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03 December 2007

Minutes of the 5th Meeting of the STEP Market Steering Committee

- Brussels, 04 October 2007 -

List of participants:

Market Committee Members present:

- Mr Guido Ravoet, EBF (chairman)
- Mr Philippe Billot, Pictet
- Mr Olivier Brissaud, Volkswagen Group
- Mr Franck Hebeisen, SoGeCIB
- Mr Michael Schneider, DZ Bank

Via conference call:

- Mr Pepijn Sigtermans, ING
- Mr Colin Withers, Citigroup
- Mr Peter Eisenhardt, Bank of America
- Mrs Claudia Benci, Banca Monte dei Paschi di Siena

ECB (non-voting member):

- Mr Marco Lagana, ECB
- Mr Holger Neuhaus, ECB

Secretariat:

- Mr Emil Gospodinov, EBF
- Mrs Laura Cerrato, EBF

Observers:

- Mr Dirk Janssens, Banque Nationale de Belgique
- Ms Susan Hindle Barone, Credit Suisse
- Mrs Eliane Klein, Banque de France
- Ms Susanne Louis, Deutsche Bank
- Mr Arturo Mesón, Banco de España
- Mr Frédéric Wilhelm, Banque de France

Apologies

- Mr Tim O'Connel, EIB

1. Opening and welcome

The Chairman of the STEP Market Steering Committee, Mr Guido RAVOET, thanked the Banque Nationale de Belgique / Nationale Bank van België (NBB-BNB) and Oliver Brissaud (ATEB) as well as ACI for the organisation of the STEP conference that had taken place earlier that day.¹ Mr Guido Ravoet recognized the success of the event as well as the encouraging development of the STEP Market to date. At the same time, he underlined the challenge for the future, namely to have an even broader support.

In this context, he welcomed, in addition to the members, all observers from national central banks and from the International Capital Market Association (ICMA), including the three first-time participants: Mr Arturo Meson (Banco de España), Mrs Susan Hindle Barone (Crédit Suisse) and Peter Eisenhardt (Bank of America).

He also introduced Mr Emil Gospodinov as the new EBF Securities Adviser and successor of Mr Didier Hermans at the STEP Secretariat.

2. Approval of the minutes of the 4th meeting

The minutes of the 04th meeting of the STEP Market Committee were approved by all members. Mr Guido Ravoet thanked Mr Frank Hebeisen for drafting the minutes (with some input from Mr Holger Neuhaus and Mr Marco Laganá).

3. Report from the SMC on labelling

Since end of April (last meeting), 21 labels had been granted. 5 other applications were in the pipeline, bringing the total of STEP labelled programmes up to 57.

During the summer, a lot of programme documentation accessible on the Directory of the STEP Market website (www.stepmarket.org) had been updated. These were mainly exceptional updates concerning respective programme ceilings.

The Secretariat reported that issuers frequently expect a pre-analysis of their documentation before submitting signed documents. The STEP Market Committee confirmed its decision from September 2006, that pre-processing was not feasible. However, the STEP Secretariat was asked to exercise some discretion in order to avoid situations where the information memorandum had to be signed several times in cases of small changes. Some points were still creating confusion for applicants when completing the STEP Info Memorandum, e.g. Point 3a.1 (Person responsible for the Information Memorandum, Full name and title), and it was agreed to change the wording to “contact person”. Regarding the duration of the labelling process, the procedures agreed within the Eurosystem indicated that within five business days since receipt of the information memorandum (within ten business days in exceptional cases and during phases with peaks of submissions) the national Central Bank (NCB) informs via e-mail the STEP Secretariat (and the ECB for information) of its findings. The STEP Market Committee agreed that, for complete submissions, the processing time should remain the same with an effort to always keep it below five days.

Mr Guido Ravoet explained that Mr Emil Gospodinov, assisted by Ms Gaëlle Marques dos Santos, will be also responsible for the regular administrative aspects (e.g.: coordinating the STEP Market Committee meetings, info circulation, monitoring incoming applications, etc.) and will take over the STEP Secretariat. The STEP Market Committee thanked Ms Laura

¹ <http://www.stepmarket.org/events.html>

Cerrato for the good job on STEP, which she had carried out following some personnel changes earlier this year.

4. Website

Mrs Laura Cerrato explained that the FAQ page had been implemented. She also explained that more details per programme were available on the on-line directory but that no more information could be added due to a lack of space.

She also mentioned that the entire database system behind the on-line directory was under review in parallel with the development of the Statistic XML tool. This will have an impact on the communications process and on the design of the directory webpage.

