33rd STEP MARKET COMMITTEE MEETING
- Remote, 10 November, 14:30 – 17:30 CET -

OPENING AND WELCOME

In the absence of Mr J.-L. SCHIRMANN, the meeting was chaired by Mr J. FELDKAMP. Mr J. FELDKAMP opened the meeting by thanking the participants for their availabilities.

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 203. In 2021, 11 programmes were STEP labelled (5 new STEP labelled programmes since the last STEP Market Committee) and 6 programmes were withdrawn.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 3 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 the issuers.

Mr J. FELDKAMP highlighted that some issuers are significantly late to update their Information Memorandum. Mr H. ENDRES asked whether there was a cut-off date after which the STEP label should be withdrawn. Mr J. FELDKAMP suggested that the STEP Secretariat bring to the next STEP Market Committee a proposal of a procedure on limits of days that the STEP Secretariat sees as acceptable.

Mr S. PEREZ DUARTE noted that while the number of programmes increased, the outstanding amounts did not follow the same trends and remained stable. He wondered if this was due to the fact that more issuers want a STEP label but do not necessarily issue under their programmes.

Mr M. BELLU inquired about the type of issuers of the latest STEP labelled programmes. Mrs A. MAES answered that the majority of issuers were non-financial corporations.

2. REPORT ON STEP STATISTICS

Mr M. BELLU gave a presentation on STEP statistics.

He began by showcasing the overall STEP outstanding amounts. He noted that the STEP outstanding amounts reached its highest level in June 2020, it is the highest number since 2012. After this peak, the STEP outstanding amounts went back down to the long-term average which is around € 407.3 bn. He added that the values of the daily outstanding amounts increased during this summer to reach 430 bn. Again, the values went down in October. Mr M. BELLU also explained that the increase was reflected in the daily gross issues. He noted that there has been a positive trend in the daily gross issues in the past years.

Mr M. BELLU then looked at the yield developments. He noted that the data was broken down into 6 maturity brackets. The presentation focused on the shortest maturities (0-7 days) and on the longest ones (9-12 months). The presentation also concentrated on the time horizon of the pandemic. Mr M. BELLU pointed out that the yields grew very quickly at the beginning of the pandemic to reach for both maturity brackets, their highest level since 2016. However, in Q1 2020 their value went down to reach their lowest level in the history of STEP. Mr H. ENDRES asked whether the presentation took the difference between financial and non-financial counterparts into consideration. He added that this result in a difference in the price. Mr M. BELLU will check internally and come back to the STEP Market Committee.

Mr M. BELLU provided an overview of the STEP Market share. The presentation focused on the market share of Euro denominated STEP securities amounts over the total Euro denominated short-term debt securities worldwide. He pointed out that since the pandemic, the trend has been quite negative as it has reached its lowest value between March and June 2021. Following a question, Mr S. PEREZ DUARTE confirmed that the figures of the worldwide short-term debt securities amounts included all types of short-term debt securities including CDs, CPs and t-bills. Mr J.-L. SINNIGER pointed out that since all types of short-term debt securities were included in the figures, the market share of STEP was undervalued in the sense that, for instance, t-bills are not eligible for the STEP label. Mr P. BILLOT added that indeed treasury bills are not in the scope of the STEP label. Mr S. PEREZ DUARTE concluded by saying that for the next STEP Market Committee meeting, they will try to present more detailed figures to allow to measure better the movements share of STEP.

Mr M. BELLU continued his presentation by providing a breakdown of the STEP outstanding amount per sector of the issuer. He pointed that there has been an increase observed during the pandemic in the overall outstanding amounts mainly driven by higher issues from the general government sector.

Mr M. BELLU also focused on currencies and more specifically on EUR and USD. He observed that the trend of EUR denominated outstanding amounts was negative during the past years, although a rebound could be observed for the past few months. On the other side, the trend of USD denominated outstanding amounts has been positive for the last past years. In September 2021, USD denominated outstanding amounts reached its highest level since 2016.

Mr M. BELLU mentioned that the ECB Statistics Team was working on the new developments and was still facing data quality issues. He mentioned that Interbolsa has started reporting data.

Mr H. ENDRES asked if it would be possible to showcase the top ten issuers in future presentations.

3. VIEWS ON THE MARKETS

Mr J. FELDKAMP invited the members of the STEP Market Committee to share their impressions on the latest developments of the market.

Mr P. BILLOT started by pointing out that the levels in EUR were a bit depressed. This was mainly due to the level of excess liquidity that was prevailing on the EUR market. He continued by noting that on the investors side, the activity was relatively subdued and that they did not observe much new issuance in the market excepted from some local authorities.

Mr M. BRUNING mentioned that there was a lack of supply in paper, especially on the corporate side. He explained that the corporate issuance has been struggling for a while. He remarked that from the primary bond issuance point of view the last year was busy. Consequently, there was not a huge appetite from the corporate side to issue in short-term. Mr M. BRUNING continued by noting that the corporate could get cheap short-term lending through TLTRO. In this sense, short-term CP funding has been replaced by short-term bank loans. Mr M. BRUNING also mentioned that ESG ECP issuance is a rising trend. He noted that investors are increasingly approaching the ESG trend with a more critical and diligent approach. Finally, Mr M. BRUNING commented that the sterling has been in a difficult position due to the Bank of England's lack of guidance. Mr J. FELDKAMP inquired about the standards that can be observed in terms of ESG ECP issuance. Mr M. BRUNING explained that so far there are three different types of Green CP programmes. The first type of programmes is a programme that is been launched through a Green Finance framework. In this case, proceedings are used to fund green assets. Another type of programme is where ESG KPIs are used. Finally, issuers can also link their own ESG ratings to the issuance.

