



EMMEC Meeting – Summary

Meeting title	EMMEC meeting
Date and time	21 March 18h30 – 22 March 2023– 16:30 CET
Location	Julius Baer premises Zürich and conference call
Attendees	<p>EMMEC Members:</p> <p>L. BRANDTNER – TMA Austria R. BRUNNER – TMA Austria F. PAILLOUX – ACI France P. LE VEZIEL – ACI France H. WESTERMANN – AEFMA Germany P. BYRNE – ACI Ireland M.C. LEGE – Assiom Forex Italy M. GALLI – AssiomForex Italy C. CAGNAZZI – AssiomForex Italy S. CIMINO – AssiomForex Italy C. ORIGER – LFMA Luxembourg V. GIUNTA – LFMA Luxembourg C. HUSS – LFMA Luxembourg F. BESET – ACI Netherlands J. M. TASSARA – ACI Spain L. BARRIGÓN – ACI Spain J. PIASKO – ACI Suisse K. LARSEN – ACI FMA</p> <p>Guest speakers</p> <p>P. MAREY – RABOBANK S. CARBO – FUNCAS</p> <p>Observers</p> <p>H. WACKET – ECB J. JACKOVICKA – ECB P. KARL – ECB F. HEBEISEN – ACI FRANCE R. CAPPARELLI – EMMI</p> <p>EMMEC Secretariat</p> <p>P. DE DEYNE – EMMI G. DILLEN – EMMI</p>

Agenda items	Speaking points
Introduction	<p>EMMEC members were reminded of the statutes of this committee and the role of the secretariat.</p> <p>They were also reminded of competition law, confidentiality and conflicts of interest.</p> <p>F. Pailloux was elected as Chair of EMMEC, by unanimous decision.</p> <p>F. Hebeisen was admitted to EMMEC as a permanent observer, by unanimous consent.</p>
Inflation in the US and Europe and market impact	<p>Presentation # 1: “Inflation Busters” by P. Marey</p> <p>Presentation # 2: “Inflation in the US and Europe” by S. Carbo</p> <p>Exchange of views between presenters and participants on the following points:</p> <ul style="list-style-type: none"> - Comparison between US and Europe in terms of inflation drivers (supply versus demand), resilience of labour markets and how these lead (or not) to potential recession and easing of inflationary pressure - Need for harmonization of fiscal policies - Impact of shadow banking on market liquidity - Impact of the speed and amplitude of recent interest rate hikes on markets - Effectiveness of monetary policy tools in times of excess liquidity - The focus of EU monetary policy on price stability and inflation
Roundtable on latest developments	<p>Discussion among participants on the following points:</p> <ul style="list-style-type: none"> - Defaults of SVB / Credit Suisse: <ul style="list-style-type: none"> • Participants exchanged views on the potential catalysts for these defaults. It was felt that the speed of rate hikes may have had an impact, however, all agreed on the importance of a solid first line of defense, stable funding and diverse sources of cash to avoid adverse effects of “fast money”. • The installation of USD swap lines was seen by some as a mere safety measure while others felt it added to the concern. • Some participants expect regulatory authorities to plead for recalibration of stress tests and revision of LCR-models on the back of these defaults. Some expect also that the LCR haircut for short term deposit

from Domestic Asset Managers should be lower as the European AM were very resilient in the last crisis with European banks. They note that this increasing constraint, especially in Europe when the source was non constrained US banks, is not appropriate and would have detrimental effects on the financing of economic activity. One participant emphasized the appropriateness (tool) of liquidity buffers over capital buffers in times of stress with the need to even release pressure on European banks on these constraints, as supported by banking associations.

- Yields:

- ECB rate at 3% was seen as still low given that effective yields are still negative under the current inflation; the group expects still higher rates with further hikes coming at a lower speed going forward.
- Some also felt that liquidity premiums and credit spreads still need to catch up as well.

