39th STEP MARKET COMMITTEE MEETING
- 19 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 221.

Since the beginning of the year, 11 programmes were STEP labelled and 5 STEP labels were withdrawn. The STEP Secretariat kept on receiving annual/exceptional updates (several per week).

Ms A. MAES also explained that there were 12 programmes beyond the three years and three months limit established for updates. The STEP Secretariat sent reminders and was following up with the issuers. Mr J.-L. SINNIGER asked if it could be that some of the outdated programmes were inactive. Ms A. MAES will check.

There was 1 open request for which the STEP Secretariat was in discussion with the issuer.

2. REPORT ON STEP STATISTICS

Mr M. BELLU 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 confirmed that the level of outstanding amounts reflected what was presented by Ms A. MAES. He continued by explaining that the outstanding amounts had reached their highest level since June 2020.

Mr M. BELLU continued his presentation by looking at the daily outstanding amounts. He noted that the level of daily outstanding amounts grew by 22%. As far as gross issues were concerned, he explained that their level was stable throughout the year.

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 noted that yields were growing. The presentation showed that yields reacted on the same day to interest rates hikes. The chart shows that the grow in longer maturities is smother but it however followed the same trend as shorter maturities.

Mr M. BELLU 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 reached its highest level since 2019. The Monetary and Financial Institutions (MFI) sector has grown by 36% since September last year. He also showed on the chart that the lines of the levels General Governments (GG) and the Non-Financial Corporation (NFC) sectors were crossing each other. Mr M. BELLU explained that this was mainly due to a drop in the General Government (GG) outstanding amounts. In terms of shares in the market, Mr M. BELLU noted that the General Governments (GG) sector had stolen 1% from the Monetary and Financial Institutions (MFI) sector, and 1% from the Non-Financial Corporation (NFC) sector.

Mr M. BELLU finished his presentation by focusing on currencies and more specifically on EUR and USD. He noted that the level in outstanding amounts of EUR had reached its highest level since May 2013. He pointed out that the USD level was more less stable.

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. GRAZIUSO explained that there was not a lot of appetite for investors to go through the year-end because of the uncertainty of where interest rates would be.

Mr P. BILLOT explained that investors shared the feeling that short-term interest rates had reached their peak (or were very close to their peak). However, he noted that there were still some uncertainties linked to the geopolitical context or inflation. He added that investors, especially institutional investors and distributors had some interest for short-term money markets asset class. He pointed out that there was less interest from the retail side. However, this can be explained by the fact that the retail sector had not been the main support for money market funds in Europe so far. He also commented that there was good appetite in terms of short-term rates. Finally, he pointed out that the situation was relatively good in terms of liquidity in the secondary market.

Mr G. CAVARERO explained that in the context of TLTRO repayments, small issuers had already planned longer term issuances in order to replace TLTRO without any effects on NSFR and LCR. He also confirmed that the liquidity level was also good even if this level could decrease with the year-end effect.

Mr R. CALVIN GARCIA confirmed that there had been a lot of movements in the CP market for the last few months. He commented that issuers and investors were opting for longer maturities than the previous months (6-9-12 months rates). However, he noted that the market had been in a weaker form for the past two weeks. He also confirmed that investors were looking for longer-dated opportunities. However, he explained that, if the situation remained stable, there would still be active bonds at the end of the year and at the beginning of 2024.

Mr P. SIMEON also confirmed that, in Europe, short-term interest rates had reached their peak. However, he noted that there were still some uncertainties. In this sense, he explained that investors would systematically hedge the interest rate risk within their money markets portfolios as long as the inflation is twice higher that the ECB objectives. Mr P. SIMEON explained that this strategy allowed to better monitor the expected volatility of funds' performances. In addition, he highlighted that money rates were much higher in sterling and in US than in EUR. He commented that credit duration remained low as there were some expectations that the liquidity levels in Europe would be less favourable for banks. This would probably lead to a small widening of credit spreads. He confirmed that the current geopolitical context resulted in uncertainties. He also noted that there might be less liquidity in the market toward the year-end – although it was difficult to assess. Banks would probably leverage their issues – leading to less opportunities to place cash. In this sense, he highlighted that it was important to assess the evolution of liquidity of money markets portfolios every year-end.

