



Targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFi)



Question 30. (A) What would be the benefits and costs of creating a framework or a label in EU legislation for certain money market instruments (such as commercial papers) to increase transparency and standardisation?

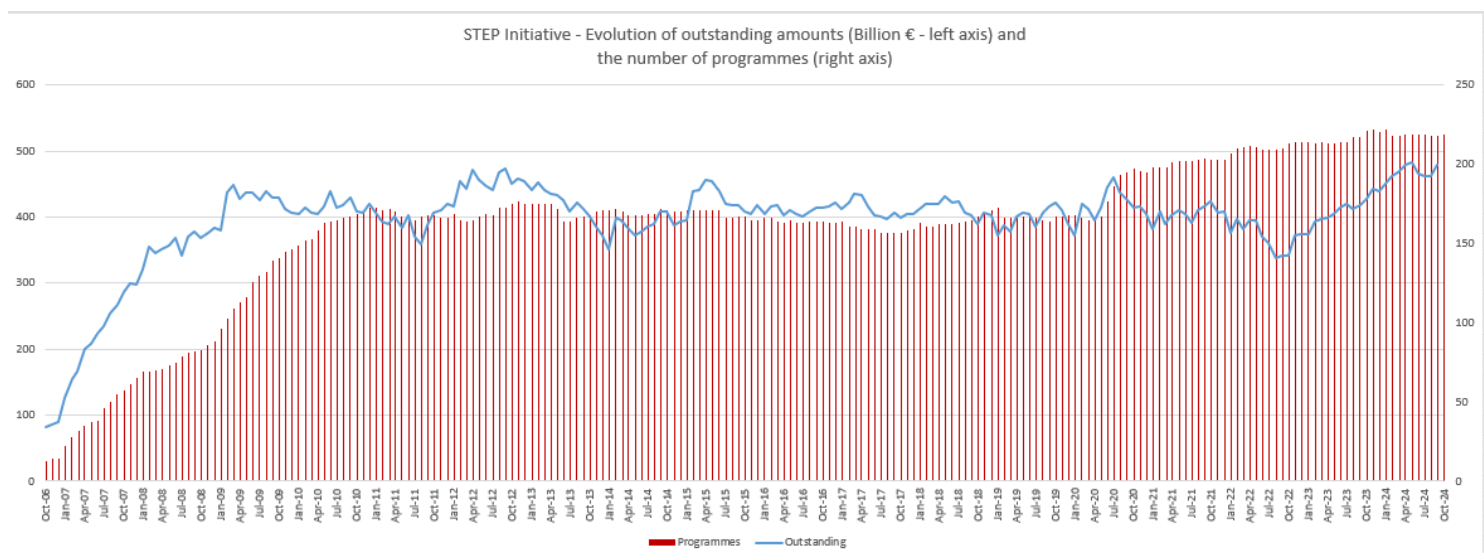
The STEP Market Committee Members do not see the necessity to create a new framework or a label in EU legislation for Commercial Paper to increase transparency and standardisation, given the existence of long-standing solutions in the market, such as Neu CP and STEP (Short-Term European Paper).

The STEP initiative aims to foster the integration and development of the European markets in short-term paper. It establishes **common practices and standards for the documentation** of commercial paper programmes and provides market **transparency** via the publication of **statistics** by the European Central Bank.

STEP is a long-standing market solution with a proven track record.

STEP is a **private-public initiative** that finds its origins in the ECB's Money Market Contact Group and was **established in 2006**, following recommendations by **Task Forces** composed of issuers, investors, dealers and market infrastructures, together with the European Financial Markets Lawyers Group (EFMLG), and with the active support of the European System of Central Banks (ESCB) and the European Central Bank (ECB).

Today (October 2024), 219 CP/CD programmes are STEP-labelled. Among these we count 119 ECP, 52 NeuCP, 27 domestic CPs, 12 ECP/ECD, 8 domestic CDs and 1 ECD. The chart below shows the evolution of outstanding amounts and the number of CP programmes since the inception of STEP.



These figures show that the STEP initiative was effectively put into practice and has been a market standard for almost 20 years, adopted by a large number of issuers in Europe.

STEP increases standardisation

Given the specific nature and purpose of commercial paper, as a cash management tool, the flexibility of the instrument is a key for issuers. Standardisation of the instrument itself may reduce its usefulness and steer issuers away to other markets that allow for better tailoring.

