

## **30th STEP MARKET COMMITTEE MEETING**

**- Conference call, 30 June 2020, 14.30-17.30 –**

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### **OPENING AND WELCOME**

The Chairman, Mr J.L. SCHIRMANN, opened the meeting by thanking the participants for their availability.

### **1. SECRETARIAT REPORT ON STEP LABELLING OPERATION**

Ms A. MAES gave a presentation on the evolution of the number of STEP labelled programmes, and on new prospects. She explained that the total number of STEP labelled programmes was 184. In 2020, 19 programmes have been STEP labelled and 5 programmes have been withdrawn. It is the first time that the total number of STEP labelled programmes has moved up over 180.

The STEP Secretariat kept on receiving annual/exceptional updates (several per week), as well as requests for pre-screening of new programmes. There were 7 open requests for which the STEP Secretariat was waiting for the signed documentation or was in negotiations.

Ms A. MAES also explained that there were 8 programmes beyond the three years and three months limit established for renewals. The STEP Secretariat sent reminders and is following up with these programmes.

Mr R. CORDERO asked which type of issuers were approaching the secretariat for new labels. The large majority of enquiries came from non-financial corporations.

### **2. REPORT ON STEP STATISTICS**

Mr D. COWEN presented the latest developments regarding the STEP statistics. He began by showcasing the overall STEP amounts outstanding and the month-on-month change. The outstanding amount had increased throughout the first half of 2020 and stood at close to EUR 470 billion at the time of the meeting, the highest level since 2012. The daily gross issuance of STEP labelled paper had exhibited its usual seasonality, but had also increased in size particularly since mid-April.

Mr D. COWEN then presented a comparison between the EUR denominated STEP amounts outstanding and worldwide EUR denominated short-term debt issuance, as per the figures published by the ECB. STEP's share of total worldwide short-term issuance had remained stable at around 25 %. Some members asked clarifying questions regarding the instruments that were included in the figure for the worldwide short-term issuance, in particular whether it included government T-bills or other instruments that were not eligible for STEP. Mr D. COWEN replied that there was no breakdown per issuer or instrument publically available to make a closer comparison. He mentioned that during past meetings of the STEP Market Committee, the ECB had presented a comparison that excluded the General Government sector, after which the share of STEP increased to roughly 50 % of worldwide EUR denominated issuance.

Mr D. COWEN then provided a breakdown of the STEP outstanding amount per sector of the issuer. He noted that the share of the General Government sector had increased almost threefold from 10 % to 26 % compared to a year ago. The absolute amount issued by Non-Financial Corporates had also increased noticeably during the past year, although their share of all amounts outstanding remained at around 9 %. The share of Monetary Financial Institutions remained the largest although it had decreased from 77 % to 62 % over the past year. Members noted in particular the increase in the issuance of General Government, as a result of the COVID-19 crisis, and expressed slight surprise that General Government issuers would obtain the STEP label. Mr J. FELDKAMP confirmed that there was indeed one further General Government issuer currently in discussions to apply for a STEP label.

Mr D. COWEN further highlighted the figures for Non-Financial Corporate issuers, as the additional measures taken by the ECB following the COVID-19 crisis had made non-financial commercial paper eligible for purchase under the Corporate Sector Purchase Program (CSPP), while STEP remained a recognised non-regulated market in the Eurosystem's collateral framework. The outstanding amount of STEP labelled issuance by Non-Financial Corporates had increased from a level of EUR 32 billion at the beginning of 2020 to around EUR 44 billion at the time of the meeting. Figures published by the ECB indicated that the Eurosystem had purchased EUR 35 billion of commercial paper in the period March – May 2020. Members asked if there was a breakdown available of this amount per instrument and sector. Ms E. TRICHET confirmed that no further breakdown was publically available.

Mr D. COWEN concluded by presenting the breakdown of the STEP outstanding amount per currency of issuance. The increase in the overall outstanding amount had been driven almost exclusively by an increase in EUR issuance, which constituted 65 % at the time of the meeting.

USD issuance had remained unchanged at around 20 %, while the share of GBP had slightly increased to 14 %.

### **3. VIEWS ON THE MARKETS**

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

Mr M. BRUNNING explained that at the beginning of the COVID crisis a number of issuers explored the use of the commercial paper markets as a source of funding; among them, many non-financial corporates expressed their interest in the STEP label initiative. During the first weeks of the crisis, investors flew to safe havens (e.g. supranationals and governmental) until the ECB launched its purchase programme. Then, the market stabilized and programmes issued by non-financial corporations and monetary financial institutions normalized their access to the market. These actors became quite active and are entering a quieter phase during the summer. He also pointed that even though things are slowly stabilizing, some issuers may apply for the STEP label in order to be ready in case of another crisis.

