short term paper

AM

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November 2020

31st STEP MARKET COMMITTEE MEETING

- Conference call, 13th November 2020, 14.30-17.30 –

OPENING AND WELCOME

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

Mr J.L. SCHIRMANN welcomed the newcomers in the meeting. Following Mr A. GIL and Mr D. COWEN departures, Mr A. GUZZARDI and Mr G. DELLE FAVE will reinforce the STEP Secretariat.

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 196. In 2020, 32 programmes have been STEP labelled and 6 programmes have been withdrawn.

The STEP Secretariat kept on receiving annual/exceptional updates (several per week), as well as requests for pre-screening of new programmes. There were 3 open requests for which the STEP Secretariat was waiting for the signed documentation or was in negotiations with.

Ms A. MAES also explained that there were 9 programmes beyond the three years and three months limit established for renewals. The STEP Secretariat sent reminders and was following up with these programmes. Mr F. HEBEISEN asked if the issuers shared any feedback on the reasons why they are late with their updates. The STEP Secretariat will investigate further.

Mr R. CORDERO inquired about the number of non-financial corporate issuers. Ms A. MAES did not have the specific figures. However, she confirmed that the large majority of new STEP labelled programmes are non-financial corporations.

2. REPORT ON STEP STATISTICS

Mr A. GUZZARDI presented the latest developments regarding the STEP statistics. He began by showcasing the overall STEP amounts outstanding and the month-on-month change. During the last 2 years STEP outstanding amount ranged between EUR billion 370 and 470, while daily gross issuance amounted to more than EUR 5 billion, on average. The highest level in STEP outstanding

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amount from 2012 was reached on June 2020, after a 3-month increasing trend, which coincided with the COVID-19 emergency in Europe. The most likely reasons of such increase were (i) higher demand of corporate commercial paper, driven by the ECB decision to consider STEP among the eligible assets for the PEPP and (ii) higher issuance of commercial paper by corporate and general government sector to cover funding needs due to the COVID emergency. It also coincided with a sharp increase in the number of active programs. As of September 2020, the highest number of active programmes (197) from the start of the STEP initiative has been reached. The reasons of this enhanced interest in the STEP initiative might be found (i) in the inclusion of the STEP label to the set of private-sector instruments which are considered eligible by ECB for monetary policy operations and (ii) in the need of more standardized short term funding instrument (like STEP) caused by the COVID emergency.

Mr A. GUZZARDI then provided a breakdown of the STEP outstanding amount per sector of the issuer. He noted that the increase observed in the overall amounts outstanding has been mainly driven by higher issues from the general government sectors and the non-financial corporations. He explained that the most likely reason behind the sharp increase in the importance of the general government sector were the COVID-19 outbreak and its related necessity of short-term funding. On the other hand, non-financial corporations have likely increased their share of STEP issuance on the back of the ECB decision to expand the set of eligible assets to non-financial commercial paper.

In terms of the activity per sector of issuer, there has been an increasing trend in the number of issuers especially after March 2020. Interestingly, this increase was almost entirely driven by issuers belonging to the non-financial corporate sector 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 recognized non-regulated market in the Eurosystem’s collateral framework. The statistics available showed that the increase in the number of issuers was not reflected in a proportional increase in the outstanding amount for non-financial corporates. Indeed, the amount raised by single issuers belonging to the general government and monetary financial institution sectors was much bigger. In turn, this reflects the greater possibility to absorb cash by the general government and monetary financial institutions.

Mr A. GUZZARDI further highlighted the figures for non-financial corporate issuers.

Mr A. GUZZARDI concluded by focusing on the ECB net purchase of private sector commercial paper. Between March and July 2020, the ECB purchased EUR 440.4 bn of securities under the PEPP (of which EUR 56 bn were private sector debt) of which EUR 34.8 bn were private sector commercial paper. This represents the 8% of the total debt (and the 63% of the private sector debt) that ECB bought during the period. EUR 29.6 bn (85%) were bought in the primary market while EUR 5.2 bn (15%) in the secondary market. Between March and September, the ECB purchased EUR 567.2 bn of securities under the PEPP (of which EUR 56 bn were private sector debt), of which EUR 32 bn were private sector commercial paper. This represents the 6% of the total debt (and the 58% of the private sector debt) that ECB bought during the period. EUR 27.2 bn (85%) were bought in the primary market while EUR 4.7 bn (15%) in the secondary market. This means that in the period August-September, ECB reduced the holding of private sector commercial debt by EUR 2.8 bn.

Mr F. HEBEISEN asked if the methodology used for this presentation was the same than in previous presentations. Mr A. GUZZARDI confirmed that there is a continuity in regards of how the STEP Secretariat approaches the statistics. He added that he used the data that is publicly available by the ECB. Therefore, the room for interpretation is limited.