The commercial paper market in Europe is not a single market, but consists of NeuCP, ECP and various domestic markets (Germany, Spain, Italy, Portugal Austria Finland, Belgium). The existence of domestic CP markets is warranted by the specific needs of (smaller) issuers, anchored in local practices, legal frameworks and investor bases. The ECP market on the other hand enjoys an international character and resides under UK law, which is widely recognized in financial markets. Apart from the NeuCP market, standardisation and transparency lacks consistency in other segments.

This is where STEP brings a simple and practical solution: STEP respects the particularities of the instrument itself, as well as of the different markets. Moreover, STEP does not affect the existing national and European legislative, regulatory and supervisory frameworks. It standardises the disclosure of information, the format for documentation, settlement, and the provision of data for the production of STEP statistics.

The STEP label can thus be applied to CP programmes issued in any European CP market segment under the legal frameworks of European countries, the UK, Canada, Switzerland, Japan and the US and regardless the currency. In this sense, standardisation and better transparency can be achieved without the need to change drastically any existent documentation.

The STEP database contains, per STEP compliant programme the STEP Standard Information Memorandum, the last two approved annual reports and financial accounts, the auditors' opinion on the annual account as well as the hyperlinks of the credit rating agencies of the programme (if any).

Important to note is that the **consultation of the STEP database** available on the STEP website is accessible to all market participants, **free of charge, which eliminates any information asymmetry.**

STEP increases transparency

All STEP-labelled programmes (issued under NeuCP, ECP or a domestic market in Europe) are included in statistics produced and published by the ECB. These are made available on the ECB website on a consistent basis, without any data gaps.

The statistics are published weekly and include:

- Aggregate volume statistics: aggregate outstanding amounts and new issues, broken down by original maturity (and residual maturity for outstanding amounts), currency, programme credit rating level and issuer sector
- Yield indicators: weighted average yields of new euro-denominated issues, broken down by original maturity, programme credit rating level and issuer sector
- Individual volume statistics: individual outstanding amounts, per issuer or programme, broken down by currency.

Commercial paper is in the first place a tool for cash management and issuance is most often bespoke. Individual pricing levels at issuance may therefore be difficult to interpret correctly, as various factors unrelated to overall market conditions or issuer quality can have an influence. This was considered when the STEP Task Forces designed the desired levels of transparency offered

by STEP. In this way, STEP strikes the right balance and offers transparency without jeopardising the continuous issuing capacity of issuers, which otherwise may steer them away to opaque markets.

STEP is underpinned by governance

The STEP label is underpinned by **governance**, which is unique compared to any other market solution that offers standardisation and transparency. This increases the **quality, consistency and reliability** of the information provided, which in turn is crucial for the investor.

- The **STEP Market Convention** establishes the criteria that issuers need to adhere to obtain and maintain their STEP label. These criteria relate to the disclosure of information, the format for documentation, settlement, and the provision of data to produce the STEP statistics. **Worth noting** for example is the requirement for issuers to **frequently update** their Information Memorandum.
- The **STEP Market Committee** oversees the application of the STEP Convention. This Committee is composed of recognised professionals with expertise from all angles of the CP markets (investors, issuers, dealers). They monitor market developments, establish and review the standards on which the STEP label based, and provide guidance on the appropriate and consistent interpretation of the STEP Market Convention.
- The **STEP Secretariat** grants and withdraws STEP labels, in accordance with the requirements stipulated in the STEP Market Convention. **Worth noting** is that the STEP Secretariat resides in the European Money Markets Institute (EMMI): a **non-for-profit organisation and neutral, independent market source, unaffected by any conflict of interest**.

STEP is a recognized as a non-regulated market for collateral purposes in Eurosystem credit operations

As such, a STEP label fulfils one of the eligibility criteria for collateral purposes. This proved especially effective during the Covid crisis, where STEP-labelled CP issued by non-financial corporates was also made eligible in the ECB's Pandemic Emergency Purchase Programme.

STEP is a simple, practical solution

STEP, a label subject to governance, attains the objective of standardisation and transparency, while at the same time accommodating the benefits of the various CP markets in Europe and without compromising the flexibility of the instrument itself. It has successfully existed for almost 20 years, with the support of the ECB.

Hence, we do not see the need for the creation of a new label or framework given that such solutions are already available in the market, STEP being one of them.

As a private-public initiative, STEP has become a market standard by virtue of **voluntary adherence** by the issuer. The adoption of the STEP label today, shown in the figures above, came about without any legislative measures. In order to further broaden transparency and standardisation in the CP markets, public authorities may consider incentives, beneficial to both the issuer and the investor, where a CP programme meets the requirements of an initiative or a market that is based on consistent transparency and standardisation criteria. In this way, extra legislation could be avoided.

