

**21<sup>st</sup> STEP MARKET COMMITTEE MEETING**  
**- Brussels, 25 January 2016, 10.00-14.30 CET –**

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**Draft Minutes**

**OPENING AND WELCOME**

Mr RAVOET welcomed the participants and informed them about the incorporation of a new member to the STEP Secretariat team. Ms TORRES will take over the responsibilities of Ms MICHEL providing issuers with support through all the lifecycle of the STEP label (application, renewals, general information, update of the STEP data and documents, etc.).

**1. MINUTES FROM THE LAST MEETING**

Minutes from the last 20<sup>th</sup> STEP Market Committee were approved.

**2. SECRETARIAT REPORT ON STEP LABELLING**

The number of STEP labels has slightly decreased from 171 for the last meeting to 166 on 18 January 2016. The 5 programmes withdrawals are mostly explained by the sanity checks put in place to identify outdated programmes. In fact, it allowed to spot inactive programmes that issuers had not formally withdrawn from the STEP database.

Mr GIL updated the participants about the number of outdated programmes and the activities undertaken to make sure that appropriate actions are taken when outdated programmes are spotted by the new sanity checks.

Mr GIL also explained that the communication regarding the new STEP Market Convention had been delayed.

**3. ECB REPORT ON STEP STATISTICS**

Mr PETIT gave a presentation on the recent and future developments of STEP statistics.

He explained that the outstanding amounts have remained relatively stable during the second semester of 2015, however at lower levels than the first half of the year. The ECB closely monitors the latest developments of the market. The relative size of the STEP market compared to worldwide euro-denominated short-term debt securities also remained stable.

The overall picture in terms of issuance remains relatively similar to the levels of the last STEP Market Committee meeting. The respective shares of issuing sectors did not significantly move,

except for the Non-financial corporations (from 2.7% of the overall market in December 2014 to 5.9% in December 2015), balancing the decrease of issuance by the MFI sector. The participants noted that the fact that insurers are cash-rich explains their little activity in the frame of STEP.

The market share for issuances in other currencies than Euro seems to be FX-arbitrage-driven, more specifically this hypothesis explains the declining trend of the Euro issuances compared to the Dollar issuances. In December 2015, the share of STEP papers denominated in EUR was 61.4%, compared to 24.2% for USD. The participants in the committee explained that entities may issue in other currencies in order to offer better yields. However, comparing the yields in different currencies is not straightforward and it would be interesting to study the evolution of the yields by currency.

Developments on issuing yields remained consistent with other available benchmark rates (e.g. EONIA or Euribor spot week). Mr SIMEON explained that the decoupling at the end of the 2015 period of 1-month Euribor rates and the STEP yields could be explained by the activities of corporates.

On the operational side, the integration of Monte Titoli data flows will be soon complete. Conversely, Interbolsa integration has been delayed.

#### **4. MARKETING OF THE STEP LABEL**

Mr HEBEISEN shared an updated version of the presentation on the marketing plan of the STEP label. He reminded that 2016 is the tenth anniversary of the launch of the STEP Initiative and that is a good reason to communicate.

The presentation will be a back-up document to schedule meetings with:

- Regulators in Paris and Brussels,
- Risk managers of asset management companies,
- Financial data vendors like Thomson Reuters and Bloomberg
- National and International Associations of Corporate Treasurers
- Lawyers (who are sometimes reluctant to recommend the STEP label to their clients as they perceive that increased standardisation can threat their business)

There is a lack of knowledge of the efforts that market has done to promote self-regulation. Additionally, dealers diverge in their stance regarding STEP. The only effective way to involve the less enthusiastic dealers is to generate demand among issuers. Furthermore, if STEP increased its size, it would reach the critical mass to be considered a quasi-standard by the industry.

A key advantage of STEP is that it forces its participants to update the documents of the programme periodically. Outside the frame of the STEP initiative, there is no formal obligation regarding updates of the information distributed to investors on European or US markets.

#### **5. EMMI'S RISK MANAGEMENT FRAMEWORK**

Ms. MARQUES DOS SANTOS, Head of EMMI Corporate Governance, Risk & Control Unit, gave a presentation on the main elements and processes of the Risk Management Framework approved by EMMI Board of Directors in May 2015.

The Members of the STEP Market Committee were informed of their role in the oversight and management of risks arising from the administration of the STEP Market Program.