Mr R. CORDERO enquired about the reason why the ECB is no longer presenting the STEP statistics. Mr J.L. SINNIGER and P. BILLOT added that it would have been interesting, especially in the context of the current situation, to have more granularity on the role of the ECB and the Central Banks in the whole pandemic funding situation. Indeed, the data available limits the capability to understand how much Commercial Paper has been part of the PEPP as data is comingled with the Bonds Purchase Programme. The Banque de France and the ECB confirmed that the Eurosystem is not disseminating more detailed figures. Mr T. ROOD from the ECB will pass the feedback internally.

Mr H. ENDRES enquired on the time needed to onboard a new programme. Ms A. MAES answered that the turnaround is very quick. The STEP label is usually granted the same day or 24 hours at very latest once all documents are provided to the STEP Secretariat. However, the time required to liaise with issuers and legal firms might require few weeks.

Mr P. BILLOT asked if the increase in the overall amounts outstanding in the general government sector could be linked to the Italian Government's ECP programme. Mr P. SIMEON remarked that this increase could be due to the strong activity of ACOSS (Agence Centrale des Organismes de

Securite Sociale). Mr A. GUZZARDI confirmed that ACOSS played a pivotal role, with EUR 77 bln outstanding as of November 6th, splitted among 2 programmes: Euro-CP (49 Bln) and NEU-CP (28 Bln). On the other hand, the Italian Treasury Bills programme had a negligible role, with no outstanding amount at the moment.

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 G. MARIN started by highlighting two points: (i) the measures taken by the ECB to ease the funding process during the pandemic crisis have been effective. (ii) The incentives worked better for general governments and non-financial sectors due the compression of rates and the relative attractiveness of CP for T1/T2 banks which have access to a wider range of funding options including the LTRO and TLTRO operations.

Mr. P. SIMEON added there is a lot of liquidity in the market due to the success of the TLTRO operations.

Mr J.L. SINNIGER confirmed the comments made by Mr G. MARIN and Mr P. SIMEON by reporting some statistics showing that, since the beginning of the year, there has been an increase in terms of outstanding for ECP of approximatively 6.5%. The increase in the overall amounts outstanding has been mainly driven by higher issues from the general government sectors which includes institutions like ACOSS. He added that government programmes do not seem to be used in the same way as they were in the Spring. Mr J.L. SINNINGER also remarked that Bank of England has been very steadily ensuring 15B £ of funding on a weekly basis through the Covid Corporate Financing Facility (CCFF). 58 programmes have been funded through the Bank of England programme. He concluded by saying that the market has recovered a good liquidity.

Mr B. MARNIX confirmed his agreement and highlighted that Governments replacing Financials has been also seen during previous crisis periods. He added that, on the corporate issuers side, the feedback is that many of them have already prefunded through central bank facilities or long-term markets. Some of them also think that because of the lack of economic activity, fresh funding is not attractive.

Mr P. BILLOT noticed that banks are less active probably because of technical aspects. However, he pointed that Asian banks and especially Chinese banks have become very important in the market. He explained that among the ten biggest CP programmes, there are 4 Chinese banks.

Mr H. ENDRES noted that the 31st March is in important date to get the bonus for LTRO. Some banks are facing issues to get a credit gross to get this bonus. Bonds and commercial papers from corporates in the books are not taken into account for credit gross whereas a loan for instance, is calculating for the bonus. Therefore, there might be maybe some arbitrage between products in order to achieve the LTRO bonus.

Mr F. SPAHN noted that, on the issuer perspective, funding was easier to get in the beginning of COVID for AAA rated issuers.

Mr T. ROOD asked Mr F. SPAHN whether he thinks that there is more demand for the Eurosystem to be involved. Mr F. SPAHN answered that he does not think that an active role from the Eurosystem is required at this stage.

4. GREEN COMMERCIAL PAPERS

Mr F. HEBEISEN explained that a working group with several associations has been launched in Paris to define some standards regarding Green Commercial Papers. In this context, EMMI and the STEP Secretariat have been asked to join the working group in order to have the capacity to anticipate any change that might affect the STEP initiative. He continued by clarifying that there is not stringent regulation at the moment and that the aim is to establish good practices around green bond principles. Moreover, the STEP initiative should prepare itself around the different projects available in Europe in order to welcome any potential impact.

Mr M. BRUNNING highlighted that there is still inconsistency in the market around ESG/Green Standards as he noted that so far there are three different versions of Green CP programmes. The first one is a programme that has been launched through a Green Finance framework. In this case, proceedings are used to fund green assets. Muenchner Hyp Green and two Scandinavian programmes launched last year fall into this category. There is also a group of issuers that link their programmes to their own ESG rating. Finally, issuers link their commercial papers to some green KPIs. ENEL is one of these programmes. Mr M. BRUNNING concluded by saying that the variety of versions of Green Commercial Paper Programmes may lead to have different shades of green and unclarity on what is indeed green and what is not. He also pointed out that differently from bonds where the criteria are linked to the use of proceedings for green related investments, the short-term nature of CP does not allow to apply the same approach.

