outstanding amounts. They believe that this is the result of TLTRO. One of terms that banks participating in TLTRO III had to commit to was that they had to make sure that from a benefit point of view the lending assets base was not shrinking over a given period. The first maintenance period ended on March 31st, 2021. They had seen the banks competing among themselves to win loans, especially short-term loans. Banks were able to win those loans because of the cheap funding they receive from the ECB. If the banks met the hurdle, they could borrow at – 1% if not, it was at 0%.

Mr R. CORDERO agreed with Mr BRUNING. He added that the non-financial corporations are in a better position than one year ago. The statistics of a survey on corporate treasury published in June confirmed that the liquidity position has been at its best for 10 years. He believed that it is one of the results of the decrease of the outstanding amounts of corporates.

Mr D. GEPP continued by noting that there are insufficient papers when needed and vice versa. He added that the low levels of interest rates not just in EUR but also in USD and in GBP make things complicated. When rates are as low as they are it is difficult to get the value from the lower rated issuers that you would expect.

Mr F. HEBEISEN confirmed that the feedback received from ACI-France is in line with what Mr M. BRUNING described. He explained that the management of the different TLTRO had a huge impact on the financing of the real economy and on the capacity of the banks to play a role in the market. He added that the liquidity pattern should not be challenged until mid-2022 as TLTRO has been massively subscribed and efficient in a certain manner. Mr M. BRUNING agreed and added that certain banks will push for releasing loans to the corporate sector to meet the threshold of the second maintenance period that will end on December 31st, 2021.

Mr F. HEBEISEN also explained there were a lot of concerns some months ago about the rates of bankruptcy when the economic activity would start again. However, a survey published by Banque de France confirmed that the impact was smaller than assumed before. Mr F. HEBEISEN asked whether the impact on Money Markets Funds was still positive and whether there was a differentiation factor between EUR, USD, and GBP. Mr P. BILLOT answered that the trends depend on the level of yields. Things are relatively mixed as there are a lot of reallocations in terms of asset classes. Mr P. BILLOT added that he believed that national central banks have already stopped buying commercial papers. Mr D. GEPP replied that he believed that Money Markets Funds are not running at the same levels as they were a year ago. As an effect, the number of commercial papers that they are buying has been reduced. This is also the result of the liquidity requirements that came about because of the liquidity crisis of last year. More and more Money Markets Funds have maintained a high level of liquidity which would have been otherwise invested.

Mr H. ENDRES made comment on TLTRO. He believed that the situation would change in the next bonus period. He explained that it was very difficult for some banks to get the bonus. He also noted that they had the first issue on a Green CP. However, he highlighted that at this point it was more a marketing initiative.

Mr G. MARIN noted that the market conditions are almost unchanged compared to what was observed at the last STEP Market Committee. He added that an increase of interest in lending by banks is to be expected over the next months.

Mr P. SIMEON confirmed that the market conditions are similar than last year. He continued by explaining that in terms of flows, there are outflows due to the seasonal effects of customers paying dividends.

Mr J.L SINNIGER noticed that there is an increasing number of issuers that are interested in issuing in the ESG space. One of the issues is that there are no market standards for ESG. He added that in the USA, it seems that new waves of regulatory reforms may come on Money Market Funds.

3. **REPORT ON STEP STATISTICS & MAIN RESULTS OF THE EURO MONEY MARKETS STUDY 2020**

Mr S. PEREZ-DUARTE gave a presentation on STEP statistics.

He began by showcasing the overall STEP outstanding amounts. For the last month, the total outstanding amounts is €405bn. This is a decrease from the peak observed in June 2020 were the total of outstanding amounts reached €460bn.

Mr S. PEREZ-DUARTE then looked at the daily outstanding amounts. There was large increase from the middle of March 2020 to the middle of June 2020. After the peak, the ECB observed a decrease that is usual for the end of the year or beginning of the year. Since then, the daily outstanding amounts has climbed up to the current level (€4.8 bil). From the peak observed in June to now, there is a loss of €16bn. Mr S. PEREZ-DUARTE explained that the increase from mid-March to the end of June was mainly driven by a concentration on the issuance of securities between 30 and 90 days. The ECB observed large issuances daily (sometimes more than 3bn a day).

