

29th STEP MARKET COMMITTEE MEETING
- Brussels, 3 December 2019, 10.30-15.00 –

Minutes

OPENING AND WELCOME

Due to major disturbances on the French railway, the participants travelling from Paris and London could not reach EMMI's premises at 10h30. The meeting started more than 2 hours late and the agenda had to be readjusted. Item 6 was covered through a conference call on 9 January 2020.

The Chairman, Mr J.L. SCHIRMANN, welcomed the participants and informed them that Mr V. PETIT from the ECB, could not attend the meeting due to unforeseen circumstances.

1. SECRETARIAT REPORT ON STEP LABELLING OPERATIONS

Ms A. MAES gave a presentation on the evolution of the number of STEP labelled programmes, the new prospects and an update on payments issues. She explained that the total of STEP labelled programmes is now at 168. Since the last STEP Market Committee in June 2019, 5 programmes have been withdrawn from the STEP Directory and 5 new programmes have been added. In 2019, there had been 11 new STEP labelled programmes and 10 withdrawals. The participants inquired about the reasons behind the label withdrawals. Mr A. GIL gave additional details about some withdrawals. In most cases, issuers stop using the STEP label when they remove their commercial paper programmes due to changes in their funding strategy.

The STEP Secretariat keeps on receiving annual/exceptional updates (several per week), as well as requests for pre-screening.

Ms A. MAES also explained that there were 11 programmes beyond the three years and three months limit established for renewals. The STEP Secretariat sent final reminders and is following-up with these programmes.

The STEP Secretariat has implemented a tool to track the requests for new programmes received by phone or by email. Since July 2019, the STEP Secretariat had received 11 requests for information or pre-screening. 6 of these requests resulted in new labeled programmes.

Regarding payment issues, Ms A. MAES explained that on November 2019, there were 6 programmes with outstanding invoices exceeding the payment terms, for a total amount of 18, 130€. The STEP Market Secretariat were confident that all invoices would be paid by the end of the year.

2. REPORT ON STEP STATISTICS

Mr D. COWEN presented an update on latest developments in the STEP Statistics on behalf of the Secretariat, as the ECB was not able to present at this meeting. He mentioned that the data for the presentation was gathered from publically available sources, such as the ECB, Bloomberg, and the STEP Secretariat itself. He noted a rising trend in the amounts outstanding of STEP labelled programmes during 2019, which was a reversal of the slightly declining trend seen over the past four years. In terms of new issues made under the STEP programs in 2019, the quarter-end periods stood out as peaks in activity.

The share of STEP labelled outstanding amounts compared with the total amounts outstanding issued by euro area residents in euro had remained broadly stable at around 33 %, though there had been a slight downward trend in this share over the past two years, mainly as a result of stronger growth in the issuance by euro are residents.

In terms of the activity per sector of issuer, monetary financial institutions still constituted the majority of STEP amounts outstanding, though the share of non-financial corporations had almost doubled in 2019 compared to 2018. A breakdown of the amounts outstanding by currency showed that issuance in euro still counts for roughly two thirds of the total amounts, although the amount issued in USD had increased in 2019 and had been the main driver for the overall growth in outstanding amounts.

Finally, Mr D. COWEN presented some program level statistics on the location of issuers and the concentration of dealers in STEP labelled programs. The countries with the most issuers were France, Netherlands and UK. There were a small number of issuers also located outside the EU. For the dealers, the top 5 dealers in terms of number of STEP programs covered roughly 50 % of the total amount of STEP programs. A breakdown of the market shares of dealers per market shows that the French NEU CP market is mainly covered by French dealers.

All the participants agreed in the importance of the statistics as the backbone of the STEP initiative. Mr SCHIRMANN suggested to organize a meeting with ECB senior staff in order to discuss ways to reinforce the cooperation in the frame of the STEP initiative. Several members of the committee volunteered to join the Chairman of STEP in that meeting.

3. BREXIT

The STEP Secretariat gave a presentation on the preparations of the STEP Secretariat for different Brexit scenarios and its potential impact in the Short term markets across Europe.

Ms. A. LUSKIN presented an analysis of the expected implications of Brexit for the eligibility of issuances of UK-based entities and UK-based programmes as collateral for the ECB market operations, the so-called marketable assets list. More than half of the STEP-labelled programmes are linked to the ECP market (based in London), but the preliminary assessment showed that only few of them would see their ECB eligibility status changed by Brexit.

The participants explained that, while some programmes have been adapted as a contingency measure (e.g. relocating the issuer), most of the actors in the industry are concerned about the increase of administrative burden in their operations linked to the UK leaving the EU.