Mr R. CORDERO and Mr J.L. SINNINGER both asked to clarify to what extent these developments are impacting the STEP initiative. M G. MARIN added that from a regulatory perspective, despite the effort to define clear standards (i.e., sustainable finance taxonomy) there is no practical traction yet. Mr F. HEBEISEN explained that at the moment, the aim is to have initial discussions in order to understand how the developments will potentially (but not necessarily) impact the STEP initiative. He explained that for instance, the information memorandum formats might require to be adapted in order to include green details. Mr F. HEBBEISEN also clarified that the role of the STEP Secretariat will not be to validate whether a programmed is green is not.

Mr J.L. SCHIRMANN thanked Mr F. HEBEISEN and confirmed the high-level interest for further conversations as the developments get clearer.

5. US AND EU SANCTIONS

Mr P. DE VREESE gave a follow-up presentation on sanctions.

Mr P. DE VREESE explained that financial institutions and providers of financial services are more and more pressurized to put in place robust internal controls to avoid working or collaborating with sanctioned entities. Regarding the EU economic and financial sanctions, there are some financial restrictions related to transferrable securities and money market instruments.

During the 29th STEP Market Committee, the EMMI's Compliance Officer gave a presentation to the STEP Market Committee members on the EU economic sanctions, proposing to consider adding appropriate wording in the STEP declaration to demonstrate the intention of the applicant issuers to comply with any imposed EU sanctions. It was therefore agreed to make a further assessment of the matter. P. DE VREESE pointed that the market participants for the issuance of commercial paper, namely arrangers, dealers, and STEP Accredited Securities Settlement System (SSS), are required to have due diligence processes in place for the sanctions imposed by the EU that would trigger alerts in their systems if the issuer would be subject to sanctions.

Mr P. DE VREESE also explained that granting the label is not an investment service. Moreover, the STEP compliant paper is a commercial paper rather than a transferable security or a money market instrument. For this reason, it has to be excluded that providing the STEP label could be considered as selling, providing investment services for/or the assistance in the issuance of, or otherwise deal with transferable securities and money-market instruments as foreseen by the EU economical and financial sanctions with respect to Russia-related business.

In this context, the STEP Secretariat does not provide assistance in the issuance of, or otherwise dealing, with transferable securities and money-market instruments as foreseeing by the EU sanctions regime. Mr P. DE VREESE concluded by saying that the evaluation of the breach of the sanction regime by the applicant is not a legal responsibility of the STEP Secretariat but is a responsibility of the arranger and the dealer. Therefore, adding a declaration to demonstrate the intention of the applicant issuers to comply with any imposed EU sanctions would not be of added value.

However, Mr P. DE VREESE highlighted that the regulatory watch in place at EMMI (as the provider of the STEP Secretariat) and under the responsibility of EMMI's Compliance function, will monitor and assess new laws, regulations, and directives, but also certain market standards that would require the STEP Secretariat's attention, including sanctions and economic/financial evolutions within the market. In case that a change would result in an impact, the Compliance Risk Assessment would take into consideration actions to be taken and the STEP Market Committee would be informed accordingly.

Mr R. CORDERO asked if this presentation was the result of a legal opinion. Mr P. DE VREESE explained that the presentation was an extension of an existing legal opinion and the experience of Pideeco.

Mr J.L. SINNINGER pointed out that the notion of "transferable securities" should apply to CP as there is a secondary market and they indeed represent transferable instruments. Mr P. DE VREESE clarified that commercial paper as such is a promissory note and is not classified as a product under MiFID. Therefore, the European Sanction Regulations do not define CP as a transferrable security or a money market instrument as such.

Mr F. HEBEISEN however again highlighted that some CPs are listed and as such potentially subject to Sanction regime as well.

7. ANY OTHER BUSINESS.

Mr J.L. SCHIRMANN thanked the participants in the call and closed the meeting.

STEP short term paper

List of participants

Chairman:

Mr	Jean-Louis SCHIRMANN	STEP Secretariat

Members:

Mr	Philippe BILLOT	Pictet Gestion
Mr	Marnix BRUNING	ING Bank
Mr	Richard CORDERO	EACT
Mr	Dennis GEPP	Federated Hermes
Mr	Franck HEBEISEN	Independent Expert
Mr	Harald ENDRES	DKB
Mr	Gianfranco MARIN	Intesa Sanpaolo
Mr	Carlos MUNIZ MORELL	Santander
Mr	Patrick SIMEON	Amundi
Mr	Jean-Luc SINNIGER	Citi

Observers:

Mr	Philippe FAURE	Banque de France
Ms	Corinne LETRAY	Banque de France
Ms	Mercedes Maria GOMEZ URDA HINOJOSA	ECB
Mr	Tom ROOD	ECB
Mr	Frederick SPAHN (on behalf of Mr Tim O'Connell)	EIB

STEP Secretariat

Ms	Petra DE DEYNE	STEP Secretariat
Mr	Piet DE VREESE	Pideeco
Mr	Giuseppe DELLE FAVE	STEP Secretariat
Mr	Jakobus FELDKAMP	STEP Secretariat
Mr	Antonio GUZZARDI	STEP Secretariat
Ms	Amandine MAES	STEP Secretariat
Ms	Pauline RONVAUX	STEP Secretariat