Question 32. What are your views on why euro-denominated commercial papers are in large part issued in the 'EUR-CP' commercial paper market outside the EU? What risks do you identify? Please provide quantitative and qualitative evidence, if possible.

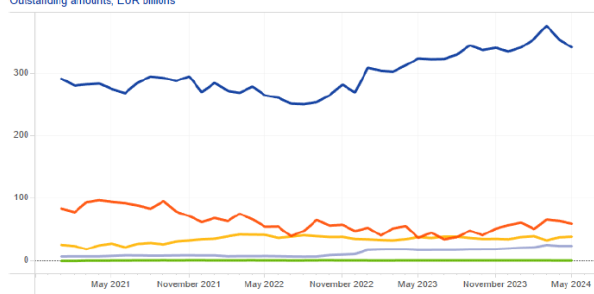
The STEP Market Committee members do not perceive risk in the issuance of euro-denominated CP in the ECP market. It is important that issuers can access the investor base of their choice, whereby the ECP market targets an international audience, often located outside of Europe and hence, more familiar with UK law (which is widely accepted in financial markets), rather than the different domestic laws (in the absence of "European" law).

A market standard, such as the STEP label, can then bring transparency and standardization onto these ECP programmes, and thus add value to the diversified investor base.

The STEP Secretariat observes that out of the current 219 STEP labelled programmes, 119 of them are ECP; these are mainly larger Monetary and Financial Institutions (MFIs) targeting an international investor base.

STEP statistics by sector since the last STEP Market Committee meeting

Developments over time by sector
Outstanding amounts, EUR billions

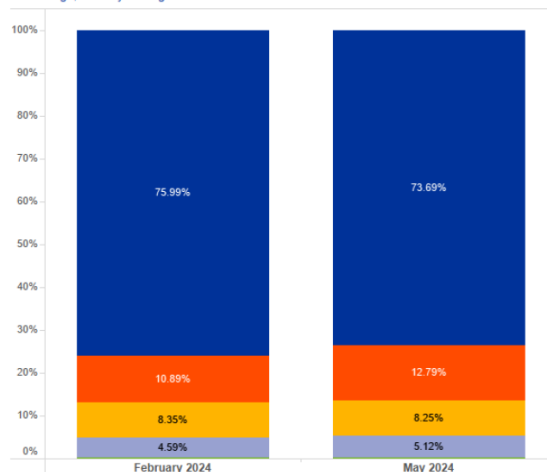


Issuing Sector
May 2024



Market Sectors
MFI - Monetary and financial institutions
GG - General government and international institutions
NFC - Non-financial corporations (ESA 95 classification)
OFI - Other financial intermediaries
ICPF - Insurance corporations and pension funds

Sector shares
Percentage, monthly averages



Source: ECB

6

www.ecb.europa.eu ©

The STEP Secretariat also observes that a number of issuers run different CP programmes at the same time: NeuCP and ECP, or domestic and ECP). These are typically issuers that wish to tap into different investor bases; European and international, depending on their specific funding needs and the appetite of their investors across different jurisdictions.

Question 33. What could be done to improve the liquidity of secondary markets in commercial papers and certificates of deposits?

The STEP Market Committee is of the opinion that overall, liquidity in the CP markets is sufficient, and that in adverse market conditions, the CP market has not proved to be more problematic than other markets.

It is also worth recalling that CPs are primarily a “cash management” instrument, and thus the market liquidity will be largely concentrated in primary markets rather than in secondary markets.

That being said, CP may be easier to trade in the secondary market if up-to-date programme data are made available to all in a standardized way, easy to read and compare. This could be beneficial especially for smaller or lesser-known issuers. Solutions such as STEP may help in this respect.

Question 36. How could secondary markets in these money market instruments attract liquidity and a more diversified investor base, while relying less on banks buying back papers that they have helped to place?

In line with the answers given to Q32 and Q33, the fact that CP issuers can tap into the various segments of the CP market of their choice (NEuCP, ECP, domestic markets), is important to have access to a diversified investor base. Next to that, consistent information on CP programmes and issues is key to maintaining a diversified investor base.

Again, solutions such as STEP may help in this direction, with the publication of statistics on yields and volumes (ref. to Q30 for explanation of STEP statistics), as well as up-to-date programme data that are easy to read and compare and made available to all.