Mr S. PEREZ-DUARTE continued by noting that issuances increased overall strongly from March to June-July 2020 and stayed at a high level through the second and the third quarter of the year.

At the same time, the STEP securities outstanding also increased but not as much. The share of STEP securities outstanding in worldwide Short-Term debt securities outstanding has decreased to 19%. This is the lowest share observed by the ECB since they started recording statistics. Mr P. BILLOT felt that the comparison might be impacted by the inclusion in the non-STEP instruments of Treasury Bills, which – with maybe one exception – are usually not STEP labelled. Mr P. BILLOT explained that after the COVID crisis, there were a sharp increase of short-term issuances, including Treasury Bills issuances.

Mr S. PEREZ-DUARTE provided a breakdown of the STEP outstanding amount per sector of the issuer. He noted that the increase observed in the overall amounts outstanding has been mainly driven by higher issues from the general government sectors.

Mr S. PEREZ-DUARTE focused on the currency. He observed that for the EUR, it is the second lowest level in the STEP history. The USD however returned to its level.

Mr S. PEREZ-DUARTE addressed data quality issues and prospects. He reminded that data quality is essential. The ECB has encountered recurrent issues with some data providers in the transmission and processing of STEP data. The ECB has started to regularly contact data providers and asks for the support of the STEP Market Committee in making sure that both data providers and issuers are responsible for the data quality they submit.

Mr S. PEREZ-DUARTE concluded by presenting some developments that the ECB is currently working on. The ECB has adjusted the STEP statistics to €STR. In terms of prospects, Mr. S. PEREZ-DUARTE highlighted the need to create realistic expectations when it comes to onboard a new SSS. In the long term, the ECB has the intention to review the reporting instruction and to replace the STEP collection system.

Mr J.L. SCHIRMANN thanked the ECB for their presentation. Mr F. HEBEISEN acknowledged the difficulties met by the ECB to collect data and provide clean information to the market. Mr J.L. SCHIRMANN confirmed that the STEP Market Committee will support the ECB in reaching data providers. Mr J.L. SCHIRMANN also encouraged the ECB to reach out to the STEP Secretariat in case they need some support to replace the STEP collection system.

Ms M. ENCIO gave a presentation on the main results of the Euro Money Market Study 2020.

She began by explaining that this study covers the years 2019 and 2020. During this period of time, there were five main events of relevance for the money markets. These events were (i) the interest rates cut of 10 basis points (from -0.40% to -0.50%) that took place in September 2019; (ii) the introduction of €STR; (iii) the implementation of the two-tier system in October 2019; (iv) the COVID-19 pandemic; (v) the materialisation of Brexit after long negotiations.

Ms M. ENCIO started by looking at the volumes. The size of the interbank and CCP markets seems to be around 800bn/day where counterparties are around 1tn. Moreover, if we look at the situation pre-crisis (before 2007), it used to be a very diversified money markets across segments where nowadays the volume of the money markets is very concentrated on the secured and foreign exchange segments. She added that the size of the STS is around 800tn and that 60% of papers with a STEP label seem to be denominated in EUR.

Ms M. ENCIO continued her presentation by moving to the rates. She began by describing the situation of the secured segment as it is the more voluminous segment. Before the COVID-19 pandemic, there was a convergence of repo rates across countries. In 2020, the ECB observed that the convergence of the repo rates stayed closed to deposit facility rates even at the peak of the COVID-19 crisis. The COVID-19 tensions had no major impact on repo rates. After the peak, a decline of the repo segment can be observed. There were significant of tensions observed in the other money markets segments.

Ms M. ENCIO then looked at the effect of excess liquidity. The eurosystem took a lot of measures many of which were liquidity providing operations. The excess liquidity coming from TLTRO put a lot of downwards pressure on EURIBOR® rates and commercial papers. In 2018, most of the excess liquidity was coming from the assets purchase programme and not from the lending operations.

Ms M. ENCIO also provided an overview of the counterparties business. On the STS segment, there is a big representation of banks on the issuer side where the money markets funds are the main holders of banks' STS.

Ms M. ENCIO then focused on maturities. The OIS is the only well diversified segment over maturities. The other segments are biased to very short-term operations.

