38th STEP MARKET COMMITTEE MEETING
- 22 June, 14:30 – 17:30 CET -

OPENING AND WELCOME

Mr J.-L. SCHIRMANN opened the meeting by thanking the participants for their availabilities.

1. MAIN RESULTS OF THE EURO MONEY MARKETS STUDY 2022

Ms M. ENCIO gave a presentation on the main results of the Euro Money Market Study 2022. She explained that the study covered 5 segments of the money market over a two-year period (2021-2022): (i) Secured, (ii) Unsecured, (iii) Short-Term Securities Issuance, (iv) FX Swaps and (v) O/N Interest Swaps. She added that the report was mainly based on MMSR data.

During this period of time, there were several events of relevance for the money markets. Ms M. ENCIO explained that the money markets kept increasing by about 23% over the past two years. There was now an average of daily transactions volume of 1.3 trillion per day. This increase happened in the context of interest rates hikes. The level of excess liquidity in the system was another element that influenced the money market activity. Finally, the availability of government bonds for collateral was also an important fact for the money markets.

Ms M. ENCIO started by looking at the size and composition of the money markets. The main segments of the money markets were REPO and Foreign Exchanges. In comparison with the other segments, the Short-Term Securities segment was small. Ms M. ENCIO noted that an important shift happened in 2008 from the Unsecured segment to the Secured segment. In fact, the 2008 financial crisis triggered an important risk aversion. Finally, she highlighted that the OIS segment, despite representing only 8%, doubled over the past two years. She explained that the OIS market recovers when there are rates changes.

Ms M. ENCIO looked at outstanding amounts. She explained that the size of the Foreign Exchange Swaps segment increased significantly because the maturities were quite diversified. On the other hand, the Secured and Unsecured segments were concentrated on very short tenors.

Mr J.-L. SCHIRMANN asked why the presentation did not include any outstanding amounts for the OIS segment. Ms M. ENCIO explained that it could be misleading to represent OIS outstanding amounts in the presentation as by nature, it was difficult for OIS to have outstanding amounts that is somewhere comparable to the other segments.

Mr J.-L. SCHIRMANN also noted that the daily transaction volumes of OIS seemed small comparatively to the other segments. Ms M. ENCIO explained that the segment might be larger than represented in the presentation. She highlighted that their level of growth in 2022 could nevertheless be observed across the different data bases.

Ms M. ENCIO continued her presentation by looking at the Short-Term Securities segment. She noted that 66% of the short-term securities volume was denominated in euro.

Ms M. ENCIO highlighted that, every year, the same seasonal pattern could be observed in Short-Term Securities. In the first quarter of the year, there was more issuances than the average over the year. On the other hand, the opposite happened in the last quarter of the year. However, in 2022, the issuance pattern was different. This was mainly due to the influence of the TLTRO. In fact, TLTRO had an important substitution effect.

Ms M. ENCIO then moved to counterparties. She noted that Interbank counterparties are minor except for the Foreign Exchange Swaps segment. Most transactions were done with non-banks.

Ms M. ENCIO noted that the money market funds part had been consistently growing since the data was collected and analysed. Money market funds were important holders of commercial papers.

Ms M. ENCIO explained that the OIS segment was followed closely as it served to monitor what were the market expectations concerning future governing council decisions. For next year, the market was anticipating rates cuts.

Ms M. ENCIO then looked at the monetary policy transmission of interest rates hikes. She highlighted that it was important to analyse whether the governing council decisions materialized in the money market. She noted that there was a contrast between the Unsecured and the Secured segments. She explained that the transmission was quite immediate and complete for €STR. For the secured REPO market, the transmission was uneven and partially lagged. Transactions based in specific collateral (in particular French and German collateral) were only partially transmitting the monetary policy hikes.

Ms M. ENCIO observed that REPO rates were traded very close to each other. However, in 2022, they got segmented. On average, 20% of REPO transactions were based on special collateral.

