42nd STEP MARKET COMMITTEE MEETING
-26 November 2024, 14:30 – 17:30 CET -

OPENING AND WELCOME

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

Mr J.-L. SCHIRMANN explained that Mr M. GRAZIUSO, who could not attend the meeting, was replaced by Mr F. GARBUGLIO as an observer.

1. SECRETARIAT REPORT ON STEP LABELLING OPERATION

Ms A. MAES gave a presentation on the evolution of the number of STEP labelled programmes.

Since the beginning of the year, 5 new programmes were STEP labelled. Since the beginning of the year, 8 STEP labels were withdrawn. 3 other withdrawals were foreseen by the end of the year. The STEP Secretariat kept on receiving annual/exceptional updates (several per week).

She highlighted that the total number of STEP labelled programmes was 219.

Ms A. MAES also commented that there were 7 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 M. BRUNNING commented that STEDIN HOLDING NV was setting up a new green programme that would replace the actual Stedin Holding NV Euro-Commercial Paper Programme. Mr H. ENDRES added that there were open positions for Stedin Holding NV Euro-Commercial Paper Programme and Henkel AG & Co. KGaA Multi-Currency Commercial Paper Programme. The STEP Market Committee members agreed that the STEP Secretariat could send a formal letter and that the programmes could be withdrawn if no reaction was received.

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

Ms A. MAES explained that the STEP Secretariat was made aware that one of the issuers having a STEP labelled programme was facing some financial difficulties. Mr J.-L. SCHIRMANN explained that in regard of the STEP Market Convention, the programme was still compliant as the documentation was up to date. However, he opened the floor to comments. In Mr J.-L. SINNIGER's view, the STEP label does not make sense in case of bankruptcy as there would be no issuance under the programme. Ms P. DE DEYNE highlighted that any kind of surveillance done by the STEP Secretariat should remain feasible. The STEP Market committee members agreed that it would be difficult to monitor defaults. Mr F. HEBEISEN reminded that a STEP label does not relate to the creditworthiness of issuers. He added that the STEP Market Convention does not include anything about issuers facing financial difficulties. Mr P. BILLOT also noted that it could be in the interest of some market participants to have some information on defaulted issuers. In this case, the STEP Label could be useful. He advised asking for legal advice in this regard. Mr J.-L. SCHIRMANN concluded, based on the discussions amongst the member, that the STEP Market Convention does not include criteria on the financial soundness of issuers. As such, as long as the programme fulfils the STEP Market Convention criteria, there is no need to withdraw the STEP Label.

Following a question by Mr J.-L. SINNIGER, Ms MAES explained that the STEP Secretariat collects the reasons for withdrawal each time an issuer wants to revoke their STEP Label.

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 noted that, since the last meeting, there had been an increase of 0.9% in the outstanding amounts. He pointed out there was a rebound after the September peak, which was the second highest level since the creation of STEP.

Mr M. BELLU continued his presentation by looking at 1-year developments. He highlighted that there has been a consistent grow. In terms of daily gross issues, Mr M. BELLU noted that the average was around €10.9 bil.

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 started by looking at the shortest maturities. He noted that the very short maturity brackets followed the ECB decision on the deposit facility rates. Mr M. BELLU also pointed out that the ECB decision to cut the rates was also reflected in the longer maturities brackets.

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 was still the biggest sector although it had lost 0.9% of the shares of the market since the last meeting. On the other hand, the

General Government sector gained almost 1% in the shares of the market. The Other Financial Institution sector gained half a point.

Mr M. BELLU focused on the currency of denomination. He noted that the Euro denominated amounts had the largest share of the market. on the second hand, he explained that the U.S dollar lost over 0.73% of the shares that was partially gained by the British pound.

Mr G. CAVARERO asked whether it would be possible to have statistics that would allow to see the behaviour of the outstanding amounts by average maturity in order to see if the issuances are more longer-term or shorter-term. Mr M. BELLU commented that the ECB will check what could be done for the next meeting.

Following a question by Mr H. ENDRES, Mr M. BELLU explained that it was not always possible to provide data on yields, broken down per sector as the ECB does not publish data if there are fewer than three issuers for the corresponding category.

Mr B. USCIATI commented that Banque de France was publishing various metrics on average maturities in regards of outstandings and issuances. He also confirmed that Banque de France was also applying the same confidentiality rule in relation to yields.

3. UPDATE ON CSDB / STEP STATISTICS ECB WEBSITE

Mr J. MICHELER updated the STEP Market Committee members on where they stood with migrating and integrating the STEP statistics into the CSDB database. He explained that the project implied two main changes: a new reporting format and new data transmission channels for STEP data providers. Mr J. MICHELER noted that an update to the new reporting instructions were expected by the end of November.

