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36th STEP MARKET COMMITTEE MEETING
- Brussels, 11 October, 14:30 – 17:30 CET -

OPENING AND WELCOME

Mr J.-L. SCHIRMANN 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.

She explained that the total number of STEP labelled programmes was 213. Since the beginning of the year, 10 programmes were STEP labelled and 6 STEP labels were withdrawn. The STEP Secretariat kept on receiving annual/exceptional updates (several per week).

There were 4 open requests for which the STEP Secretariat was in negotiations with the issuers.

Ms A. MAES also explained that there were 7 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 F. HEBEISEN inquired about the reasons behind the label withdrawals. Ms A. MAES explained that the withdrawals were mainly due to funding strategy change.

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 between July and August 2022, the STEP outstanding amounts have reached their lowest level. A slight rebound could be observed in September. However, the level of STEP outstanding amounts remained low. Mr M. BELLU explained that since April 2022, the overall STEP outstanding amounts lost 6,9%.

Mr M. BELLU highlighted that for the past year, the daily outstanding amounts have lost around 13%. He added that there was a big drop between April and August 2022. A slight rebound could be observed in the past two months. As far as gross issues were concerned, Mr M. BELLU explained that their level was stable.

Mr M. BELLU then looked at the yield developments. The presentation focused on the difference between the shortest maturities (0-7 days) and the longest ones (275-366 days). Mr M. BELLU explained that at the last STEP Market Committee a decrease in the yields could be observed. However, he pointed out that there had been an important increase in the yields for the past two months. For the 0-7 days maturities, the yields reached their highest level since January 2012. For the 275-366 days maturities, the yields reached their highest level since December 2011. Mr M. BELLU also noted that there was a big increase in the yields levels at moment of the ECB press conference where the key rates were increased.

Mr M. BELLU continued his presentation by providing a breakdown of the STEP outstanding amounts per sector of the issuer. He explained that, for the past two years, the trend for the Monetary and Financial Institutions (MFI) and the General Governments (GG) sectors had been rather negative. however, he noted that there was a slight rise in the last months. On the other hand, the trend of the Non-Financial Corporation (NFC) sector increased.

Mr M. BELLU then looked at the difference in the sector shares compared to the last STEP Market Committee meeting. He noted that the overall situation was stable.

Mr M. BELLU finished his presentation by focusing 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 since the beginning of the year. On the other side, the shares of the USD denominated outstanding amounts dropped since the last STEP Market Committee meeting. However, a rebound could be observed in the past months. He also explained that the EUR gained 5% of shares where the USD and the GBP lost around 3% of the total shares.

Following a question by Mr F. HEBEISEN, Mr M. BELLU explained that the ECB does not measure the impact of the changes of foreign exchange rates. Mr M. BELLU also pointed that there were still data quality issues from time to time.

Following a question by Mr J.-L. SINNIGER, Mr M. BELLU also explained that the next published statistics will probably reflect the fact that the sterling was currently under a lot of stress.

3. VIEWS ON THE MARKETS

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

Mr R. CALVIN GARCIA started by pointing out that, in four months, a move between 150 and 200 basis points could be observed in Euribor® data. He explained that most investors were currently impacted by three main topics. (1) Firstly, Mr R. CALVIN GARCIA noted that the past year was one the worst years for the pricing of the bonds. He explained that many investors were suffering not only from negative returns but also from outflows. The level of outflows affected the amount of liquidity. (2) Mr R. CALVIN GARCIA also noted that for several years, a lot of investors reiterated that buying bonds in the secondary market was not interesting. In fact, around 90% of their outstanding bonds with a maturity less than 1 year were having negative yields. In this sense, investors were looking for alternatives. However, this was not the case anymore. Some investors preferred to enter into liquid bonds with 2/3/4/5/6 months maturities. (3) Finally, Mr R. CALVIN GARCIA highlighted that there was a massive competition with bank deposits. He explained that the majority of big banks were now offering interesting deals. In this sense, a number of clients were back to this product again. Mr R. CALVIN GARCIA concluded by noting that there was a lot of uncertainty during the past months. However, there was a clearer view on what would be the levels for the next couple of years. This was reflected in the small recovery that could be observed in the past months.

Mr D. GEPP confirmed the comments made by Mr R. CALVIN GARCIA on bank deposits. He explained that Money Market Funds do not usually expect banks to be paying up for short-term cash. However, he noted that in the sterling market, there had been increasing underlying rates until inflation got under control. He continued by pointing out that Money Markets Funds were willing to make better bids for cash. In fact, as it matures, Money Market Funds could pick up relatively cheap money for the period that they had the deposit. Mr D. GEPP explained that this was one of the reasons why we could expect ongoing competition from banks. Mr D. GEPP also highlighted that as far as Money Markets Funds are concerned, since March 2020 (Covid crisis) and to February 2022 (invasion of Ukraine), the question of the liquidity of commercial papers has come to a significant stress. A recent ECB Working Paper[1] underlined the lack of liquidity that could be seen in non-government papers. The ECB paper did not differentiate between CPs and CDs or as to whether it was STEP labelled or not. The point was made that relying on the liquidity of commercial papers was threatening financial stability. Central Banks do not see STEP labelled products as sufficiently liquid, especially in a period of stress. Mr J.-L. SINNIGER asked whether Mr D. GEPP could observe any signs, in terms of trading, that there might be some of illiquidity on the commercial paper market.