Ms M. ENCIO focused on the maturities of the money market transactions. Both the Secured and the Unsecured segments were concentrated on very short-term tenors (1 day). In the Unsecured market, there was still some activity above one month. However, the activity was decreasing. In the Secured market, the activity was almost inexistant above one week. There was more diversification in terms of maturities in the Foreign Exchange Swaps and the Short-Term Securities segments.

Finally, Ms M. ENCIO explained that there was a spread between €STR and DFR. This was mainly due to the level of excess liquidity. The larger the volume of excess liquidity, the larger the spread. However, Ms M. ENCIO noted now that as the level of excess liquidity was decreasing the spread between DFR and €STR had however not declined yet. This pattern could also be observed for the spread between Euribor and OIS. She explained that the study concluded that this was due to level of excess liquidity together with short level of investment. This situation was expected to be temporary.

Mr J.-L. SINNIGER asked what the share of commercial papers and NEU CP was compared to REPO and treasury bills in the study. Ms M. ENCIO answered that treasury bills were out as only securities issued by the private sector were considered. Ms M. ENCIO also explained that MMSR data on commercial paper were sometimes incomplete.

Mr J.-L. SCHIRMANN commented on the expansion of the reporting population for MMSR. Ms M. ENCIO confirmed that MMSR wave 2 had started. She also explained that the second wave might bring better geographic representation. Following a comment by Mr H. ENDRES, Ms M. ENCIO confirmed that MMSR wave 2 could take more than one year to be implemented.

2. REPORT ON STEP STATISTICS

Mr A. MORENO gave a presentation on STEP statistics.

He began by showcasing the total outstanding amounts for the "total economy" (all maturities, all sectors, all ratings, all currencies together). He explained that there was only a small decrease since the last STEP Market Committee meeting.

Mr A. MORENO continued his presentation by looking at the daily outstanding amounts. He noted that there was an increase of 11.9%. As far as gross issues were concerned, he explained that the current level was similar to May 2022.

Mr A. MORENO 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). The presentation showed how yields reacted on the same day to interest rates hikes. A similar behaviour could be observed for the longer maturities.

Mr A. MORENO then provided a breakdown of the STEP outstanding amounts per sector of the issuer. He explained that the Monetary and Financial Institutions (MFI) sector remained the most important one. This sector had also increased since the last STEP Market Committee meeting. He also noted that the General Governments (GG) sector had decreased. It was now lower than the Non-Financial Corporation (NFC) sector. Following a question by Mr H. ENDRES, Mr A. MORENO explained that they did not have information on the reasons behind this decrease.

Mr A. MORENO finished his presentation by focusing on currencies and more specifically on EUR and USD. He noted that the situation was comparable to the last STEP Market Committee.

Mr A. MORENO also explained that they were in close contact with the reporting agents. He noted that the data reported was sometimes wrong and required confirmation or later correction.

Mr F. HEBEISEN asked whether the data quality issues came from one specific reporting agents of if they were all concerned. He explained that a couple of Security Settlement Systems were usually reporting wrong data for a specific programme.

Mr P. SIMEON commented that the decrease in the General Governments (GG) sector maybe came from the fact that the ECB adjusted the ceiling for the remuneration of government deposits. In that sense, the funding strategy of the General Governments (GG) sector also changed. Mr F. HEBEISEN shared the view of Mr P. SIMEON.

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 M. BRUNING noted that bank outstanding had grown as expected on the back of repayments of TLTRO. Many European banks had to refund themselves in professional funding markets. As a result, there was also a bit of pressure on pricing. He also commented that the fact that investments and issuances stayed in very-short tenors was somehow normalizing. For instance, there was now appetite again for one-year not only in floating rates but also in fixed rates. He also explained that in dollar and sterling, tenors were now shortening again on the back of uncertainty around Fed and Bank of England. Mr M. BRUNING also confirmed that government issuances were down. He explained that the reason might be that governments had built up their funding on Covid support programmes which had now ended or were in the runoff phase. Now governments could fund themselves through their regular issuance in bonds and T-bills. In this sense, there was less need for them to do additional issuances in the CP market. Mr M. BRUNING also noted that the there was still a lot of supply on the corporate side.

