STEP: A milestone in the short term European paper market – update-

Michael Schneider, 31 May 2007
Member STEP Market Committee

DGM/FRO/2007/102
History & goal of the STEP initiative

- STEP aims to foster the integration and development of the short term paper market in Europe

- STEP criteria relate to the disclosure of information, the format for documentation, settlement, and the provision of data for the production of STEP statistics, and not to the creditworthiness of the issuer

- Institutional support by Euribor ACI, FBE and ECB/ESCB

- STEP convention lays down the criteria to be fulfilled in order to be STEP-compliant

- Further information on  www.stepmarket.org
STEP Governance scheme

ACI → Euribor-ACI

Memorandum of Understanding

STEP Market Committee

Market Convention

STEP Secretariat

Issuer

Euribor-FBE → FBE

ESCB

Source: ACI/FBE
Latest developments on STEP

- Since April 2007: Corporate short term paper and ABCP are ECB eligible if all other requirements met. Bank paper remains not eligible even if STEP compliant.

- ECB publishes since September 2006 monthly outstanding volumes and since April 2007 once a week STEP statistics on yields and spreads. Statistics are based on information delivered by SSSs and NCBs

- STEP growth: Currently 37 programmes with STEP label and an outstanding volume of more than EUR 200 bln (this represents about 30%* of the total European CP/CD market and represents 18 %** of overall CP/CD Markets in Europe after less than a year of existence.

*Based on marked size estimation via computation of Dealogic CP Ware data calculations
** Based on marked size estimation via computation of Dealogic CP Ware data calculations and Banque de France calculations
Distribution of STEP programmes by issuer

- Monetary financial institutions (Banks); 25
- General government; 1
- Non-financial corporation; 7
- Other financial intermediaries (ABCP); 3
- Supranational; 1

Source: ECB April 2007
Outstanding volume of STEP programmes in EUR bln

![Graph showing the outstanding volume of STEP programmes in EUR bln from July 2006 to April 2007.](image)
## ECB statistics

### Total outstanding amounts of STEP debt securities (EUR billions, outstanding amounts at end of period)

<table>
<thead>
<tr>
<th></th>
<th>Jul 06</th>
<th>Aug 06</th>
<th>Sep 06</th>
<th>Oct 06</th>
<th>Nov 06</th>
<th>Dec 06</th>
<th>Jan 07</th>
<th>Feb 07</th>
<th>Mar 07</th>
<th>Apr 07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total issuance</td>
<td>70.2</td>
<td>76.6</td>
<td>81.7</td>
<td>86.8</td>
<td>89.4</td>
<td>126.3</td>
<td>154.1</td>
<td>165.6</td>
<td>200.9</td>
<td>207.4</td>
</tr>
</tbody>
</table>

### Monthly time series for STEP securities

Outstanding amounts denominated in all currencies:

- csv data (zipped) 2 KB, last update 11 May 2007

### Yields on new issues of euro-denominated STEP securities by sector of issuer, original time to maturity and rating category for zero-coupon instruments on 11 May 2007 (percentages per annum)

<table>
<thead>
<tr>
<th>Original time to maturity (in calendar days)</th>
<th>Total issuance</th>
<th>Monetary financial institutions</th>
<th>Non-financial corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3</td>
<td>3.78</td>
<td>3.78</td>
<td>ND</td>
</tr>
<tr>
<td>4-9</td>
<td>3.86</td>
<td>3.86</td>
<td>ND</td>
</tr>
<tr>
<td>10-40</td>
<td>3.92</td>
<td>3.89</td>
<td>-</td>
</tr>
<tr>
<td>41-100</td>
<td>4.15</td>
<td>4.14</td>
<td>-</td>
</tr>
<tr>
<td>101-200</td>
<td>-</td>
<td>-</td>
<td>ND</td>
</tr>
<tr>
<td>201-366</td>
<td>-</td>
<td>-</td>
<td>ND</td>
</tr>
<tr>
<td>Total</td>
<td>3.84</td>
<td>3.83</td>
<td>-</td>
</tr>
</tbody>
</table>

- csv data (zipped) 2 KB, last update 11 May 2007

### Source: ECB

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How will STEP statistics in the future look like?

General market information

- Outstanding amounts:
  - Data provided will be added to allow release of daily data
  - A similar breakdown as for the yields will be presented
    - rating, original maturity, sector, in addition currency breakdown, residual maturity

- Yields and spreads:
  - Add data from more/all data providers
  - No release of yields on STEP notes bearing fixed coupons

Individual issuer information

- Publication of individual information when data from all providers (SSS’s and NCB’s) available.
- Individual information will be published initially on a monthly basis with a gap of at least 1 day (only historical data)
Benefits of STEP (1)

- For issuers:
  - Label of quality, visibility and transparency
  - Possible eligibility for ECB market operations
  - Publication of statistics by ECB
  - Limited cost for establishing the information memorandum
  - Promotion of short term European market in Europe through a convergence of existing markets
  - Strong support of the program by ECB/ESCB, FBE and ACI
  - Benchmark information for issuer
  - Potential for broadening investor base after acceptance of STEP for domestic market regulation (France, Luxemburg, Switzerland)
  - Potential disadvantage in case of not being involved given strong development in the last months
Benefits of STEP (2)

- For investors:
  - Issuers adhere to STEP market convention
    STEP Programmes are built with the same process as non-labelled equivalent programmes with additional commitments from the issuer relating to transparency, frequency of update and user-friendly documentation via a standard presentation designed by banking issuers.
  - Commitments are followed by the STEP Secretariat which monitors the granting of the label.
  - UCITS directive aims at transparency and investors protection: CP with STEP label is eligible as money market instrument.
  - All information of all issuers are available via the STEP web page.
    Access to the webpage is anonymous, free of access and all the process is monitored by the EBF with the logistical support of ESCB and ECB for data collection and computations.
  - Benchmark information for internal and external purposes (Auditors, controllers, neutral price information, etc).
    Statistics on the STEP market provide a unique feature to gauge their credit exposure towards a programme, whatever the programme type.
  - Promotion of short term European market in Europe through a convergence of existing markets.
  - Additional income through usage of the eligibility of STEP label papers (own purchase or via securities lending).
Next „STEPs“ for the future

- Potential for broader investor base in some markets after acceptance of STEP for domestic market regulations. Need to re-frame barriers in domestic markets (France’s domestic short term papers volume above EUR 400 bln)

- Consequences of the UCITS directive (Undertakings for Collective Investments in Transferable Securities)

- Statistics improvement: ECB / STEP Market Committee and STEP Secretariat, SSS’s and NCB’s

- Marketing activities for STEP market to increase degree of awareness in the market