Ms M. Viggiano explained that there were currently two publication sites for the STEP statistics: the ECB Website and the ECB Data Portal. She pointed out that the data on the ECB website was non interactive. Moreover, it was very hard to find the same data on the ECB Data Portal. Migrating the tables to the ECB Data Portal would be beneficial in the sense that the tables would be interactive, with a direct link to the underlying time series and a native download functionality. Moreover, the STEP business area would be able to produce new tables with new breakdowns very quickly, and with limited IT support. However, Ms M. Viggiano noted that the table for the amount outstanding by programme would remain on the ECB website for technical reasons.

The STEP Market Committee members welcomed the enhancement of the publication of the STEP statistics and provided positive feedback.

Ms P. DE DEYNE explained that the STEP Secretariat would discuss internally on how the enhancement of the publication of the STEP statistics could be promoted, also in line with the launch of the new STEP website.

4. 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 commented that the market was in a good shape. He added that the growth in the outstanding was mainly driven by the fact that banks were now forced to refinance themselves in the market again. As a consequence, Mr M. BRUNING noted that there was a lot of competition for funding. The corporate deposit side was impacted by this highly competitive environment although was less visible in the CP market. He added that there were lower issuances on the corporate side. This situation was due to a number of factors including the fact that there was an abundance of long-term issuances which partially replaced the short-term liquidity needs. Moreover, there was a lower activity in Europe. Mr M. BRUNING pointed out that the consistent issuers were mainly utility companies. He added that, at the beginning of the year, due to policies uncertainty and the rates policy developments, issuances were very short on the curve. Moreover, issuers were very much investors driven. However, this situation had shifted. Issuers were going further on the curve. Mr M. BRUNING noted the year-end was looking good as the levels of liquidity were good and that the stress levels were lower compared to previous years. He explained that the abondance of collaterals in the repo market was helpful to absorb the end of year liquidity. Finally, he observed that there was an increase in euro issuance and a decrease in dollar issuance. He added that the arbitrage was not currently working, which was increasing the funding cost for the some SSA issuers. He also noted that a lot of issuances had shifted from a more consistent euribor or Libor benchmark to a more volatile €STR and SOFR benchmark, which was creating more volatility in pricing. In this sense, some SSA issuers were paying over some short-term banking corporate issuers with lower ratings.

Mr P. BILLOT noted that the money markets flows remained relatively dynamic. He commented that the prospects of rates cuts were becoming more precise. He confirmed the comments made by

Mr M. BRUNNING about the cheapening of some SSAs and treasury bills issuers. This situation, combined with political issues (as it was the case in France) could be seen as new. He noted that this should be monitor closely since the repricing of State and high-quality issuers would lead to a repricing of banks and corporate issuers that were not really active at the moment.

Mr H. ENDRES confirmed that there was a strong competition on the corporate side. He added that banks had to pay up to receive money from investors. He explained that the main drivers for this situation was the ECB monetary policy regarding the reduction of excess liquidity and the end of of TLTRO. Following a question by Ms P. DE DEYNE, Mr H. ENDRES commented that it was too early to assess whether banks would go more on the ECB operational framework. He added that there were a lot of discussions on this at the moment. However, the expectations were that there would be an increase in the volume of the 3 months operations in the next few months.

Mr G. CAVARERO commented that the focus was one the year-end. He added that the short-term part of the curve was open and dynamic. He also confirmed the comments made by Mr M. BRUNNING.

Mr P. SIMEON confirmed that there was a good momentum for money markets funds despite the fact that rates were to the downsize. However, he pointed out that money markets funds performances were diminishing. He also highlighted that the level of volatility was high which created some difficulties in terms of valuations. He added that it was difficult for MMFs to be positioned on a fixed rate basis while the curve was deeply inverted. Mr P. SIMEON explained that there was a lot of uncertainty on the evolution of credit spreads. Indeed, in a context where funding conditions were less favourable and agencies more attractive, the question was whether banks would adjust their credit spreads. He concluded that because of a possible widening of credit spreads and a repricing of issuers, money markets funds preferred to adopt a conservative approach. He added that the cheapening of reverse repo was allowing money markets funds to get attractive levels by placing cash in contrast to collaterals of high quality in times of heavy supply.

Mr G. MARIN confirmed the level of liquidity was good. He also commented that the usual tensions that happened at the end of the year were not there yet. He noted that the US political context was starting to have effect on the markets. Following a question by Ms P. DE DEYNE, Mr G. MARIN explained that things were not going in favour of the EU zone, which could accelerate the rates cut.

Mr J.-L. SINNIGER commented that since the election of D. Trump, there had not been any shock on financial markets or on money markets. He added that there had been an increase in MMFs in the USA. He explained that this increase could be explained by the start of the Fed moves downwards and bank deposits being less attractive than money funds rates.

Mr J.-L. SINNIGER continued by explaining that in the USA, there was a strong focus on tokenised and digital funds. Mr P. SIMEON added that the development of stablecoins in the US was incredible in terms of size.

Mr F. HEBEISEN confirmed the comments made by the other STEP Market Committee members. He added that there were some concerns regarding public agencies issuances which were showing big needs. He noted that the impact on banks would be limited but it could lead to some pressure on corporates. He also highlighted that there were some tensions on the French corporate credit market.