Ms M. ENCIO concluded by observing that on the rates cut there was a good pass through. There was full and immediate transmission into secured, unsecured and STS segments where OIS indicates no further changes to DFR expected soon. The €STR proved to be robust and resilient. However, the transition in OIS volume is slow (less than 10% in 2020, bulk left for 2021). The implementation of the two-tier system triggered a liquidity redistribution between EA banks (including cross-border) that mainly happened through the secured segment. It however created some upwards pressure observed on (ES & IT) repo rates but it did not last. Over the COVID-19 crisis, the repo segment remained resilient where it was not the case for the other segments. the rates seem to be normalized in all the segments. Finally, there was a relocation of repo CCP business in February 2019 from UK. OIS remains cleared in UK and is susceptible to equivalence negotiations.

Mr G. MARIN asked why this report is only published on a biannual basis. Ms M. ENCIO answered that the aim of this report is to capture trends. Mr H. ENDRES commented on the number of banks reporting to MMSR. Ms M. ENCIO highlighted that the number of banks decrease because of mergers and confirmed that there is still a project to increase MMSR.

4. ID2S APPLICATION

Mr J. FELDKAMP provided an overview of the pending application by ID2S to become fully accredited as a STEP SSS.

He explained that ID2S applied to be a STEP eligible SSS for NEU CP only in 2019 and their application was approved by the 28th STEP Market Committee, 14 June 2019.

In March 2021, ID2S applied to the STEP Secretariat for an extended eligibility for all CPs. Full eligibility requires that the SSS can report trades in STEP labelled programmes directly to the ECB and ID2S has submitted responses to the relevant technical questionnaire to the STEP Secretariat.

The ECB has received the questionnaire and has had an initial exchange with ID2S on some of the technical details. The ECB however is currently facing resource shortages that will last until mid-2022 and impede the application process.

The ECB has suggested for ID2S to temporarily report through an already fully STEP eligible SSS. ID2S has strong reservations for competition reasons, as some of the SSS have launched similar endeavours and/or are competing for the same settlement clients.

The STEP Secretariat has provided ID2S with the list of eligible SSS and suggested that the applicant contacts the appropriate providers, if any, to assess a temporary collaboration.

Mr R. CORDERO asked whether something was expected from the STEP Market Committee. Mr J. FELDKAMP clarified that this item was not a recommendation to approve ID2S as an eligible SSS and that the aim was to raise awareness that there is an application ongoing.

Mr J.L. SCHIRMANN enquired about the timeline the ECB can foresee to embark ID2S. Mr S. PEREZ-DUARTE answered that the ECB will not be able to provide an assessment on ID2S application before May 2022. Mr F. HEBEISEN asked if there had been significant changes in the application process as it seems that the process was faster with the first SSS. Mr S. PEREZ-

DUARTE explained that the ECB is currently facing resource shortages. Moreover, he pointed that the process to embark Monte Titoli 5 years ago requested a lot of efforts during more than one year.

5. STEP 15th ANNIVERSARY – COMMUNICATION CAMPAIGN

Mr S. DAEMS gave a presentation on the communication that was launched for STEP 15th anniversary.

Mr S. DAEMS started by noting that given the little coverage of STEP in the media and in terms of communication, STEP 15th anniversary was a good opportunity to highlight the longevity of the initiative.

He explained that two campaigns were created. in this context a leaflet was conceived. This leaflet was addressed to STEP stakeholders and focused on the strengths of the STEP initiative. Mr S. DAEMS noted that thanks to the intervention of the STEP Market Committee, he was able to gather some very interesting testimonials from some market participants. The leaflet was distributed to some industry associations. In parallel the leaflet was also published on the STEP website and the STEP and The European Money Markets Institute's LinkedIn accounts.

Mr S. DAEMS continued by explaining that as regards of media campaign it was decided to have a special focus on the Italian market. The European Money Markets Institute reached out its usual medial contacts as well as some specialized media contacts.

Mr S. DAEMS also noted that Mr F. HEBEISEN and Mr J.L. SCHIRMANN gave an interview to Agefi.

For the next steps, Mr S. DAEMS explained that in September he will contact some specialized media or associations.

Mr R. CORDERO confirmed that a short article will be published in July in *La Lettre du Trésorier*.

6. RECENT DEVELOPMENTS IN ITALY'S CP MARKET

Mr G. MARIN gave a presentation on the recent developments in Italy CP market.