Mr D. GEPP confirmed the comments made by Mr M. BRUNING regarding the lack of guidance from Bank of England. He also explained that at the end of the year 2021, liquidity would be vastly available at significant negative yields. Getting into the new year, the end of year will be taken out of the equation, and we would be then able to see interest rates for commercial paper based on what the market is. However, he pointed that if you look at the moment, one month and two months are significantly lower than they would be given the state of the marketplace. In his opinion, it has anything to do with the type of paper that is available. It is more the mentality of people not wanting to go in the end of year with vastly more liquidity than they need.

Mr G. MARIN wanted to highlight two key words that could summarize the situation: liquidity and year-end. He pointed out that the usual behaviours from investors were becoming evident. The same applies from the issuer point of view and risk takers. He also noted that there was a lot of volatility in the market. He also pointed the poor communication from some central banks. He agreed with Mr D. GEPP that prices in the market were not reflecting the actual expectations. Mr G. MARIN added that hedge funds have been forced to liquidate positions due to the volatility. As a consequence, more liquidity has been added to the already huge liquidity of the market. He concluded by saying that January will offer a clearer picture.

Mr F. HEBEISEN agreed with Mr M. BRUNING that financial issuers are issuing short-term papers to stay connected to investors more than by needs. Indeed, TLTRO and other measures already provide enough liquidity. He also explained that issuers probably also remain cautious.

Mr H. ENDRES confirmed the point made by Mr M. BRUNING that ESG ECP issuance was a rising trend. He added that there has been a huge demand from the investors side to invest in green assets and that the cheapest way to achieve that has been to invest in Green CPs. He also agreed Mr M. BRUNING regarding TLTRO. He commented that a change in the would be beneficial.

Mr P. SIMEON confirmed that the market is subdued. There were only few opportunities to invest at a decent level. The issuance volumes were also very low. A number of counterparties were willing to limit the size of their balance sheet for the year end. Mr P. SIMEON explained that they expected banks to direct the instant liquidity of their customers to money market funds during the last two weeks of December. He added that the market was closing earlier than the previous years.

Mr J.-L. SINNIGER confirmed that there had been very few new programmes that came in the market, whether in the ECP or the US CP market. A few corporate programmes had come in, but they were not very large. He nevertheless pointed out that several new asset-backed programmes have been created in the US market in the last year. Mr J.-L. SINNIGER confirmed that ESG is on everybody's mind, both on the issuing side and the buy side. He explained that the financial institutions that had done ESG programmes tend to be using the use of proceeds type of structure. They are funding with commercial paper specific green assets. Corporate issuers tend to be doing more the KPI targets type of structure. Mr J.-L. SINNINGER pointed out that there might be a structural issue with those types of programmes. In fact, some issuers are issuing both traditional CP and ESG CP notes under one same programme and therefore only one information memorandum is created. Neither the clearing house nor the IPA are in the position to distinguish between the ESG notes and the non-ESG note once they had been issued. The investors on a specific trade will know whether they are buying an ESG note or not, depending on which Bloomberg identifier they will use. However, Bloomberg does not link into IPAs or clearing houses. Therefore, reporting or any kind of transparency in the market about ESG versus non-ESG is not possible when issuers only use one programme to issue both traditional CP and ESG CP notes. This topic is currently discussed actively with law firms, counterparties in the dealer community and issuers. Mr M. BRUNING also confirmed that ESG and non ESG programmes might create an issue. In his opinion, the cleanest approach is to set up different Bloomberg tickers and to have two programmes side by side. He pointed that there is a need for standardization in order to avoid any investment done on wrong assumptions. Mr J.-L. SINNINGER explained that the solution they have found was to have one set of underlying documents but two different information memoranda. One information memorandum was addressing the traditional notes while the other was addressing the ESG notes. The fact that there were two information memoranda was allowing Euroclear to assign two different programme identifiers. However, from the STEP Market initiative perspective, there is no clear guidance if a label can be assigned to two information memoranda. Therefore, the issuer chose to label only one of the two information memoranda.

Mr J. FELDKAMP asked whether there is also a focus on the "S" and the "G" of ESG. Mr J.-L. SINNINGER confirmed that all three components are taken into consideration. He explained that KPIs used in the KPI targets type of structure address topics such as the participation of women in senior management.

4. STEP CONFERENCE

Mrs P. DE DEYNE updated the STEP Market Committee members on the conference that will be held on November 25th.

Mrs P. DE DEYNE reminded that she conducted an outreach into the Italian market as the restrictions on banks to issue short-term paper had been lifted.

Following this outreach, The European Money Markets Institute, in partnership with ABI and Assiom Forex was going to host a webinar on 25th November. There will be insights on the interest of Italian banks in the CP market, the technicalities on how to get the STEP label, insights on the CP market and testimonials.

Mrs P. DE DEYNE also thanked Mr G. MARIN for his support regarding this event.

5. ANY OTHER BUSINESS

Mr J. FELDKAMP informed the STEP Market Committee members that ID2S has informed that Orange S.A. and Citicorp North America Inc., as exclusive shareholders, have decided to close ID2S. A liquidator has been appointed. Therefore, their application to become a fully STEP accredited SSS can be dismissed.

Mr J. FELDKAMP also informed the STEP Market Committee members that a risk assessment and an internal audit on STEP operations were conducted. The report will be presented at the next STEP Market Committee meeting.

Mr J. FELDKAMP informed the members that the next meeting will be held on 8 February 2022.

He thanked the participants in the call and closed the meeting.