[1] Is the EU Money Market Fund Regulation fit for purpose? Lessons from the COVID-19 turmoil

Mr D. GEPP explained that the ECB paper focused mainly on stress periods. He explained that it was important to differentiate normal times and abnormal times. He also highlighted that even though Money Markets Funds were rare sellers of commercial papers, they have sold between 2- and 6-months papers in order to get their liquidity up.

Mr M. BRUNING agreed with Mr D. GEPP. He also noted that there were some ongoing initiatives launched by ICMA that were looking for instance at the REPO market. He pointed out that the situation showed that if a market was under stress, even the Gilt Market could face difficulties. In this sense, the CP Market behaved relatively well under pressure. He also confirmed that there was a large will to sell papers. He highlighted that it would be interesting to see how the market would react to improve liquidity and how regulators would face this last point.

Mr F. HEBEISEN asked whether the introduction of SONIA affected the behaviours of fund managers as variable rates were becoming more familiar. Mr D. GEPP answered that the market found it difficult to adjust from 1- or 3-months floating rates to an overnight floating market. On the one hand issuers had no sufficient certainty on their funding curves. Moreover, buyers had even less certainty on their returns. Mr D. GEPP added that there was less volatility now in floating rates products than in fixed rates products. Therefore, there had been a move to more floating rates products.

Mr F. HEBEISEN asked what the rationale for investors was to chose one instruments over the other. Mr R. CALVIN GARCIA explained that for investors it was more a matter of diversification among different buyers. Mrs P. DE DEYNE asked if banks paying up in deposits 1-2-3-6 months was an indication of banks running out of liquidity? Mr R. CALVIN GARCIA answered that with TLTRO ending, banks had large amounts of liquidity. In this sense, banks were trying to broaden their ways of funding. Mrs P. DE DEYNE concluded by saying that we could see more issuance in CP from banks.

Mr P. SIMEON noted that indeed banks could issue more CDs. However, he remarked that, at the moment, there was a big disparity between issuers. He explained that since the beginning of the year, UniCredit divided its outstanding by four. On the other hand, Société Générale and Crédit Agricole multiplied their outstanding by two. He pointed out that the market was driven by volatility. However, he explained that issuers opted for different strategies. He illustrated his comment with the example of French banks that were adjusting their credit spreads with the evolution of the €STR swaps. On the other hand, Nordic banks were relying on the last settings of Euribor® and were therefore less reactive to readjust their level of issuances. He also confirmed that Money Markets Funds were cautious in terms of liquidity. Mr P. SIMEON highlighted that the situation of interest rates risk was good. Indeed, fixed rates positions could systematically be hedged. In this sense, the performance of the fund could be addressed with the evolution of €STR. He noted that the evolution of credit spreads was more difficult to monitor. Mr P. SIMEON continued by explaining that, given the high level of instant liquidity on portfolios, the year end could be problematic to place the cash.

Mr F. HEBEISEN explained that the state of the market of €STR swaps, which was considered to be a bit restricted in size at the moment, could be a source of opportunity for market participants. Mr P. SIMEON explained that traders could sometimes be puzzled by the evolution of the market. Mr. G. MARIN added that a worsening in the pricing in short-term deals could be observed. He explained that the cause was probably the extreme volatility rather than the €STR swaps market itself. He gave the example that some participants refused to make prices because the market was too volatile. He also noted that the situation could also worsen at the end of the year.

M. BRUNING noted that very short tenors in terms of investments could be observed at the moment. He explained that this could be related to TLTRO. He highlighted that some banks were preparing to regain their old access to the market while others were waiting for the end of TLTRO. He added that a huge appetite in the sterling market could be observed. He noted that markets remained stable – issuers and investors still had appetite to deal. However, it was more complicated to bring everything together. Mr D. GEPP added that issuers had been more willing to issue for shorter periods than historically. Following a question by Mrs P. DE DEYNE, Mr M. BRUNING confirmed that issuance of utilities also remained on short maturities. Mr P. SIMEON added that for utilities that were both issuing short-term papers and investing in Money Market Funds faced the difficulty to be sure that they could cope with the volatility of energy prices. In this sense, they had to remain flexible.

Mr J.-M. BOUCARUT asked whether a collateral scarcity could be a problem for the year end. Mr P. SIMEON confirmed that banks were not willing to manage operational cash for the end of the year and therefore they would not have any other choice than investing in very short-term treasury bills. Mr M. BRUNING added that the problem for banks was the cost associated with taking onboard additional liabilities.