He began by highlighting that commercial papers are not new in the Italian market as they were introduced in the 1990s under the name of «cambiali finanziarie». The maturities can range from 1 month to 36 months with a minimum issuance amount of €50.000.

Since the very beginning, banks were «temporarily» not permitted to issue with this instrument to avoid any gap in the tax treatment. The possibility for banks to issue commercial papers would have created a gap and risked unwarranted consequences in terms of tax revenue.

Since late 2019, Borsa Italiana/Monte Titoli, ABI and representatives from the major banks were pushing to find a solution. In the first half of 2020, they benefited from the legislative acceleration and gained the support from Bank of Italy and the Economic and Finance Minister. Borsa Italiana/MonteTitoli offered the legal support reconstructing the whole fiscal and legal framework and building the case for the Regulators. The «banks' exclusion» from the issuance market appeared inconsistent. Moreover, with the Law Decree of 2012 the tax regime finally provided for the applicability to the commercial papers. In the first months of the 2020, several meetings were held with the regulators to consolidate the outcome and to find a common view. Italian banks were finally allowed to issue commercial papers.

Mr G. MARIN continued by highlighting some pros of this situation: banks can further diversify their funding channels, widen their investor base, creating value for the buy-side. Corporates could indireclty benefit from the spreading of the instrument and the transparent competition between banks. Borsa Italiana's ExtraMOT segment has already the infrastructure to support the secondary market of the Italian commercial papers. On the other hand, the liquidity environment remains very challenging due to the very negative rates in the short-term and the high excess of liquidity in the system. Moreover, smaller entities could struggle to see the pay-off between the cost of obtaining the rating and the actual benefits, at least until they start to see some constant demand from the buy-side. Finally, Italian entities' average ratings probably are not so attractive for foreign buyers.

Mr. G. MARIN concluded by noting that from Intesa San Paolo, things are moving slowly due to the current low appetite for additional short-term liquidity. The first issuance was made by Banca di Cividale S.c.p.A.

Ms P. DE DEYNE asked if the 12-month limits for STEP could be a potential deterrent for banks due to MREL and prudential implications. Mr G. MARIN answered that it might be a true for small banks, but not for larger ones.

Following a question by Mr F. HEBEISEN on the Issuing and Paying Agent that Intesa San Paolo would use, Mr G. MARIN confirmed that Monte Titoli will be their unique Issuing and Paying Agent for cambiali finanziarie.

7. STEP OUTREACH INTO ITALY

Ms P. DE DEYNE gave a presentation on the planned outreach into Italy. She explained that in the end of June, the plan is to reach out to several entities such as A&O Italy, the Italian Banking Association, the Italian Association of Investment Management, Monte Titoli and some Italian specialized media.

The aim of this outreach is twofold: (i) to raise awareness on STEP; (ii) to strengthen a number of relations with existing stakeholders in the CP market.

8. POTENTIAL DEVELOPMENT OF AN ESG CP LABEL

Ms P. DE DEYNE gave a presentation on the potential development of an ESG CP Label and invited the STEP Market to share their impression.

Over the last two years, there had been increasing green or sustainability-linked commercial paper issuances. However, while there are market best practices and industry standards, there is no centralized point of access or harmonized ways to report.

In this respect, Ms P. DE DEYNE raised the question of the creation of an ESG label that is STEP alike which would indicate standardisation of documentation, centralized at one location.

MR D. GEPP confirmed that there is an increased in interest in the money markets in ESG denominating funds. He also pointed that the rules are a bit inconsistent at the moment and do not clarify what is ESG and what is not. He also pointed that there is a lot of data not aligned which makes things even more complex. He added that it would be interesting for the market to have one set of criteria which is open and transparent.

Mr J.L. SINNIGER pointed that “ESG” covers some many different things that it is difficult to have a standardized approach. He also noted that now there is no data on short term ESG issuance. Clearing Houses are not able to distinguish what is an ESG paper and what is not in all the papers they process. Currently, the only way to know if a programme is “ESG” is through Bloomberg or directly via the issuer.

Mr H. ENDRES noted that from the banking side, banks do not have enough ESG on their portfolios. In this sense, markets seem to privilege longer terms due to pick-ups and ESG on short term might result not that attractive.

