

## The French short-term negotiable debt securities market, the STEP label and the role of the Banque de France

*The Paris financial centre has an efficient short and medium-term securities market (in the form of the TCN<sup>1</sup> market) that proved its soundness and resilience during the financial crisis.*

*This market provides a liquid and deep market of securities that are eligible as collateral in the Eurosystem refinancing operations under certain conditions.*

*The aim of this Focus is to detail the Banque de France's role on this market from a legal perspective, to explain the short-term European paper (STEP) label, the involvement of the Banque de France in the STEP labelling process and its role as a provider of STEP statistics to the European Central Bank (ECB).*

*It also describes the operational management by the Banque de France of the eligibility criteria in Eurosystem refinancing operations for short-term TCNs.*

### The French short and medium-term debt securities market and the role of the Banque de France

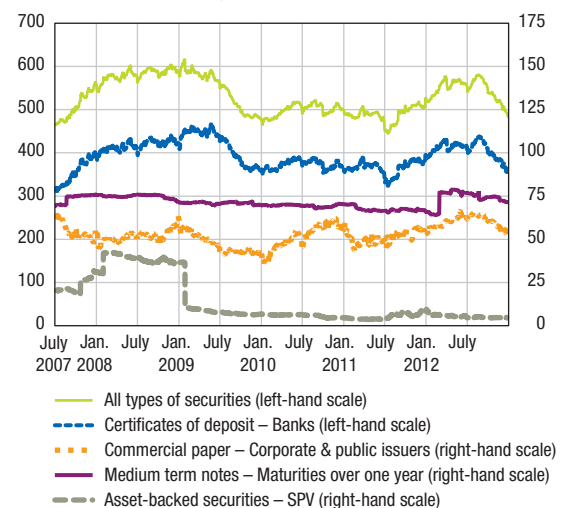
#### A liquid and deep market of securities that may be eligible as collateral in the Eurosystem refinancing operations

The Paris financial centre has an efficient short and medium-term paper market (certificates of deposit issued by banks, commercial papers issued by corporate and public entities and medium-term notes issued by banks and non-banks) that proved its soundness and resilience during the financial crisis. With EUR 483 billion outstanding at end-December 2012, the French TCN market is the largest in Europe and the second largest worldwide (behind its American equivalent but ahead of its British one). On the 27<sup>th</sup> of January 2009, it posted a record volume of outstandings of EUR 615 billion and a monthly record outstanding amount of around EUR 600 billion at the end of February 2009 and has remained a reliable alternative source of funding for credit institutions and businesses during the crisis. The depth and liquidity of the market is largely based on its flexible regulatory framework, its high level of transparency, its efficient market infrastructures, its openness to non-domestic issuers and its supervision by the French central bank. The TCNs, fixed income products, are not traded on stock exchanges, but over-the-counter.

From a monetary policy perspective, the French commercial paper market (CPs issued by non-financial companies), and the French medium-term notes market are recognised as non-regulated markets accepted by the ECB.<sup>2</sup> Debt instruments issued on these markets are eligible as collateral for Eurosystem refinancing operations, as long as they comply with the

**Chart 1 – Outstanding of French short-term debt securities**

(EUR billions, all currencies)



Source: Banque de France

<sup>1</sup> Titres de créances négociables (negotiable debt securities)

<sup>2</sup> <http://www.ecb.int/mopo/assets/standards/marketable/html/index.en.html>

Eurosystem eligibility criteria. French certificates of deposit, issued by financial institutions, as long as they benefit from the STEP label (see *infra*), are also potentially eligible. This is also the case for other short-term securities markets in Europe, such as the Euro commercial paper (ECP) traded in the London market. However, benefiting from the STEP label is not in itself sufficient to grant eligibility as collateral for Eurosystem refinancing operations. All the other eligibility criteria set out in “The General Documentation” (*The implementation of the monetary policy in the Euro area – General documentation on Eurosystem monetary policy instruments and procedures*, ECB, February 2011)<sup>3</sup> must also be met.