- Money market activity:

- Participants shared their observations on activity in the short-term and in the long-term activity, overnight liquidity, movements in money market funds.

- Volatility as the new normal:

- Participants observed larger bid-offer spreads in derivatives with big price movements on low volume trades. Another was of the opinion that the €STR OIS market is working quite well.
- It was felt that volatility calls for a more dynamic management of the banking book.

- Monetary policy tools:

- Some felt that balance sheet reduction could be more effective than interest rate hikes as a means to curb inflation.
- Price stability was indicated as the key priority in monetary policy

Anticipated end of TLTRO

Presentation #3: "Anticipated end of TLTRO and impact on different asset classes" by F. Pailloux

Discussion among participants on the following points:

- Effectiveness of Quantitative Tightening

	<p>- Expectations for future issuance linked to anticipated TLTRO end:</p> <ul style="list-style-type: none"> • Recent experience with Credit Suisse A Tier 1 losses were felt as potentially challenging to raise new capital in the future with this instrument for banks in Europe. Eventually if it was restated clearly that European regulation would not allow similar treatment, the stigma effect on the instrument is 0. Questions were also raised around the likelihood of upcoming Tier 1 coupon calls, which could send further negative signals to investors. Some feared that bank lending could be affected on the back of potential less interest in Tier 1. • Some expect that more issuance of covered bonds, LT2 and senior MREL debt should not be so easy. This will of course increase collateral / HQLA needs. • One participant saw potentially new ways of balance sheet management with a focus on assets rather than liabilities
<p>Market liquidity and impact</p>	<p>Discussion among participants on the following points:</p> <p>- T2-T2S consolidation and impacts:</p> <ul style="list-style-type: none"> • „Big bang“ release was found by some as quite risky in a period of market turbulence. Representatives from one country had been somewhat taken by surprise, whereas the majority of other participants thought that the release went quite smoothly. <p>- Intraday liquidity:</p> <ul style="list-style-type: none"> • Participants exchanged on the impact of counterparties asking for payments early in the cycle. US banks for example may ask for half of their payments to be executed before noon. One participant pointed out that some nostro banks charge for overdraft during a very short period of time even if accounts are long for most of the day. <p>- Instant payments and effect on liquidity management:</p> <ul style="list-style-type: none"> • It was felt that instant payment is a good service for customers but that some limits may be appropriate as it could pose a new threat to financial stability. One member argued that banks themselves should put limits on withdrawal amounts per day in place, where another favoured a regulatory approach.

	<ul style="list-style-type: none"> - Impact of social media on speed of money transfers: <ul style="list-style-type: none"> • The speed of money transfers could be detrimental in times of stress or negative rumours on an institution. This technological development combined with the power of social media were seen as new elements to reckon with, compared to times in the past when banks were under fire. - ICMA survey on transparency in CP markets: <ul style="list-style-type: none"> • One observer explained the work done by a Taskforce at ICMA on the back of a perceived lack of transparency in the CP market in the Covid turmoil. He reported on the prevailing levels of transparency, which are felt satisfactory by most market participants. The sensible issue is transparency on pricing. It is perceived that supervisors / regulators should have, if not done yet, easier and full access to pricing data but extending this access to market participants and general public could be detrimental to the market itself by creating stigmas and unveil funding levels of market participants. - Remuneration on government bonds deposits: <ul style="list-style-type: none"> • Some participants saw a potential reduction to 0%, affecting €700 to 800 bn. It was argued that it may have an impact at Euribor-€STR spreads. Liquidity in the repo market could be impacted.
<p>AOB</p>	<ul style="list-style-type: none"> - Summary of the meeting to be distributed for comments, before publication of the EMMEC website - Feedback round to be held on format / content of the following meetings - Suggestion to invite Eastern European countries to join EMMEC: consensus to consolidate current group first, then start with ad-hoc invitations - Next EMMEC meeting: 27- 28 June, EMMI premises in Brussels