Ms. P. DE DEYNE introduced the measures taken by the European Money Markets Institute (EMMI) in order to monitor Brexit developments and to quickly respond to future developments linked to the EMMI benchmarks and the STEP label.

4. US AND EU SANCTIONS

Mr C. WESTSTEIJN gave a presentation on the US and EU sanctions. He made a proposal to demonstrate the intention of applicant issuers (both European and non-European) to comply with any imposed EU sanctions by adding appropriate wording in the STEP declaration. Following this proposal the members discussed the implications of such a declaration for the internal processes of the STEP Secretariat (i.e. the feasibility of related checks) and the general responsibility that the STEP Label in relation to several types of stakeholders.

Some participants underlined the fact that the role of the STEP Secretariat is not to control that programmes comply with EU sanctions. Moreover, some participants also mentioned that the inclusion of specific rules prioritizing EU sanctions over other jurisdictions might lead to withdrawals. In the end it was agreed that an assessment should be made to assess the legal implications of the proposed sanction declaration (liability for the STEP initiative and the members of the STEP Market Committee) and the operational feasibility of introducing associated checks. Following that legal assessment a further discussion on the proposed sanction declaration would follow.

5. ABCP MARKET IN EUROPE

Due to major disturbances on the French railway, this item could not be covered during the physical meeting and it was postponed to Thursday 9 January 2020 via conference call.

Mr J.-L. SINNIGER gave a presentation on the Asset Backed Commercial Paper (ABCP) market and the barriers to the adoption of the STEP label in that sector. Mr. SINNIGER explained the overall volume of the ABCP markets in Europe, the most active programmes, and their evolution since 2007.

The market has shrunk since the financial crisis, but the practices have transformed over that period. The design of the programmes has evolved to narrow the asset-liability gap: assets and their maturity have been reassessed. More specifically, the mortgage-backed programmes have disappeared and the overall maturity of the assets has decreased in order to boost liquidity. Additionally, sponsors of the current conduits guarantee now their ABCP programmes.

In the aftermath of the financial crisis, the governance of ABCP programmes was perceived as poor by investors. European investors (as opposed to US investors) did not recover their confidence in ABCP after the financial crisis. Furthermore, regulators have not promoted this segment of the market by supporting institutional investors to gain exposure to this kind of paper.

Despite these challenges, new sponsors are introducing ABCP programmes or planning to for the first time in many years. In that context, few existing or prospective ABCP programmes are interested in the STEP label as they perceive it very much associated to ECB eligibility. However, ABCP paper is not eligible in the Marketable Assets List of the ECB. While promoting the eligibility of the ABCP paper by the ECB could increase confidence in this market, the value proposition of STEP is linked to transparency and comparability.

Ultimately, the discussion moved on to the challenges of the value proposition of STEP: low profitability drives aggressive cost-cutting and stringent regulations make good paper scarce (forcing investors to avoid focusing on STEP-labelled paper). The STEP secretariat will try engage in conversations with conduit managers in order to explain the key features of the STEP label and how it can help to increase the visibility and the attractiveness of their paper.

6. PROJECT FOR NEU CP ISSUANCE ON A PUBLIC BLOCKCHAIN

Mr. J. BENICHO and Mr. D. DUROUCHOUX were invited to give a presentation on FORGE, the digital assets offer by Société Générale. FORGE is a team of 15 people under direct sponsorship of Société Générale's management. The platform enables the issuance of several types of securities on a public blockchain.

FORGE is engaging with regulators at French and international level to build a regulatory framework for utility tokens (as opposed to security tokens and cryptocurrencies). On 18th of April 2019, Société Générale issued a covered bond with the FORGE platform. The token is fully holding the legal rights of the bond and this "self-custody" setting allows for no CSD to act as depository. The "custodian" task is only to keep the blockchain access keys safe and providing a strong transaction signing governance.

The solution is based on an Ethereum blockchain, widely used and a state of the art infrastructure. As the blockchain is public, users are not dependent on Société Générale's proprietary tools for



access and reporting. Finally, the support of a financial institution allows for cash to be settled against the token like a regular security.

Against this background, FORGE has approached the STEP initiative to assess the compatibility of its solution with the STEP requirements. The STEP framework requires the participation of a Central Securities Depository. By getting rid of such actors, commercial paper issued on FORGE's solution does not qualify for STEP eligibility.

The participants recognized the need for STEP to remain technology-neutral and to closely monitor initiatives that could transform the CP market in some jurisdictions. Nevertheless, they also explained that the basic principles of the STEP Initiative cannot be transformed without a clear demand from treasurers or investors only to make STEP compatible with new solution that are not yet widely accepted in the CP markets.

7. ANY OTHER BUSINESS

The members agreed to fix the dates of the 2020 meetings as soon as possible.