Mrs Susan Hindle Barone, supported and complemented by other members, suggested some improvements to consider when updating the design and content of the directory webpage. Possible improvements that should be considered may comprise: i) using the same naming conventions for all essential files and their updates; and ii) some key information that should be easily accessible to interested parties. Moreover, given that transparency is a key feature of STEP, the documentation for all programmes should always be accessible also during update cycles. Mrs Susan Hindle Barone also mentioned that the Information Memorandum, available on the STEP Website, is very heavy and Mrs Laura Cerrato explained that FAQ answer #9 gives information on how to reduce the PDF size and added that the Secretariat tries to reduce the file size as much as possible to help the issuers.

Mr Marco Lagana suggested the STEP MC to investigate the appropriateness of having further aggregated information (on number of programmes or programme ceiling), via charts and a ranking tool, showing the most active issuers and arrangers.

5. Review of the STEP market convention

The Committee discussed how to react to ICMA's letter and Mr Francesco Papadia's² note (documents sent on 28/Sep by email). Mr Peter Eisenhardt provided a brief explanation of ICMA's letter, which is presenting the opinion of most, although not all, ECP/ECD Market Committee members, and further expounded ICMA's commitment to find a solution which would further integrate the short-term paper market in Europe.

In addition, Mr Marco Lagana gave some background information on the meeting between ECB and ICMA representatives. The goal of this meeting had been to discuss how to make the STEP initiative better able to promote the integration and development of the Commercial Paper market in Europe by increasing the involvement of ICMA and ECP/ECD dealers. Mr Marco Lagana briefly summarised Mr Papadia's letter, which suggested a possible way forward: the STEP MC could mandate a joint Task Force, with lawyers and possibly an ECP/ECD committee member, to fulfil this task, especially to enhance transparency requirements of ABCP (including the legal opinion), and could provide first recommendations for the next STEP MC meeting.

In this context the STEP MC also discussed the very close compatibility of the STEP requirements to the French financial documentation, handled by Banque de France. Mrs Susan Hindle Barone highlighted that the ECP/ECD market system is considerably different from the French market supervised by the Banque de France. This made it difficult at this

² Director General, ECB Directorate General Market Operations

stage for ECP/ECD dealers to recommend adopting a STEP label unless the STEP Market would develop further to better reflect ECP/ECD experience and needs. In particular, the ECP/ECD market relies heavily on legal opinions.

A discussion emerged, in which the STEP Market Committee members agreed that more needed to be done to achieve integration of the European market for short-term paper. Views diverged on the steps to be taken to make the STEP label also more attractive for programmes issued on the ECP/ECD market. While the number of ECP/ECD programmes has increased, its share is still less than proportional to the outstanding amounts of the three main markets that make up all requests for STEP labels to date.

Against this background, a frank discussion emerged on the necessity and usefulness of legal opinions for programmes applying for the STEP label. Legal opinions are widely used on the ECP/ECD market, but nevertheless not mandatory. The situation is the same on the French market, where legal opinions are more often used for non-French issuers but not mandatory as well. This point had also been raised in the ICMA letter which suggested that the STEP Convention must include certification that an independent legal review has been completed to reduce concerns for investors. Mr Franck Hebeisen wondered if that was mandatory on the ECP/ECD market, pointing out that there is nothing in the STEP market convention which does not allow including a legal opinion, whatever the kind of programme is used. ECB's first reaction, expressed in Mr Papadia's letter, was that there could be more pros than cons if this certification were to be applicable to Asset-Backed Commercial Paper (ABCP), in which case the name of the law firm can be provided and the relevant legal opinions can also be attached in the website package.

It was not obvious that the presence of a law firm should be a necessary condition for being granted a STEP label, also in view of keeping costs low. However, the Chairman suggested that the Secretariat would make bilateral contacts with Committee members and observers, identifying the pending points for improvement of the STEP Market and trying to catch the different views on legal opinions in order to develop a proposal for discussion on the STEP MC meeting in December.

Subject to the results of these discussions, the STEP Market Committee might set up a Task Force (including, but not exclusively, legal experts) with clear objectives and a clear mandate. Mr Franck Hebeisen suggested adding also other questions to the mandate like: should the STEP be open to non-EU programmes; should the trading amounts be reduced to 100,000 Euro, etc.

6. STEP public relation activities

The idea to organise a STEP Conference in London was put forward. It was agreed in principle, that the timing will be influenced by the speed of the progress made on the follow up to the previous item and other relevant events.

