THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

22 November 2024

Response to the European Commission's consultation on macroprudential policy for NBFI

Short-term funding markets

Question 30 – 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? Should the scope of eligible instruments to such framework/label be aligned with Article 3 of UICTS Eligible Asset Directive? If not, please suggest what criteria would you consider for identification of eligible instruments.

For corporates, access to deep and liquid markets for money market instruments is of crucial importance for meeting their short-term funding needs and manage their cash.

Any regulatory consideration must ensure that the current flexibility and simplicity of commercial paper (CP) markets across the EU is maintained to facilitate efficient and timely issuance for EU corporates. Regulatory intervention resulting in a more complex or burdensome issuance process for corporates would raise entry barriers (and potentially affect the ability to fund their businesses) in the market and negatively affect market liquidity.

Establishing an EU-wide framework for CP markets should build on good practices and successful experiences of existing local markets, notably drawing inspiration from the NEU CP market. Creating a simple and flexible EU framework has the potential to attract more issuers and investors, deepen market liquidity, minimise burdens and costs for corporates seeking to issue CP across several EU markets, as well as lowering entry barriers for corporates with a lower level of familiarity with the markets, such as smaller issuers and non-EU companies (thereby reducing their reliance on banks for financing).

More specifically, EACT's members strongly support EU-wide harmonisation and standardisation of issuing documents. This could help reduce costs for smaller and medium issuers as well as offering a clear timeline for legal due diligence. With more issuers using harmonised disclosure documents, investors will be able to detect investment opportunities more easily. Exploring well-established and streamlined documentation standards, such as the STEP label disclosure document or the NEU CP template, as an EU-wide standard could therefore help harmonise different markets and attract more investors. To achieve this, we support legislative intervention by the European Commission to harmonise simple and streamlined documentation across the EU.

We also welcome measures to improve transparency and the functioning of the OTC market. This would be supported by statistical market information as currently provided by the Banque de France for the NEU CP market that offers an oversight of outstanding issuance and credit rating categories. Encouraging other National Competent Authorities as well as European Authorities to publish comparable market data would help first-time issuers seeking to launch a CP programme on EU markets with their assessment.

In addition, the variation in settlement cycles across EU-based CP markets, ranging from same-day settlement to T+2, is a further area where harmonisation would be welcome.

Question 31 – Would the presence of a wider range of issuers (notably smaller issuers) to fund themselves on this market, and therefore diversify their funding sources, be beneficial or detrimental to financial stability?

For corporates, access to deep and liquid markets for money market instruments is of crucial importance for meeting their short-term funding needs and manage their cash. Moreover, corporate treasures strongly value interacting with well-regulated and resilient financial counterparties in a reliable financial environment.

In this context, we believe that a higher number and a more diverse range of issuers, including small companies, would have a positive impact on the depth and liquidity of the markets and for diversification of exposures in the financial system.

Empowering more issuers to use EU CP would allow investors to access a wider range of investment options, with different risk profiles and risk premiums, decreasing the concentration of investors' short-term debt exposures and potentially attracting more investors to EU CP markets. This would allow companies to access a wider and more diversified range of funding options, enabling them to more effectively manage liquidity needs and potentially decreasing reliance on bank lending for their short-term funding needs.

Harmonised documentation standards (see also reply to question 30) could help smaller and medium issuers to access CP markets while investors, notably MMFs, must always assess the risk profile of their investments.

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 choice of market for the issuance of short-term debt for corporates is closely tied to historical legacy, relationship building across dealers' platforms, and familiarity with the required documentation and overall legal system. Therefore, some EU companies and most non-EU companies have a historical preference for issuing euro-denominated CP on the EUR CP market despite the growing importance of domestic markets such as French NEU CP.

This practice has not seen any significant shift after Brexit, especially due to the perception that EU-based markets remain national rather than EU-wide. In addition, the perceived lack of efficiency or associated costs linked to a shift away from the EUR CP market contribute to this legacy.

As EACT, we recommend assessing a combination of potential measures to make EU-based CP markets more attractive and achieve greater scale, including:

- addressing regulatory fragmentation and enhancing harmonisation in EU CP markets, including through standardisation of documentation and settlement practices, while preserving issuing simplicity (see also reply to question 30);
- streamline the documentation and due diligence processes and assessing costs associated with accessing EU-based CP markets with the objective to increase their attractiveness to both issuers and investors;
- leverage technological innovation to make issuing easier and more efficient;
- assess measures to achieve more centralisation in EU CP markets with the objective to develop a market with EU rather than national reach.

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

Financial institutions play a key role in improving the liquidity of secondary markets and must become more active as market makers across all investor classes.

In addition, trading platforms and technological improvements, notably digitalisation of CP markets, have the potential to add activity and increase the attractiveness of EU CP markets.

Question 35 – Do you think there is a risk with the high concentration of this market in a few investors (MMF and banks)? Please elaborate.

Corporate treasurers strongly favour a wide and diverse range of investors. Regulatory intervention should therefore not decrease the number or types of these counterparties, which would lead to more market concentration limited to a number of investors.

In relation to MMFs more broadly, EACT cautions against over-regulating or removing certain fund types, as this would force end-users to explore riskier and less well-regulated alternatives and/or push them towards US or other Sterling MMFs, with a negative impact on the European economy and financial stability.

Question 37 – What are the benefits and costs of introducing an obligation to trade on trading venues (regulated markets, multilateral trading facilities and organised trading facilities) for such instruments?

As corporates, we value the flexibility of selecting the most appropriate issuing and trading option for CP on a case-by-case basis. While we would welcome initiatives to increase the attractiveness of EU-based trading venues, we advise against imposing any obligation to trade on such venues.

EACT recognises several benefits associated with trading CP on trading venues, such as enhanced price transparency and standardisation and potential access to a larger pool of investors. Nonetheless, corporates value the possibility to maintain the option of trading CP over-the-counter (OTC) through financial intermediaries, including due to the possibility to structure products in a customised way, leveraging long-standing relationships with intermediaries, and benefitting from lower compliance costs compared to trading venues.