## The Banque de France is responsible for monitoring respect of the conditions for issuing TCNs and also for ensuring market transparency

Under the French legal framework, there is a specific regulation regarding TCN issuance programmes. The Banque de France shall ensure that issuers comply with the conditions of issuance laid down in Articles L. 213-1-A to L. 213-4-1 of the French *Monetary and Financial Code*. TCN issuers are required to file with the Banque de France a programme prospectus called *Documentation financière* (DF).<sup>4</sup> The Banque de France also ensures market transparency: detailed statistical information is published on its website. Operations are declared by paying agents in a dedicated software (*Noria*) and are monitored by the Banque de France. This allows the central bank to compile three levels of statistics: daily, weekly and monthly for information purpose. The Banque de France also posts the programme prospectus (issuers’ DF) on its website.

<http://www.banque-france.fr/en/monetary-policy/negotiable-debt-securities.html>



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## The STEP label

### A market initiative supported by the Eurosystem

Since 2001, the STEP initiative, pursued by market participants under the auspices of the European Banking Federation (EBF) and the Financial Markets Association (ACI), has promoted the integration of the short-term debt securities markets via a core set of market standards and practices that issuers may choose to apply to programmes on several markets such as the ECP market or the TCN market. The STEP label was introduced in 2006 and a dedicated market convention details all the rules that must be respected by issuers and particularly all the information required for filling in the information memorandum (programme’s prospectus). All the information is available on a dedicated website on the STEP initiative. The STEP market was accepted as a non-regulated market for collateral purposes in Eurosystem credit operations on 2 April 2007.<sup>5</sup>

<sup>3</sup> <http://www.ecb.int/pub/pdf/other/gendoc2011en.pdf>

<sup>4</sup> Articles D. 213-1-A to D. 213-14 of the French Monetary and Financial Code describe the information that must be provided with the DF.

<sup>5</sup> <http://www.ecb.int/press/pr/date/2007/html/pr070402.en.html>



<http://www.stepmarket.org/>

### The STEP Initiative

It aims to foster the **integration of the European markets for short-term paper through the convergence of market standards and practices.**

Integration will enhance market depth and liquidity and increase the diversification opportunities for issuers (both financial and non-financial institutions) and investors.

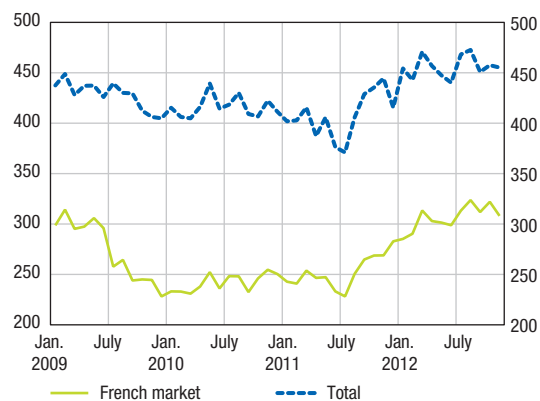
The **Financial Markets Association (ACI)** and the **European Banking Federation (EBF)** are the main promoters of the STEP initiative.



The Eurosystem has supported the STEP initiative in two ways. First, until June 2010 and on the basis of a temporary arrangement, the Eurosystem assisted the STEP secretariat in the labelling of STEP programmes. Since July 2010 the STEP secretariat has managed the labelling process on its own but the Banque de France continues to collaborate with the STEP secretariat (see below). Second, the ECB provides statistics on the STEP market that are available on its website.<sup>6</sup> STEP securities have emerged relatively unscathed from the financial market turmoil: their total outstanding amount was EUR 455 billion in November 2012 (of which 308 billion in short-term TCNs representing 68% of the total STEP outstanding amount) and there were 176 active STEP labelled programmes in place (of which 73 TCN issuers).

