

23rd STEP MARKET COMMITTEE MEETING
- Brussels, 13 December 2016, 10.30-15.30 CET –

Minutes

OPENING AND WELCOME

Mr. RAVOET welcomed the new faces in the meeting:

- Kerstin JUNIUS from the Market operations analysis division at ECB
- Monika JANDALOVAITE from the STEP Statistics team at the ECB
- Dennis GEPP connected through conference call as a delegate of Mr. CURRY.
- David COWEN and Petra DE DEYNE from EMMI will reinforce the STEP team

1. UPDATE ON THE RENEWAL OF MEMBERS' MANDATES

The mandate of the members of the STEP Market Committee comes to expiration at the end of 2016. The Secretariat has requested the current members to show their willingness to renew their mandate for the next 2-years period (until the end of 2018).

As a result, 10 of the 12 current members have expressed their availability to continue participating in the committee. Mr. CURRY and Mr. HOULT have moved to new professional commitments and they will not renew their mandates for the period January 2017 to December 2018.

Mr. GEPP has been proposed as a replacement due to his role at IMMFA. The secretariat is contacting some candidates related to the ECP market as a replacement for Mr. HOULT.

Mr. HEBEISEN explained that the members of the STEP Market Committee were appointed on a personal capacity based on their knowledge of the short term markets in Europe. Mr. RAVOET confirmed that the STEP Market Committee is composed of experts and there should be no connection between their participation in other industry bodies and their role in the STEP Market Committee.

The members of the STEP Secretariat explained that they were still searching for one person to replace Richard HOULT. The members of the STEP Market Committee agreed on the fact that it would be important to reinforce the presence of individuals linked to the ECP Market.

The members of the STEP Market Committee showed their availability to facilitate the contact between suitable candidates and the Secretariat. After completing the selection of the new member, the reappointment procedure will be launched ahead of the next meeting.

The table below depicts the composition of the STEP Market Committee and the confirmed changes and the body in charge of the appointment of each of the members.

STEP Market Committee changes for the period 2017-2018

First name	Last name	Company	Renewal	No renewal	Replacement person	EMMI member	ACI member
Philippe	Billot	Pictet Gestion	1				yes
Richard	Cordero	EACT	1				yes
Franck	Hebeisen	Independent expert	1				yes
Tim	O'Connell	European Investment Bank	1				yes
Michael	Schneider	DZ Bank	1				yes
Patrick	Siméon	Amundi Investment	1				yes
Marnix	Brunning	ING	1			yes	
Jonathan	Curry	HSBC		1	Dennis Gepp	yes	
Richard	Hoult	UBS		1	not confirmed	yes	
Carlos	Muñiz Morell	Santander	1			yes	
Guido	Ravoet	EMMI	1			yes	
Fabrizio	Tallei	Intesa Sanpaolo	1			yes	
Total			10	2			

2. SECRETARIAT REPORT ON STEP LABELLING

Mr. GIL explained that 163 programmes remained active in the STEP database at the last STEP Market Committee (29 June 2016). Since then, 3 programmes have been withdrawn from the STEP Directory and 3 new programmes have been added. A new issuer is also working on a new programme to be submitted before the end of 2016.

Mr. GIL explained that all the issuers are contacted before reaching the validity limit of their Information Memorandum. After the efforts of the previous months, all programmes have their Information Memorandum in line with the time requirements set out in the STEP Market Convention.

The members were also updated on improvements to be introduced in the database to enable specific monitoring of French programmes (requiring annual updates of the Information Memorandum).

3. APPROVAL OF INTERBOLSA AS NEW ACCREDITED SSS

The members of the STEP Market Committee approved the inclusion of Interbolsa as an accredited SSS in the STEP Initiative following the confirmation of the ECB statistics team about their technical readiness to report STEP data on issuances.