Mr D. GEPP confirmed the comment made by Mr M. BRUNING on sterling. He explained that, as a consequence of the decision by the Bank of England to raise interest rates, the demand for longer issuances had go down considerably. He also noted that the market was trying to adjust to a new dynamic. He also commented that with rates expected to remain higher for longer, there would not be a lot of medium to long dated issuances in the CP market.

Mr P. BILLOT also confirmed the comment made by Mr M. BRUNING. He also noted that the market seemed to be back to some kind of normality. He also noted that there was a gaining interest for the 1 year-maturity.

Mr P. SIMEON explained that banks were much more active. He also noted that there was no issue on their side with the monitoring of interest rates. He explained that their approach remained nevertheless conservative. Regarding flows, he pointed out that there was a lot of competition, especially in France with banks. He explained that banks wanted to attract customers, especially corporates. This could explain the reason why there will be outflows at the end of June. He also noted that the remuneration form Money Markets Funds were still attractive. He noted that there was a lag with retail investors which are kept by the banking system. Finally, he highlighted that outstanding amounts under management by Money Markets Funds had reached their highest levels since 2001.

Mr G. CAVARERO noted that the TLTRO repayments were managed in a smooth manner. He also pointed out that there was a huge competition between banks on the sort-term. He explained that short-term papers were very attractive.

Mr G. MARIN commented that the market was in line with the expectations.

Mr M. GRAZIUSO noted that there were expectations that funding would be longer dated. He also explained that they increased the outstanding amounts of their CP programme. He highlighted that the euro almost caught up on the dollar issuance.

Mr F. HEBEISEN pointed out that one of the points of interest of treasurers in France was the behaviour of government agencies as a switch from the ECB was expected. He explained that treasurers thought that their investment strategy was difficult to establish. Mr F. HEBEISEN also mentioned that liquidity levels were still high in the United States. He noted that there was the feeling that investors were more looking at the U.S market than they used to do before.

Mr B. USCATI explained that the ESG segment was really small at the moment. He added that the segment was not really developing. Mr G. MARIN commented that there was a huge reputational risk for issuers. Mr P. BILLOT added that there was still an issue to identify ESG assets. He also noted that there was still the question of green CP issued by non-green issuers. Finally, he also pointed out that still there was no common approach from a regulatory point of view. Mr F. HEBEISEN added that issuers did not value at this stage a segregation of their assets.

4. 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 214.

Since the beginning of the year, 4 programmes were STEP labelled and 4 STEP labels were withdrawn. The STEP Secretariat kept on receiving annual/exceptional updates (several per week).

Ms A. MAES explained that most of the time issuers withdraw their STEP label because no notes were issued under the programme. However, she noted that one French issuer withdrew the STEP label because NEU CPs no longer required the STEP label to be admitted as a collateral for Eurosystem eligibility.

Ms A. MAES also explained that there were 4 programmes beyond the three years and three months limit established for updates. The STEP Secretariat sent reminders and was following up with the issuers.

There were 3 open requests for which the STEP Secretariat was in discussion with the issuers.

Ms A. MAES explained that the STEP Secretariat was contacted by an issuer that recently concluded a reorganisation where the former parent company was merged into the issuer. The issuer wanted to submit the financial statements of the former parent company for the purpose of applying for the STEP Label. Mr F. HEBEISEN advised not to accept this approach as stand-alone reports were one of the STEP label requirements. Mr P. SIMEON suggested that the issuer submit the merger report and the documents provided to their shareholders. The STEP Market Committee members agreed with the approach.

5. STEP MARKET CONVENTION REVIEW

Ms P. RONVAUX explained that the current STEP Market Convention had not been reviewed since 2015. She highlighted that the goal of the review was not to introduce major and material changes but that it aimed at revising the structure, updating and clarifying some confusing points that have a direct impact on the daily operations and easing the future amendments of the document.