Mr D. GEPP highlighted that money market funds seemed to have seen a significant increase. This could be explained by the fact that interested rates were very competitive against what banks were prepared to pay on a short-term basis. As such, the demand for all kind of paper had increased. Mr D. GEPP pointed out that there would not be a rapid decrease in interest rates. He added that there would be probably a plateau for some time that should ensure that commercial papers remain attractive.

Mr F. HEBEISEN commented that the Board of ACI France discussed if the inflation rise target in the United States of 2% would be reviewed. He added that the interest rates hikes did not seem to be over in the United States. Mr F. HEBEISEN commented that the market was pushing to price rates cuts in Europe. He pointed out that despite the geopolitical context, the market came back quickly - especially on oil price. He noted that the activity on commercial papers seemed stable. Finally, Mr F. HEBEISEN commented that there were ongoing discussions about the consequences of a change in the remuneration of the reserves at the ECB. This change could impact the calculation made by treasurers on the on the remuneration they can offer on specific days. In this sense, it could be a major hurdle in the relation with funds managers. Mr P. SIMEON explained that it was difficult to assess as reserves were based on the level of deposits at the end of a month not at the end of the year.

Mr J.-L. SINNIGER noted that so far there had not been a market wide move linked to the current geopolitical context. He asked if the shift in diplomacy toward China translated into harder funding on Chinese side than it used to be. Mr P. BILLOT explained that there was a widening of issuing prices for Chinese banks. However, he noted that this was not unusual. He also commented that a lot of interest for Chinese bank investments came from Asia. In this sense, even though some European investors would be more reluctant to invest in Chinese banks, a solid investors base in Asia remained- which would prevent a huge widening of issuing levels.

Mr B. USCATI asked whether the ECB decision to lower the remuneration rates of mandatory reserves had already had an impact on the market. Mr P. SIMEON answered that it was too early to observe such an impact. He pointed that the expectation could have been that banks were not willing to pay deposits from their customers. However, it was not the case as banks were still eager to pay attractive deposits levels to their customers even at the end of the month.

4. EC REPORT ON ADEQUACY ON MMFR

Mr P. BILLOT gave a presentation on the European Commission report on adequacy on MMFR.

Mr P. BILLOT started his presentation by reminding that Money Markets were highly regulated both in Europe and in the United Sates.

After the Covid crisis, some perceived issues emerged around Money-Market funds and liquidity. Regulators seized this opportunity to review the current regulation frame and proposed some amendments. In the Unted States a few changes focusing on liquidity were introduced.

He continued his presentation by explaining that, in Europe, the market is divided in two different typed of funds: stable NAV and variable NAV.

Mr P. BILLOT highlighted that the regulation was covering all areas of the Money-Market funds industry. He noted that the most relevant aspects of the regulation for STEP was the definition of assets that are eligible as instruments for Money-Market funds (asset eligibility). In terms of risk management, the regulator was requesting dedicated research for money market instruments and issuers. In addition, Money-Market funds should not own no more than 10% of outstandings of a same issuer.

Mr P. BILLOT also explained that the report was covering some of the issues that emerged during the COVID crisis. He added that there was a chapter on the impact of the regulation on short-term financial markets. In this chapter, the EU Commission highlighted that the "short-term funding market is fragmented and opaque". The EU Commission also suggested that transparency should be increased in order to "contribute to making short-term funding markets more dynamic and more resilient". It was also recommended that there should be more disclosures "on what is being traded and on outstanding amounts". The EU Commission report concluded that the regulation should not be changed in the near future. However, the report highlighted that there were some structural issues in the short-term market that should be addressed at the FSB level.

Mr J.-L. SINNIGER asked how investors were making sure that they did not own more than 10% of a programme given the lack of transparency. Mr P. BILLOT answered that, because the market was fragmented, investors should look at every segment of the market. He added that in Europe, the Banque de France and STEP initiatives were helping a lot, even if only a marginal part of the market was represented. For the United States, he explained that investors only relied on brokers. Mr J.-L. SINNIGER added that the brokers' information came from traders calling issuers one by one.

Mr F. HEBEISEN commented that it was surprising that dealers take the responsibility to give information on the outstandings of issuers only based on what issuers say. Mr J.-L. SINNIGER highlighted that there was no alternative at the moment.