**Chart 2 – STEP outstanding amount**

(EUR billions)



Sources: Banque de France, ECB

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### The role of the Banque de France in the STEP labelling process and as a data provider of STEP statistics to the ECB

Issuers of French TCNs wishing to be granted the STEP label must submit to the Banque de France a DF in the format required by the STEP Market Convention. Compliance with French legislation and STEP requirements is checked at the same time. The issuer then submits the information memorandum to the STEP Market secretariat for final approval.

As other STEP data suppliers (Euroclear Bank, Euroclear France, Euroclear Belgique and Clearstream essentially), the Banque de France provides the ECB with daily data on primary issuance market volumes (transactions and outstanding amounts), primary market rate data broken down per ISIN<sup>7</sup> concerning the STEP programmes. These data are compiled and published on the ECB website for information purposes.

<sup>6</sup> <http://www.ecb.europa.eu/stats/money/step/html/index.en.html>

<sup>7</sup> International securities identification number

## ■ The operational management by the Banque de France of the eligibility criteria in Eurosystem refinancing operations for short-term TCNs

As regards the data on eligible marketable assets disseminated by the ECB, it is worth noting that all the reference information concerning each specific security is derived from data transmitted to the ECB by the national central banks (NCBs): each NCB is responsible for assessing the eligibility status of securities issued and deposited in its own jurisdiction and reports such information to the Eligible Assets Database (public database located at the ECB). Each NCB is also responsible for maintaining this information updated. To this end, the Banque de France relies to a large extent on the national Central Securities Depository (CSD) Euroclear France. Regular checks are performed at the Eurosystem level to ensure data quality.

### Static data on TCNs is provided to the Banque de France by the national Central Securities Depository, Euroclear France

The information regarding French TCNs provided on a daily basis by Euroclear France to the Banque de France includes a number of static data: ISIN, date of issuance, maturity, coupon rate, type of rate, name of issuer, currency, nominal value issued, and type of TCNs. Furthermore, an automated control is implemented on the type of coupon so as to discard TCNs with complex coupons that may not be eligible. However, no information is provided by Euroclear France regarding the market prices of these securities. The Common Eurosystem Pricing Hub (CEPH), developed and operated by the Eurosystem, produces prices for all marketable assets eligible to Eurosystem refinancing operations on a daily basis.<sup>8</sup> To define these unique prices used by all NCBs to value these assets submitted as collateral, the CEPH collects market prices and defines the most reliable one any given business day. In the absence of market prices, CEPH calculates a theoretical price for the TCNs, as for any other marketable assets, according to the general framework to be applied to the valuation of collateral.

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As short-term debt instruments (around 60% of the issuance mature in less than three days), French short-term TCNs are not described in Bloomberg or Reuters or Six Telekurs, only Euroclear provides such data. The above-mentioned static attributes are part of the information required to check the eligibility of the securities. Other information used to assess/monitor the eligibility status/haircuts of these assets such as the rating of the TCN programme and/or the issuer rating is obtained by the Banque de France from financial data providers and the websites of rating agencies.

### Short-term TCNs represent a small share of the collateral used for Eurosystem refinancing operations by Banque de France counterparties

The French short-term TCN market primarily helps banks and non-financial companies to obtain market funding and is by no means aimed at creating collateral for Eurosystem refinancing operations. As far as the French counterparties of the Banque de France are concerned, short-term TCNs issued by banks and non-banks, be they labelled STEP or not, accounted, on average, for 7.4% (of which 3.6% for STEP securities) of the overall amount of collateral posted by these counterparties in 2012.

In addition, it should be noted that the Eurosystem implements restrictive rules regarding the use as collateral of unsecured bank debt instruments that French CDs must comply with: the value of such instruments issued by one bank must not exceed 5% of the total value of the pool of collateral pledged by a counterparty with the Eurosystem (Section 6.4.2 of the General Documentation).

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<sup>8</sup> <http://www.ecb.int/mopo/assets/risk/valuation/html/index.en.html>