Mr F. GARBUGLIO confirmed that the good levels of liquidity. He also confirmed the comments made on the repricing of credit spreads. He added that there had been a significant widening and volatility in bills which was reflected in the levels in which SAAs issuers needed to issue.

Mr B. USCIATI commented that it was difficult to get data on the German market. In this sense, he asked if the STEP Market Committee members had some insights on the German market in terms of size or legal format for CP issuances. Mr H. ENDRES commented that some corporate issuers applied for the STEP label during the Covid crisis. He added that the largest German banks also had a STEP Label for their CP programmes. He also explained that there was no German commercial paper.

5. UPDATE ON THE NEW STEP WEBSITE

Ms P. RONVAUX gave the STEP Market Committee members a demo of the new STEP Market website.

6. TOKENISATION IN THE MM

Mr P. SIMEON gave a presentation on tokenisation in money markets. He explained that the presentation was first made at the last ECB's Money Markets Contact Group meeting.

The presentation gave a large overview of the different instruments that could be tokenised. It also looked that the benefits and risks of digitalization in the financial area.

Mr P. SIMEON explained that there were many use cases that were already in place:

- investments, exchanges, pledges (e.g collateral, MMF)
- financial assets (e.g. equities, bonds)
- physical assets (e.g. real estate, art)
- intangible assets (e.g intellectual properties)

He continued his presentation by pointing out the different identified uses cases in money markets and settlements:

- Money Markets Funds (MMFs)
- Commercial paper and bonds
- Repos, Collateral Mobilization
- Deposits and Loans
- Stablecoins

Mr P. SIMEON also explained that digital commercial papers have the same characteristics of the traditional ones but are issued using blockchain, making administrative activities more efficient. The new technology will reduce manual processes across various phases in the life cycle, both for issuers and investors.

Mr F. HEBEISEN commented that there was a shared impression that tokenisation would be seamless for clients and investors. Mr P. SIMEON explained that investors would have an easier access to financial instruments. He added that banks were not open to instant payments and the possibility for individuals to trade on an ongoing basis fraction of assets.

Following a question by Ms P. DE DEYNE, Mr P. SIMEON confirmed that the intention was to offer this type of funds to retail. Mr J.-L. SINNIGER confirmed that retail distribution was a question mark at the moment in the US.

Mr J.-L. SCHIRMANN commented that at the moment systems were rather closed. In this sense, he questioned the interoperability between systems. Mr P. SIMEON answered that there would be a huge competition between the different actors in the market and eventually one of them will emerge as the best solution. He added that Central Banks should speed up the creation of Central Bank Digital Currency.

Mr M. BRUNNING noted that ING has already issued in a digital way through blockchains 6 years ago. He added that at the time the cash lack of the transactions was already an issue. He concluded that without the support of Central Banks the initiative would not fly.

Mr P. SIMEON highlighted that were many initiatives from different European Asset Managers to develop proof of concept on Money Market Funds.

Mr J.-L. SINNIGER remarked that these initiatives could also help the way traditional markets work.

Ms P. DE DEYNE commented that it would be important to look at how the applicability of tokenization on commercial paper could also have or not have an impact on STEP.

7. NBFI CONSULTATION

Ms P. DE DEYNE followed up on the NBFI consultation. She reminded the STEP Market Committee members that the STEP Secretariat provided an answer to the NBFI consultation. She also explained that the answer was shared with EFAMA, ECB, Banque de France and the European Commission. She noted that the European Money Markets Institute will follow up closely on what would come out from the regulatory side.

8. ANY OTHER BUSINESS

Mr J.-L. SCHIRMANN informed that the dates of the next STEP Market Committee meetings will be communicated early next year.

Ms A. MAES explained that the ECB confirmed that LUX CSD was now ready to become a STEP-compliant Securities Settlement Systems (SSSs).

Ms A. MAES also explained that the STEP Secretariat was still working on the renewal of mandates. The Secretariat would follow up with a confirmation email. Mr J.-L. SCHIRMANN explained that Mr R. CALVIN GARCIA and Mr G. MARIN would not renew their mandates. He thanked them for their participation and valuable input.

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	ING
Mr	Giorgio CAVARERO	Mediobanca SPA
Mr	Harald ENDRES	DKB
Mr	Ferdinando GARBUGLIO	European Investment Bank
Mr	Franck HEBEISEN	ACI-FMA
Mr	Gianfranco MARIN	Intesa Sanpaolo
Mr	Patrick SIMÉON	Amundi Investment
Mr	Jean-Luc SINNIGER	Independent

Observers

Mr	Mirko BELLU	ECB
Mr	Johannes MICHELER	ECB
Ms	Martina VIGGIANO	ECB
Mr	Benoit USCIATI	Banque de France

STEP Secretariat

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

Apologies

Mr	Marcello GRAZIUSO	European Investment Bank
Mr	Dennis GEPP	Federated Hermes LLP
Mr	Rodrigo CALVIN GARCIA	Banco Santander