Mr P. BILLOT followed by explaining that long-term bond issuance is slowly replacing short-term funding. In his opinion, normalization in the market is on its way.

Mr F. HEBEISEN explained the implementation of the CSPP in the NEU CP market. Some issuers have extensively used that facility and they face a certain challenge to come back to their usual investors who are now more demanding.

Mr G. MARIN mentioned that non-financial corporate issuers have to follow a long path to access funding. There is a risk that short-term funding becomes a bottle-neck as it may be difficult to find offer in the market. In his opinion, it will take time to go back to a normal situation. He reminded that some European jurisdictions are still bank-centric when it comes to the funding of non-financial corporations and the ECB should consider specific actions to channel liquidity to the monetary financial institutions.

Mr P. SIMEON reminded that the situation is unprecedented. The levels of volatility observed in previous months were unbearable and the situation will still take some time to come back to normal.

Mr SINNIGER pointed that a handful of non-financial corporate issuers opted for a listing at the local stock exchange of their choice. Most of these non-financial corporate issuers already have

other instruments listed on the same local stock exchange. By listing their paper on a stock exchange, they avoid any remodeling work of their programme. He added that the criteria to become eligible are that the programme has to be listed and traded. The ECB confirmed that the paper has to be traded on a stock exchange and on a regulated or non-regulated market.

#### **4. OUTREACH**

Ms P. DE DEYNE explained that EMMI has taken the opportunity to promote the use of the STEP label. At the same time, it has seized the opportunity to set up new relationships with a number of counterparties and to step into the front light as an active supporter of money market initiatives. This outreach also enables EMMI to get more insight in the world of corporate treasury and further deepen our understanding of money markets and its market participants.

Ms P. DE DEYNE reminded that by way of preparation for an outreach to parties (potentially involved in STEP, EMMI has worked on the presentation materials of STEP: it has

- made adaptations to STEP website;
- refreshed the published FAQ;
- developed an informative brochure on STEP for dissemination.

She also explained that concrete actions are now ongoing to promote the label:

- contacts with the involved industry associations of investors (EFAMA), lawyers (EFMLG), corporate treasurers (EACT), issuers (European Issuers) and banks (national banking federations, EBF) and bank treasurers (ACI);
- contacts with public bodies: ECB, the European Commission and ESAs (STEP aligns with the CMU and ESG initiatives) and national competent authorities involved in STEP;
- contacts with think tanks and event organizers to secure speaking engagements,
- contacts with press and media to look for appropriate media coverage;
- contacts with individual issuers that have a short term paper programme but no STEP labels
- plan to include STEP in EMMI future E-newsletter.

#### **5. LIST OF ACCEPTABLE JURISDICTIONS**

Mr J. FELDKAMP summarised the current reference to the (elapsed) General Arrangements to Borrow of the International Monetary Fund in the STEP Market Convention and proposed to the

Secretariat to agree that the reference was declarative in nature and that the laws of all former participant jurisdictions should remain eligible governing laws for the STEP label. This would mean that a short-term paper programme shall be eligible for the STEP label if notes thereunder accept either of the following as governing jurisdictions: EU Member States, United States of America, Switzerland, Canada, Japan and, as of 1 January 2021, the United Kingdom. One member raised concerns that this might create an unlevel playing field versus the United States and the United Kingdom, where the Federal Reserve and the Bank of England both required US/UK law for notes to be eligible for purchase. Mr J.L. SCHIRMANN explained that the proposal would not mean a change of the status quo and that meeting the formal criteria for the STEP label would not automatically mean that the relevant notes would be eligible for purchase by EU central banks. The Committee voted in favour of the proposal with one abstention.

## **6. RENEWAL OF MANDATES**

Mr A. GIL BONET reminded members that their mandate as STEP Market Committee Members will come to an end by the end of December 2020. He explained that members are invited to renew their mandates and they will be contacted by the secretariat after the summer to confirm their willingness to renew. He also reminded that 6 members will be approved by EMMI General Assembly and 6 members by the Euribor-ACI Assembly.

## **7. ANY OTHER BUSINESS**

Mr J.L SCHIRMANN informed the STEP Market Committee members that Mr A. GIL will leave EMMI. He thanked him for his work for the STEP label initiative.

Mr J.L SCHIRMANN thanked the participants in the call and informed them that the next STEP Market Committee will be organized in November.