Mr P. SIMEON highlighted that it is important to take into consideration that ESG nature seems to be linked to Issuers more than products. He explained that large companies already perform their own ESG related internal analysis. There is still an effort to be made in terms of standardization. He also pointed that performing ESG related internal analysis is very resource intensive.

Mr F. HEBEISEN noted that before building a data repository, there is a need of clearly defining what ESG is. He added that it is an unclear who determines and attributes the ESG status. The question is whether there will be some authority granting that status at some point. He added that some associations such as ICMA are already moving. Ms P. DE DEYNE commented that there is a regulation coming on Green Bonds standards. The idea would be to have the ratings agencies under the supervision of ESMA.

Mr J.L. SINNINGER mentioned that there are issuers that have created programmes under which they issue both non-ESG and ESG notes. He added that Euroclear and Clearstream can only have one identifier, so it is impossible to know which are the ESG notes. The only way to identify the ESG and non-ESG notes is to look at Bloomberg tickers.

Ms P. DE DEYNE will follow up will liaise bilaterally with the STEP Market Committee Members.

9. ICMA CPC WHITE PAPER ON THE EUROPEAN CP MARKET

Ms P. DE DEYNE reported on The European Money Markets Institute's participation as observer and contributor in the recently published ICMA's White Paper on the European CP market.

Amongst the recommendations, we read the following in particular on STEP:

"While the STEP initiative is broadly recognized as being a concerted attempt to achieve improved standardization for the European CP market, adoption remains around 30% of the market, and the view is that ***more could be done to help to create something closer to a truly pan-European CP market*** *in the spirit of CMU."*

She invited the STEP Market Committee Members to share their impression on this paragraph.

Mr J.L. SINNIGER noted that there is a will from participants in the short-term market to harmonize the products. On the other hand, there are many different types of local markets in Europe that have their own types of commercial papers. In that sense it seems difficult to tend for harmonization and at the same time see the development of local CP products.

Mr F. HEBEISEN pointed that the investor base is very fragmented. He added that, in Europe, no regulation defines what a Commercial Paper is. The starting point would be to set up at the European level a common set of rules.

Mr P. BILLOT said that STEP should look at three ways to move something ahead: (i) promotion; (ii) incentives; (iii) constraints. While there had been a huge effort in terms of advertising the STEP initiative, incentives and constraints seem two missing elements.

10. ANY OTHER BUSINESS

Mr J.L. SCHIRMANN announced that the next Market Committee will take place on November 10th, 2021. He also suggested that STEP Market Committees occur 3 times a year. All members agreed with the suggestion.

Mr J.L. SCHIRMANN thanked the participants in the call and closed the meeting.

List of participants

List of participants

Chairman

Mr	Jean-Louis SCHIRMANN	EMMI

Members

Mr	Philippe BILLOT	Pictet Gestion
Mr	Marnix BRUNING	ING Bank
Mr	Richard CORDERO	EACT
Mr	Dennis GEPP	Federated Hermes
Mr	Franck HEBEISEN	Independent Expert
Mr	Harald ENDRES	DKB
Mr	Gianfranco MARIN	Intesa Sanpaolo
Mr	Patrick SIMEON	Amundi
Mr	Jean-Luc SINNIGER	Citi

Observers

Mr	Philippe FAURE	Banque de France
Ms	Corinne LETRAY	Banque de France
Mr	Alain PREDOUR	Banque de France
Ms	Emmanuelle TRICHET	Banque de France
Mr	Mirko BELLU	ECB
Mr	Sebastien PEREZ DUARTE	ECB
Ms	Maria ENCIO	ECB
Ms	Viktoriya Gocheva	ECB
Ms	Anne VAN DER GRAAF	ECB

STEP Secretariat

Ms	Petra DE DEYNE	STEP Secretariat
Mr	Giuseppe DELLE FAVE	STEP Secretariat

Mr	Yassine El Berkaoui	STEP Secretariat
Mr	Jakobus FELDKAMP	STEP Secretariat
Mr	Antonio Guzzardi	STEP Secretariat
Ms	Amandine MAES	STEP Secretariat
Ms	Pauline RONVAUX	STEP Secretariat
Mr	Sebastien DAEMS	The European Money Markets Institute

Apologies:

Mr	Carlos MUNIZ MORELL	Santander
Mr	Tim O'CONNELL	EIB