In regards to UCITS, Mr Guido Ravoet agreed in line with the conclusions of the last meeting (Item 8)³, to send a letter (before March 2008) to competent national and European authorities in order to clarify the UCITS/ CESR position.

The STEP Market Committee discussed launching a survey amongst issuers and other market participants on STEP, and decided to do this at a later stage once the results of the follow up to the discussions on item 5 are agreed.

³ <http://www.stepmarket.org/documents/STEP%20MC%20-24apr07-minutes-31jul07.pdf>

7. Management of the STEP labelling in 2008.

Mr Guido Ravoet expressed understanding with the initial two-year commitment by the Eurosystem (in 2006, for providing operational back up to the labelling process) coming to an end and agreed in principle that the Secretariat will be assuming all STEP labelling operations in mid-2008.

On the question of the funds allowing the Secretariat to run properly, the Eurosystem provided an overview of the time spent for STEP. Mr Franck Hebeisen and Holger Neuhaus reminded of the earlier tentative conclusion of the STEP Market Committee that an annual fee per programme could be charged. On the basis of the projections made a year ago, the range had been set from 1,000 to 5,000 EUR per annum in order to guarantee cost recovery, as the STEP Market is set up as a non-profit organisation. The STEP Secretariat will provide a proposal for conclusion in regards to the costs for the labelling, its operational involvement and the possible use of a third party (e.g. a stock exchange) and the approach on how to invoice the charges.

8. STEP MC member's experience:

The STEP Market Committee members had an exchange of views on the recent financial market developments and the impact of the sub-prime mortgages on the short-term paper market. Some of the developments had already been touched upon in the presentations made at the STEP conference earlier that day. The Committee took note of the STEP yield developments reflected in the ECB's statistics where yields on STEP papers with related maturities are now trading at a significantly negative spread against Euribor 1 month rates. Moreover, STEP outstanding amounts had increased in August to EUR 270 billion.⁴

On the Treasury side, Mrs Susan Hindle Barone expressed the view that information was misinterpreted by the press and statistics were used in a way to victimize some parties, which had a negative impact amongst investors. She also highlighted the need to educate the press on how to interpret publish statistic and that it would be necessary for the data providers to know what kind of data "to put out there". Mr Michael Schneider noticed that no ABCP (Asset-Backed Commercial Paper) programmes were published on the STEP website to which Mrs Susan Hindle Barone replied that the STEP label does not cover all the ABCP eligibility requirements. It was also noticed that the amount issued in August has dropped down severely and Mrs Susan Hindle Barone reminded that it was the annual issuers' holidays and that maturities had already been set out for September.

Mr Frank Hebeisen further explained his view of the recent market developments.⁵ He stated that even though the Market is calming down rapidly, people are still concerned of checking all sources of information. Against this background, free access to STEP statistics appears as extremely valuable, which was confirmed by Mr Philippe Billot from an investor's perspective.

Mr Frank Hebeisen added that a distinction should be made between fields: bank, corporate; etc. and Mr Holger Neuhaus pushed further the idea to produce data much more precisely: by sector, by category, aggregated outstanding amounts, issuance of aggregated

⁴ For Holger Neuhaus' presentation:
http://www.stepmarket.org/documents/STEP_presentations/STEP%20BNB%20by%20ECB%20-%20Holger%20Neuhaus_vsf.ppt#1

⁵ For Franck Hebeisen's presentation:
http://www.stepmarket.org/documents/STEP_presentations/STEP%20HEBEISEN%2004oct07.ppt

outstanding amounts, issuer, currency breakdown but not the maturity profile. Against the background that the breakdowns for aggregated data (by maturity, rating, sector, currency) had already been agreed at earlier occasions, Mr Holger Neuhaus requested a clarification of the information the ECB would be requested to release for individual STEP programmes to find the right degree of transparency.

Following a detailed exchange of views on what data would have been useful in a crisis, weighing also the potential risks of transparency for individual issuers, the STEP Market Committee confirmed its earlier request to the ECB to publish individual programme information. It welcomed that in a first step the ECB would release the total outstanding amount on a monthly basis. In the long run, a daily publication on the day after settlement, including a currency breakdown, but without a maturity breakdown, would be desirable.

The STEP Market Committee also welcomed the brief progress report made also in the context of the presentation earlier that day as well as BNB's public commitment to provide the ECB with daily data on Belgian STEP programmes in the first half of 2008 made in the context of the STEP conference.

9. Dates and venues of next meetings for 2008

Next meetings will take place on 12 December 2007 in Brussels (EBF); and in London (host will be Ms Susan Hindle Barone, Credit Suisse), date to be determined.

10. Any other business

No other business.

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