Mr P. SIMEON also explained that custodians were implementing controls. In this sense, investors were often in discussion with custodians in order to define what was the real level of an issuer outstandings. The level of ECP or CP outstandings was taken into consideration as well as the overall short-term debt under 18 months. This way, investors can demonstrate that the 10% limit was respected. Mr P. SIMEON added that the EU Commission did not seem to be willing to reopen the legislative process about MMFs. However, he noted that the FSB,and the ECB were all moving in the direction of calling for tighter liquidity rules. On the other hand, ESMA asked for money market funds to continue their key role of funding financial markets and the real economy. Mr P. SIMEON also noted that there were some changes in terms of regulation – UCITS and AIFM directives required the selection of two liquidity management tools for asset managers. As far as money markets funds were concerned, only one liquidity management tool could be selected, knowing that LVNAV funds already had the possibility to implement gates.

Mr D. GEPP commented that central banks always had wanted to have greater control on how MMFs were capitalized. He noted that linking liquidity levels with gates had not helped stability of the underlying markets. He also highlighted that since the European Money Market Funds Regulation was put in place, there had been 4 or 5 life stress events. He added that despite these events, money market funds did exactly what they were meant to do: they provided their clients with the products they required. He concluded that the Commission understood that even there were concerns, MMFs were not one of the immediate issues to be addressed. Mr D. GEPP wondered, given that the majority of money market funds were domiciled within the EU; and given that the EU would not change the regulation in the near future, whether there should be any changes to US and UK money market funds rules.

Mr P. SIMEON confirmed that money market funds were concentrated in a few countries: Ireland, Luxembourg and France. He noted that a lot of amounts were not in EUR or even under the jurisdiction of the ECB. This could explain why the BOE announced in September 2023 a new landing tool for non-banking financial institutions during periods of market stress to tackle systemic risks. He noted that tackling systemic risks during stress periods was a problem. In this sense, there were a lot of things to do in order to improve money markets liquidity and to provide liquidity support.

Ms P. DE DEYNE noted that the EU Commission report noted that information on outstanding amounts was very important. Ms P. DE DEYNE asked whether a STEP label or a NEU CP were a criterion in the choice of underlying when composing money market funds. Mr P. BILLOT answered that the STEP label could be a criterion.

Mr P. SIMEON confirmed that it was always good to refer to STEP when it came to the quality of information. However, he noted that there was an urgent need for a centralized register where it could be possible to follow outstanding amounts.

Mr F. HEBEISEN explained that there could be several solutions in order to make outstanding amounts available. He noted that CSD systems already had all the data in their possession. Mr F. HEBEISEN highlighted that, even if the information was fragmented, regulatory bodies already had access to all the information they need. Therefore, the question was the access of information for market participants. Mr F. HEBEISEN inquired whether investors could orientate market participants to chose transparent markets. Mr P. BILLOT answered that investors would not orientate market participants to one or the other option. He stressed that it would be regulators that would push towards a solution. Mr F. HEBEISEN reacted that a solution suggested by regulators would probably be highly regulated and rigid. He added that there were already initiatives that made outstanding amounts available. Mr P. SIMEON observed that a solution pushed by regulators would be costly for issuers. On the other hand, he explained that money market funds managers were already making tremendous efforts to report under money market fund regulation on a quarterly basis. Mr F. HEBEISEN commented that private initiatives would always be less painful for market participants.

Mr J.-L. SCHIRMANN remarked that the market was always expecting that the public sector came out with a solution. However, he noted that the STEP initiative could be an answer to what was highlighted in the EC report – namely that transparency should be increased and that "more disclosures on what is being traded and on outstanding amounts" was required. He added that it could be a good opportunity to promote STEP. He highlighted that it was the role and responsibilities of the STEP market Committee to promote the STEP label.

. Mr P. SIMEON commented that the Autorité des Normes Comptables stated that MMFs were deemed to be considered cash equivalent. However, Mr D. GEPP confirmed that authorities were not going in that direction in a number of jurisdictions.

Mr P. BILLOT confirmed that the STEP initiative would be a good answer to the issues raised by the EC report and other regulators. However, he noted that STEP was not answering the fragmentation issue. Indeed, STEP did not cover all the market. In this sense, it would be important for STEP to cover even larger portions of the market than it did at the moment.