4. ECB REPORT ON STEP STATISTICS

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

The ECB observes a positive trend in the issuance of STEP papers and an increase in their share compared to the worldwide issuance of Euro-denominated debt securities. When excluding papers

issued by entities belonging to the General Government sector, the share of the STEP denominated securities approaches 50%. This trend is consistent with reports presented at previous meetings.

The members of the STEP Market Committee briefly discussed the effects of the regulatory changes in the US CP market. These changes are increasing the interest of some US issuers on the ECP market, but these actors have not shown interest in applying to the STEP label. Conversely, some non-US corporates are increasing their issuance in USD in European markets potentially as a response to the changes of the US regulation. Furthermore, the market share for issuances in other currencies than Euro is driven by FX arbitrage mainly as pointed out in previous meetings. In May 2016, the share of STEP papers denominated in EUR was 60,4% (60,6% in June 2016), compared to 27,1% for USD (26,8% in June 2016).

Regarding the operations for the production of the STEP statistics, Mr. PETIT explained that cooperation with the STEP Secretariat has been successful in making Interbolsa build the necessary tools to become STEP compliant, as well as completing the Monte Titoli integration in the reporting system. Additionally, cooperation with the STEP Secretariat remains very satisfactory and both parties work together in projects in order to enhance the information.

The members of the STEP Market Committee asked Mr. PETIT about the series available through the Statistical Data Warehouse (SDW) accessible through the ECB website and discussed their usability.

5. STEP PAPER AND THE ELIGIBILITY CRITERIA

Ms JUNIUS gave a presentation on the eligibility guidelines for short term debt issuances to be included in the list of eligible ECB marketable assets.

Ms JUNIUS reminded the grounds of the Eurosystem collateral framework based on avoiding losses for the Eurosystem, while keeping sufficient collateral to carry out its tasks. Open market operations are one of the main tools for implementation of monetary policy and the collateral framework and collateral eligibility are the basis for the eligibility of assets for the expanded Asset Purchase Programme.

The Eurosystem accepts a broad set of marketable assets as collateral including public/Government bonds, corporate and bank bond, covered bonds and ABS. The amount of eligible marketable assets remains broadly stable since 2013; however, their use in credit operations has decreased over time. For STEP labelled securities, the outstanding nominal value of STEP assets amounts to approximately EUR 200 Billion. Approximately, 10% of the amount is used as collateral in the operations of the Eurosystem.

Ms JUNIUS went through the main eligibility criteria. STEP assets are treated as a non-regulated market in the general framework of eligibility criteria. Such markets are defined in terms of safety, transparency, and accessibility. Additionally, a temporary framework increased collateral availability. The different features of the eligible assets require the Eurosystem to value them at the most representative price and to apply haircuts. Haircuts for marketable assets depend on credit quality, coupon type, residual maturity and liquidity category.

The Eurosystem reviews its collateral framework on a regular basis. In addition, every two or three years, it reviews its collateral risk control framework. These reviews take into account changes in the functioning of financial markets, such as innovations in financial products, regulatory changes and other market developments. The latest changes (announced November 2016) comprise, inter alia, refinements of rules on acceptable coupon structures to reflect the current context of low/negative market rates and updates of the haircuts applied to collateral (Implementation dates: in the course of 2017). The Eurosystem also decided on some changes which are temporary and will be reviewed again within one year, as regards the eligibility of uncovered bank bonds and the risk control measures applied to them.

For marketable assets, National Central Banks (NCBs) carry out a proactive assessment once the asset is issued. They are responsible for the assessment based on where the asset is traded, i.e. each NCB assesses domestic marketable assets.

Ms JUNIUS noted that the eligibility assessment process only begins once the asset is issued. Both NCBs and ECB do not confirm the eligibility of an asset prior to its issuance (no “pre-issuance advice”). Once the assessment is complete, NCBs electronically submit data updates on eligible assets to the ECB on a daily basis. ECB collects and verifies received data sets and publishes Eligible Assets Database (EADB) by the end of each business day.