Ms P. RONVAUX then focused on the suggested sections that would be part of the new Convention and presented the expected timeline of the project. The STEP Market Committee members were invited to provide their comments by 21 July (especially on the Information Memorandum templates, and more particularly on the multi-jurisdictions template) in order for the STEP Secretariat to provide them with a first draft of the new Convention by the end of August. The STEP Secretariat will then organize a call beginning of September to collect the final feedback from the members – the aim being to approve the STEP Market Convention at the next STEP Market Committee meeting on 19 October 2023. After this approval, the STEP Secretariat will share the new Convention with the different issuers and will start to collect the newly signed Declarations of Adherence.

Following the presentation, Mr. F. HEBEISEN confirmed that on ACI-FMA's side, the expected changes and timeline were fine and reasonable and suggested to schedule a call with Banque de France, ACI-FMA and relevant parties to address and discuss the specific issues.

6. STEP STATISTICS INTEGRATION INTO THE CENTRALISED SECURITIES DATABASE (CSDB)

Mr J. MICHELER explained that the ECB has started a project to streamline and simplify the compilation of STEP statistics by integrating it into the Centralised Securities Database (CSDB), a data platform for granular securities data.

He highlighted that STEP reporting has remained unchanged since 2010 and needed to be updated. He continued by explaining that CSDB was a multi-source securities reference database that held complete, accurate, consistent and up to date information on all individual securities relevant for the ESCB (and other) functions. CSDB had global coverage on securites/issuers/ratings and had a daily production and data quality process on micro and macro level.

The integration of STEP statistics into the CSDB will lead to technical, functional and legal changes.

7. BRAINSTORMING ON THE FUTURE OF STEP

Item postponed.

8. STEP FEES INCREASE

Ms A. MAES explained that the STEP fees were defined as follow:

<u>For a new label</u>:

- A flat contribution of 2000€.
- A yearly maintenance contribution of 3000€ - amount prorated based on the date of the label approval.

<u>For existing STEP labelled programmes</u>:

- A yearly maintenance contribution of 3000€.

Ms A. MAES explained that the following considerations were taken into account:

- The fees had never been reviewed.
- The current geopolitical and macroeconomic situation had generated a strong inflation in the EU and in Belgium over the past years.
- Future developments were foreseen.

- The fees of the STEP label, even with a price increase, remained low compared to the fees of similar labels.

The Board of Directors of The European Money Markets Institute had approved a price increase of 10%.

9. ANY OTHER BUSINESS

Mr J.-L. SCHIRMANN informed that the next STEP Market Committee meeting will be organized on 19 October by conference call.

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

List of participants

Chairman

Mr	Jean-Louis Schirmann	The European Money Markets Institute

Members

Mr	Philippe BILLOT	Pictet Gestion
Mr	Marnix BRUNING (by call)	ING Bank NV
Mr	Giorgio CAVARERO	Mediobanca SPA
Mr	Harald ENDRES (by call)	DKB
Mr	Dennis GEPP (by call)	Federated Hermes LLP
Mr	Marcello GRAZIUSO	European Investment Bank
Mr	Franck HEBEISEN	ACI-FMA
Mr	Gianfranco MARIN	Intesa Sanpaolo
Mr	Patrick SIMÉON	Amundi Investment
Mr	Jean-Luc SINNIGER (by call)	Independent Expert

Observers

Ms	Maria Encio (by call)	ECB
Mr	Antonio MORENO (by call)	ECB
Mr	Johannes MICHELER	ECB

Ms	Alice Algot-Same	Banque de France
Mr	Benoit USCIATI	Banque de France
Ms	Simone LEYEN-BRETON (by call)	Banque de France
Mr	Patrice TAUZIN (by call)	Banque de France

STEP Secretariat

Ms	Petra DE DEYNE	The European Money Markets Institute
Mr	Remo CAPARELLI	The European Money Markets Institute
Mr	Giuseppe DELLE FAVE	STEP Secretariat
Ms	Amandine MAES	STEP Secretariat
Ms	Pauline RONVAUX	STEP Secretariat

Apologies

Mr	Rodrigo CALVIN GARCIA	BANCO SANTANDER