5. FSB CALL (28/07)

Mr F. HEBEISEN explained that he attended an FSB call. He commented that during times of crisis, the lack of visibility on what happens in the market was always raised. The idea that improving transparency would increase liquidity was raised again during the call. He explained that the regulatory bodies already had access to all the information they might need to analyse the market. On the other hand, he stressed the fact that having high level of transparency such as issuances levels, revaluations, prices, etc. available to all market participants could be dangerous. In this sense, Mr F. HEBEISEN highlighted that it was the role of the STEP Market Committee members to encourage market participants to use already existing solutions (such as STEP). He added it was important to promote initiatives such as STEP among regulatory bodies.

Mr P. SIMEON commented that regulators were not comfortable with the OTC market, where price information was difficult to monitor and assess. He added that it was difficult for regulators to understand the functioning of this market.

Mr J.-L. SCHIRMANN suggested to create an internal Working Group or a Task Force.

6. CRANE DATA -EUROPEAN MONEY FUND SYMPOSIUM

Mr D. GEPP updated the STEP Market Committee members on the Crane Data conference that was held on 25 and 26 September 2023.

During these two days, subjects discussed were: change to the US regulation on MMFs, EU regulation, ESG, short-term funding market. He commented that it did not seem to be a lot of people that would differentiate between commercial paper programmes that were or were not STEP labelled. Therefore, Mr D. GEPP was not convinced that money market funds operators necessarily relied on STEP for purchasing. He noted that credit departments were not looking at whether a programme was STEP labelled or not at first. However, they were using as much information as they could get. In this sense, STEP labelled programmes provided more information than others.

7. STEP MARKET CONVENTION REVIEW

Ms. P. RONVAUX presented the work that was done to review the STEP Market Convention and reminded that the aim of this review was not to introduce major changes, but to clarify certain points, reorganize the structure of the document and remove redundancies or parts that were no longer relevant.

She recapped the full process and presented the timeline that was followed during the past few months. She then highlighted that the Convention would have to be approved by EMMI and ACI FMA according to their own internal procedures.

She also focused on the next steps of the project and explained that the STEP Secretariat would notify the issuers about the new Convention once formally approved and would ask them to sign the new Declaration of Adherence. M. J.-L. SINNIGER suggested to provide issuers with a summary of all the changes that were made to the Convention to ease the signature process.

On a parallel note, she noted that the STEP Secretariat was finalizing the Code of Conduct of the STEP Market Committee which would be renamed as Terms of Reference of the STEP Market Committee and that would be sent to the STEP Market Committee for approval as soon as finalized.

Members of the STEP Market Committee were asked to provide their final feedback on the new Convention and to approve it.

Mr. G. CAVARERO expressed that the new wording regarding the Centralised Securities Database (CSDB) data was wide enough to cover the information passed to the ECB and acknowledged the ECB's capability to make technically impossible for CSDB users to trace back the CSDB output data to the individual data input of a data provider. However, he raised his concern that some of issuers might ask for more technical details. To that remark, M. G. VICARIO ROBLA confirmed that everything published on the yields could not be traced back and that only the ECB, as the administrator of the system, had access to this data. He also added that the ECB signed non-disclosure clauses stipulating that this information would remain confidential. He then concluded that issuers could directly contact the ECB for any questions related to the technical measures put in place to ensure the confidentiality of this information.

M. F. HEBEISEN finally explained that he attended some of the calls that were organized with the ECB to discuss this new wording on CSDB data and recognized the reactivity and capacity of the ECB to adjust to the STEP Secretariat's remarks.

The new STEP Market Convention was approved by the nine members who attended the STEP Market Committee meeting.

8. ANY OTHER BUSINESS

Mr J.-L. SCHIRMANN informed that the 2024 STEP Market Committee meetings will be organized on 14 March 2024 (call), 25 June 2024 (physical meeting) and 26 November 2024 (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	Rodrigo CALVIN GARCIA	BANCO SANTANDER
Mr	Giorgio CAVARERO	Mediobanca SPA
Mr	Dennis GEPP	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	Independent Expert

Observers

Mr	Mirko BELLU	ECB
Mr	Guillermo ROBLA VICARIO	ECB
Ms	Alice Algot-Same	Banque de France
Mr	Benoit USCIATI	Banque de France

STEP Secretariat

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

Apologies

Mr	Gianfranco MARIN	Intesa Sanpaolo
Mr	Marnix BRUNING (by call)	ING Bank NV
Mr	Harald ENDRES	DKB