In fact, according to the Risk Management Framework, the STEP Market Committee is responsible for monitoring market developments, establishing and reviewing the standards on which the STEP label is based, and providing guidance on the appropriate and consistent interpretation of the STEP Market Convention. Additionally, specific responsibilities were identified with reference to each element of the Risk Management Framework:

Governance and Organization	<ul style="list-style-type: none"> <li>Participates in the risk management oversight with reference to the administration of STEP Market Program.</li> <li>Reviews and approves conflicts of interest policies specific to the STEP Market Program and is responsible for declaring any relevant conflicts of interest so that they may be managed at the Association-level by the Conflicts of Interest Oversight Committee.</li> </ul>
Risk Culture	<ul style="list-style-type: none"> <li>Promotes and communicates a risk culture that encourages an informed and disciplined approach to the administration and development of the STEP Market Program.</li> </ul>
Strategic Objectives	<ul style="list-style-type: none"> <li>Approves and recommends to the Board of Directors relevant enhancement proposals and project plans.</li> <li>Oversees the development and implementation of market program-specific strategic plans.</li> </ul>
Risk Appetite	<ul style="list-style-type: none"> <li>Is informed of EMMI's Risk Appetite Statement and may provide recommendations to the Board of Directors with reference to the alignment of risk appetite metrics relevant to the STEP Market Program with EMMI's strategic objectives, operations, enhancement plans, and relevant regulatory environment.</li> </ul>
Risk assessment and planning	<ul style="list-style-type: none"> <li>Periodically reviews the results of current and emerging risk assessments which address specific elements of the STEP administration activities.</li> <li>With regard to relevant new initiatives, reviews these initiatives and associated plans and timelines to ensure that material risks are identified and that the EMMI Secretariat has taken appropriate actions to mitigate identified risks.</li> </ul>
Policies, procedures and controls	<ul style="list-style-type: none"> <li>Participates in the development and approval of policies and procedures supporting the administration of the STEP Market Program.</li> </ul>
Monitoring, reporting and response	<ul style="list-style-type: none"> <li>Monitors and assesses EMMI's internal and external risks specific to the STEP Market Program by reviewing reports prepared by the second-line of defense, first-line of defense, and internal audit services.</li> <li>Ensures that decisions are based on accurate and precise reporting of risks.</li> <li>In the event remediation plans are developed to address issues concerning STEP, is responsible for monitoring the completion of these plans and reviewing reporting on issue management.</li> </ul>
Resources management	N.A.

## 6. STEP RISK ASSESSMENT

According to the roles and responsibility of the STEP Market Committee discussed in Item 5, Members received the first risk assessment report on the administration of the STEP Market Program.

Ms MARINO, EMMI Risk Management Officer, gave a presentation on the main findings of the risk assessment and highlighted the following main areas of improvement:

- introduction of more structured and systematic controls on the correct coding of STEP labelled programs;
- implementation of a standard and structured procedure to follow-up on late updates of STEP labelled programs.

Ms MARINO stressed that since the risk assessment was performed the STEP Secretariat had already improved the practices in place with respect to both the identified areas of improvement.

Additionally, Ms MARINO invited the Members of the STEP Market Committee to discuss potential conflict of interest situations that might affect the Members in the execution of their duties. Members agree that, due to the nature of the STEP Market activities and taking into consideration the responsibilities assigned to the STEP Market Committee, the main potential conflict of interest situations are:

- Members of the STEP Market Committee might favour or exercise leniency in dealing with issues concerning organizations they are affiliated to/have interest in;
- Members of the STEP Market Committee might access confidential information of competitors and use it to benefit the organization they are affiliated to;
- When asked for advice on the provision of the STEP label to competitors, the Members of the STEP Market Committee might delay the process in order to benefit their own organizations.

Accordingly, the Members agreed to sign a declaration of adherence to the Code of Conduct of the STEP Market Committee including provisions concerning independency and confidentiality as well as individual responsibility to recuse from relevant decision making and/or advice functions in the event a conflict of interest situation might arise.

Finally, with reference to the sanctions to be applied in case of programs not updated in due time, the STEP Market Committee confirmed that the STEP Secretariat may take the decision to withdraw the STEP label. However, members recommended the Secretariat to ensure that the issuer is not intentioned to update the program and to maintain the STEP label before proceeding with the withdrawal, by contacting the issuer and sending reminders. The STEP Secretariat will report to the STEP Market Committee on withdrawn programmes and on the reason for the withdrawal at the meetings of the Committee.

## **7. DATE AND PLACE OF THE NEXT MEETING**

The next meeting will be organized during June 2016 in Paris.