



EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS

7 April 2020

ECB Money Market Contact Group (MMCG)

Tuesday, 31 March 2020, 16:00 - 16:45 CET

Telephone conference

Summary of the discussion

1. Experience with the purchases of commercial paper by the Eurosystem

Market participants would welcome further guidance on the type of commercial paper (CP) that the Eurosystem can purchase under the new corporate sector purchase programme (CSPP). On 27 March 2020, the Eurosystem started purchasing CP issued by non-financial corporations (NFCs) under the new CSPP. While the European Central Bank (ECB) has published a Q&A¹ to explain the type and classes of CP that could be acquired under the CSPP, some uncertainty remains on the exact type of eligible CPs. For instance, there was some confusion on whether the CP must be STEP labelled. The ECB clarified that eligible CP for the CSPP should be admitted to trading on a regulated market, or an accepted non-regulated market, and that having a STEP label is not an eligibility criterion. The ECB agreed to review the Q&A and extend it where needed to clarify further the scope of the eligible CP.

Pending further clarification on the type of eligible CP, the MMCG stated that only a fraction of the total outstanding commercial paper seems to qualify for the CSPP programme. MMCG members estimate that only about 50% of the outstanding CP issued by NFCs seems eligible for the CSPP. They claim that many NFC domestic issuers are neither rated by recognised international rating agencies nor do they have the appropriate listing label. According to some MMCG members, corporates refrain from following the costly process of obtaining an acceptable rating or for being listed, especially as their eligibility for the CSPP may remain uncertain even after passing all those criteria. Given that the ECB, according to some members, does neither pre-commit on purchases nor publish a list of eligible CP, some issuers may not be ready to undertake these administrative costs.

MMCG members were curious about the price at which the CP purchases were conducted by the Eurosystem. Some members reported that Eurosystem bids were more expensive than initially expected. Should those prices continue, CSPP would not be able to replace other alternative financing sources (revolving credit facilities, committed backup credit lines). Other members showed confidence that the upcoming Eurosystem deals will gradually reflect price levels of February (pre-crisis) rather than those observed in March when the market was already stressed.

MMCG members also queried the total intended size of the Eurosystem programme for CP purchases, as this information has not yet been communicated. Some market participants work on the assumption that the Eurosystem will purchase a relatively small amount of CP and MMCG members considered that publishing the actual size (or at least a range of the envisaged size) of the CP purchases would be a powerful communication tool to underline the Eurosystem's commitment.

In case the CP would count as part of the bank lending performance benchmark under the TLTROs, MMCG members were of the opinion that the CP market would definitively develop.

¹ See https://www.ecb.europa.eu/mopo/implement/omt/html/cspp_cp-faq.en.html.

The MMCG noted that attaining the proper rating was the most difficult requirement NFCs have to meet. Large NFCs that can obtain a rating above BBB have returned as issuers to the primary market. Banks would have an important incentive to acquire CP in primary markets if CPs would also count as part of the bank lending performance benchmark under the TLTRO III, in addition to qualify as eligible collateral for TLTRO III funding. One MMCG member argued that from an economic viewpoint there was no difference between acquiring CP issued by an NFC and granting a loan to an NFC. It was also noted that there are still many NFCs that cannot obtain a rating at, or above, BBB-. Hence, these NFCs opt to tap their credit lines in anticipation of liquidity needs, even though they still have sufficient cash. NFCs place the additional cash buffers as deposits. While this activity has a temporary neutral effect on cash for the banks, it deteriorates the liquidity regulatory ratios. Other MMCG members suggested that banks' cash buffers were expected to melt down soon as NFC deposit withdrawals are likely to grow in the days around the start of the month when salaries and leases are due.

2. Collateral easing measures

MMCG members supported the proposals for collateral easing measures reflected in the letter by the European chief financial officers (CFO) network to the President of the ECB. The ECB thanked the MMCG members that are also part of the European CFO network for their involvement in the reflection on collateral easing measures. Consistent with the ECB's general policy of maintaining an active dialogue with market participants, the ECB is reflecting on this important topic of common interest and does not exclude that a first conclusion of this reflection might come in the course of this week.

The MMCG welcomed the fact that the ECB was reflecting on possible collateral easing measures and urged the ECB to provide decisions soon. According to the MMCG, the liquidity strains for banks are expected to worsen. This is because the current eligible collateral is insufficient to replace unsecured outflows (i.e. deposit withdrawals, working capital drawdowns by corporate clients) with secured inflows (central bank funding or repo borrowing). Therefore, it is urgent that the ECB considers either widely expanding the eligible collateral or purchasing unsecured debt from banks (i.e. senior bank bonds). Another possibility could be to accept government guaranteed loans as eligible collateral.

List of participants

Money Market Contact Group meeting

Participant's organisation	Name of participant
Bank of Ireland	Mr David Tilson
Barclays Bank	Mr Bineet Shah
Bayerische Landesbank	Mr Harald Endres
BBVA	Mr Miguel Ángel Monzon
Belfius Bank & Insurance	Mr Werner Driscart
BNP Paribas	Mr Patrick Chauvet
BPCE/Natixis	Mr Olivier Hubert
Caixabank	Mr Xavier Combis
Caixa Geral de Depósitos	Mr António Paiva
Commerzbank	Mr Andreas Biewald
Coöperative Rabobank U.A.	Mr Frank Beset
Deutsche Bank	Mr Jürgen Sklarczyk
DZ Bank	Mr Michael Schneider
Erste Group Bank	Mr René Brunner
HSBC	Mr Harry-David Gauvin
ING	Mr Jaap Kes
Intesa Sanpaolo	Ms Maria Cristina Lege
LBBW	Mr Jan Misch
Nordea	Ms Jaana Sulin
Société Générale	Ms Ileana Pietraru
UniCredit Bank	Mr Harald Bänisch
European Central Bank	Ms Cornelia Holthausen (Chair)
European Central Bank	Ms Maria Encio (Secretary)
European Central Bank	Mr Kieran Leonard (guest)
European Central Bank	Mr Ad Visser (guest)