4. DEVELOPMENT OF AN ESG CP LABEL

Mrs P. DE DEYNE informed the STEP Market Committee members that The European Money Markets Institute's Board of Directors have approved the setting up of an ESG certificate for commercial papers. The project will most probably be launched by the end of this year.

Mrs P. DE DEYNE explained that the certificate would allow issuers to indicate the ESG aspects of their CP issuance in a standardized and harmonized documentation that would be available for investors in a central database. The European money Markets Institute will not be involved in making any judgment on the content of the ESG documentation.

Mr D. GEPP welcomed the initiative.

Mr J.-L. SINNIGER noted that ICMA also started a working group on ESG in their CP Committee. Mrs P. DEDEYNE highlighted that ICMA had the project to issue ESG standards. Mr M. BRUNING confirmed that there had not been much progress on this side.

5. ICMA TASKFORCE TO IMPROVE TRANSPARENCY AROUND CP

Ms P. DE DEYNE reported on ICMA taskforce to improve transparency around CP.

Ms P. DE DEYNE explained that ICMA set up a taskforce to see where transparency around CP could be improved. This taskforce consisted of issuers, investors, and dealers as well as some platforms. She detailed some of the issues raised by the task force: what type of transparency and for which purposes? Should the task force look at transparency in pricing, in the secondary market, or in the primary market? Ms P. DE DEYNE noted that reactions were mixed. From the investors' side, there was not such demand for extra transparency except maybe when it was about more statistics. On the other hand, the dealers taking part in the task force highlighted adding more transparency would not be beneficial for an OTC market.

Ms P. DE DEYNE continued by explaining that the output of the task force would be a Discussion Paper.

Finally, Ms P. DE DEYNE highlighted that the STEP initiative and the NEU CP market are often cited as good examples of transparency in the market. However, there is some reluctance from ICMA to promote these two initiatives.

Mr F. HEBEISEN added that the different market participants did not express a huge need for more transparency. He explained that it would be useful to have a paper describing the current state of the market and to use the paper to advocate to regulatory bodies for relieving pressure on dealers and on the secondary market. This also would be the occasion to stress that trading venues are not the solution. Mr F. HEBEISEN highlighted that trading venues would diminish transparency. Indeed, trading platforms do not report to the ECB or other Central Banks.

Mr F. HEBEISEN also noted that the governance of the task force should be better defined.

Mr D. GEPP noted that outstanding issuances were more difficult to find easily. He also confirmed the need for a better definition of the secondary market.

Ms P. DE DEYNE asked to the STEP Market Committee members if they think that there was enough transparency in the CP market. Mr M. BRUNING explained that there was enough transparency. However, the issue was more about knowing where to collect everything. Mr J.-L. SINNIGER added that as far as volume information are concerned, the NEU CP market was the best. Mr F. HEBEISEN highlighted that the STEP initiative had the same level of quality. Mr G. MARIN also noted that transparency was key in the market and that things would need to improve.

Mr J.-L. SCHIRMANN suggested that the STEP Market Committee provided the task force with formal feedback on transparency on CP market. The STEP Market Committee agreed with the suggestion.

6. STEP MARKET COMMITTEE: RENEWAL OF MANDATES

Mr J.-L. SCHIRMANN reminded the members of the STEP Market Committee that their mandate would come to an end by the end of the year.

Mr F. HEBEISEN added that it was important that the composition of the STEP Market Committee should ensure a fair representation of the market. He also added that members of the STEP Market Committee should be independent.

7. ANY OTHER BUSINESS

Mr F. HEBEISEN updated the members on the status of the transfer of all rights and obligations from Euribor-ACI to ACI-FMA. He explained that the transfer would be finalized by the end of the year.

Mr J.-L. SCHIRMANN explained that the fees for a STEP Label had never been changed. He noted that the fees should be increased in the near future to better reflect the operating costs of the STEP initiative.

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

List of participants

Chairman

Mr	Jean-Louis Schirmann	The European Money Markets Institute

Members

Mr	Marnix BRUNING	ING Bank
Mr	Rodrigo CALVIN GARCIA	Santander
Mr	Dennis GEPP	Federated Hermes
Mr	Franck HEBEISEN	Independent Expert
Mr	Gianfranco MARIN	Intesa Sanpaolo
Mr	Patrick SIMEON	Amundi
Mr	Jean-Luc SINNIGER	/

Observers

Mr	Jean-Michel BOUCARUT	Banque de France
Mr	Alain PREDOUR	Banque de France
Mr	Mirko BELLU	ECB

STEP Secretariat

Ms	Petra DE DEYNE	STEP Secretariat
Mr	Giuseppe DELLE FAVE	STEP Secretariat
Mr	Jakobus FELDKAMP	STEP Secretariat
Ms	Amandine MAES	STEP Secretariat
Ms	Pauline RONVAUX	STEP Secretariat

Apologies

Mr	Philippe BILLOT	Pictet Gestion
Mr	Richard CORDERO	EACT
Mr	Harald ENDRES	DKB
Mr	Timothy O'CONNELL	EIB