The members of the STEP Market Committee asked questions about the eligibility of paper with negative coupon and the mismatch between the features of recent issuances and the eligibility criteria. Another point of interest was the mechanism for credit claims that are considered eligible as non-marketable assets.

The members of the STEP Market Committee also asked about the possibility to streamline the eligibility status with the STEP reporting processes, avoiding manual coding and redundant processes for issuers. Ms JUNIUS reminded that the assessment is carried out by each central bank and this possibility should be checked with the Eurosystem members. Additionally, the STEP statistics cover more issuances than the ones that meet the eligibility criteria.

6. STEP VIDEO

The STEP Secretariat in coordination with Mr. HEBEISEN has been working on a short video to explain the main features of the STEP label to a broad audience. The members of the STEP Market Committee received an update on the status of the project and they were presented the storyboard of the STEP promotional video.

7. UPDATE ON THE PRICING OF STEP LABEL

The STEP Secretariat presented a draft to slightly revise the fees for new programmes from January 2017. The pricing structure includes an application fee of 5.000€ that is based on the fact that it is costlier to grant a label for the first time than the administrative burden associated to the label in subsequent years. Nevertheless, each programme is thoroughly reviewed once every 3 years.

Unfortunately, this pricing is perceived as unfair by the issuers as they are supposed to be billed for 5.000 € (excluding VAT) regardless of the moment that they join the label during the natural year. In other words, if an issuer applies for a label in February 2017, it will be invoiced for 5.000€ on February 2017 and it will be invoiced for 3.000€ in January 2018 and subsequent years. Conversely, if another issuer joins the label in November 2017, it will be invoiced for 5.000€ in November 2017 and for 3.000€ in January 2018.

The EMMI audit function has requested more clarity regarding the invoicing process of STEP. Therefore, the proposal of the Secretariat was to slightly change the explanation on the website in order to explain that a 3.000€ fee applies for the maintenance of the STEP label every natural year. Additionally, a 2.000€ one-off fee is charged at the application. As a result, an issuer applying on 1 March 2017 would pay 2.500€ (3000x10/12) for the maintenance of the year 2017 + 2.000€ flat for applying. Conversely, an issuer applying 1 November 2017 would pay 500€ (3000x2/12) for the maintenance of the year 2017 + 2.000€ flat for applying. Both entities would be invoiced 3.000 € for the year 2018 in January of 2018 (and subsequent years).

The members of the STEP Market Committee welcomed this change as it provides clarity and it enable future refinements of the pricing structure of the STEP label.

8. MARKETING OF THE STEP LABEL

Mr HEBEISEN shared his estimates on the size of several money markets that are relevant to STEP. He pointed out that the different sources used are not always consistent and there are shortcomings in the data made available by different sources. The bad quality of the data reinforces the business case of STEP as reliable source for documents and market data.

The estimates will be used to enrich the presentation to be used in events and in the frame of the STEP video. More specifically, Mr HEBEISEN is in contact with several entities to explore the appetite of its compliance staff for STEP labelled programmes. Some members pointed out that, in the case of some asset managers, the interest could depend on the sophistication of its systems; regulatory changes requiring to establish a weekly liquidity pool could favor the adoption of STEP data by the credit risk departments.

The members of the STEP Market Committee noted that the demand of STEP labelled paper was boosted when ECB eligibility became an important feature for issuers. Nowadays, new issuers mostly heard about STEP from the arranger of their programme. Most dealers feel that they do not have an incentive to promote the label. Therefore, future increase could be driven by the demand of STEP labelled paper among investors. However, if an issuer pushed for a STEP-only portfolio, it could be difficult to find enough supply. In general, there is a shortage of good quality assets, regardless of the fact that they are STEP labelled.

Upcoming regulation imposing stricter requirements on money market funds could benefit the case for STEP paper. Therefore, the positive effect of the STEP label on liquidity should be communicated.

9. AOB

The next meeting will be organized during May/June 2017.