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# European Money Market

A proposal for a more efficient unsecured market

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# Money Market: any chance for the future?

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The present situation on the Money Market suffers from:

- **Lack of liquidity** for maturity longer than 1 month;
- Need for **new ideas** in order to improve the situation
- Risks that **new regulations may cause a further deterioration** in the market
- **Absence of transactions** able to support the levels of the fixings



**A proposal coming from the industry, fitting the needs of the market and with the strong support of supranational entities, is in our opinion the only way to change the game.**

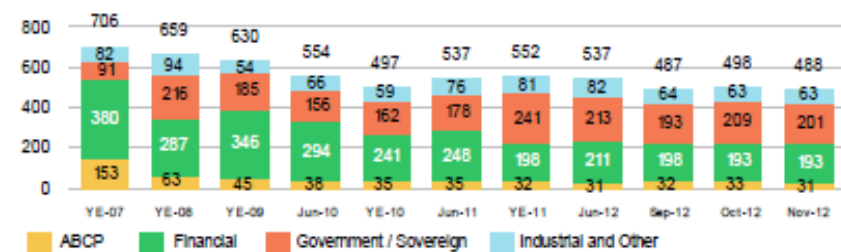
**All stakeholders should be involved: financial institutions, investors, regulators, benchmarks' users, Central Banks...**

# Assessing the current situation in the ECP markets

## European CP Outstandings

All Issuers (\$Bn)

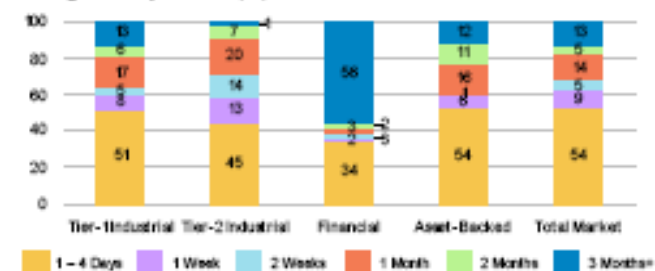
1,000



Source: Most recent available data from CPWare (November 15, 2012)

## CP Maturity Profile by Sector

Average Weekly Volume (%)



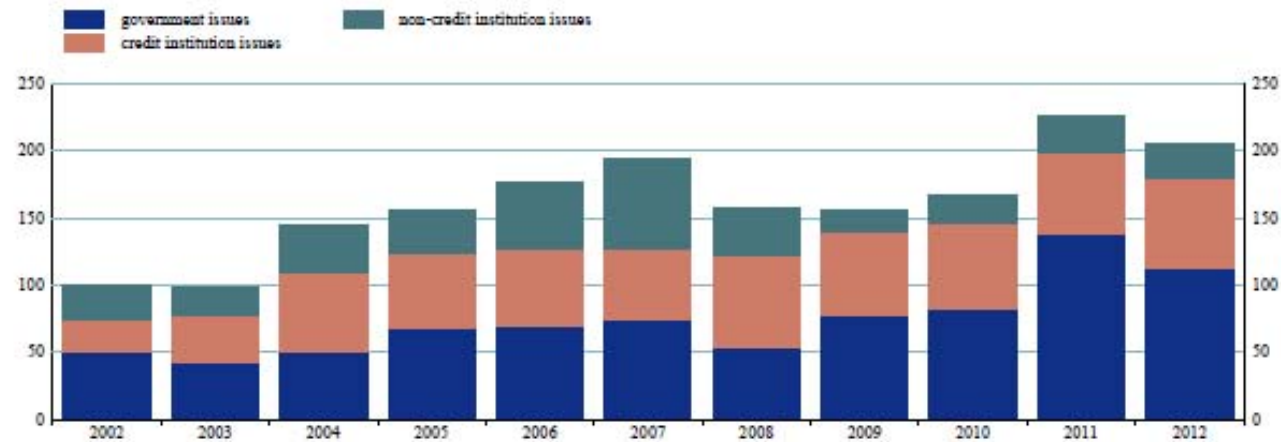
Source: As of most recent reporting from the Federal Reserve (November 9, 2012)

	<u>2011</u>			<u>2012</u>									
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.	June	July	Aug.	Sep.	Oct.
<b>STEP Total issuance</b>	410.0	420.9	415.4	454.3	442.7	470.7	456.8	447.4	440.2	468.2	472.7	450.8	457.5

# Assessing the current situation in short-term paper markets

## 5.1 TURNOVER ANALYSIS IN THE SECONDARY MARKET

Chart 61 Average daily turnover in outright transactions  
(index: outright transaction volume in 2002 = 100)



Note: The panel comprised 105 credit institutions.

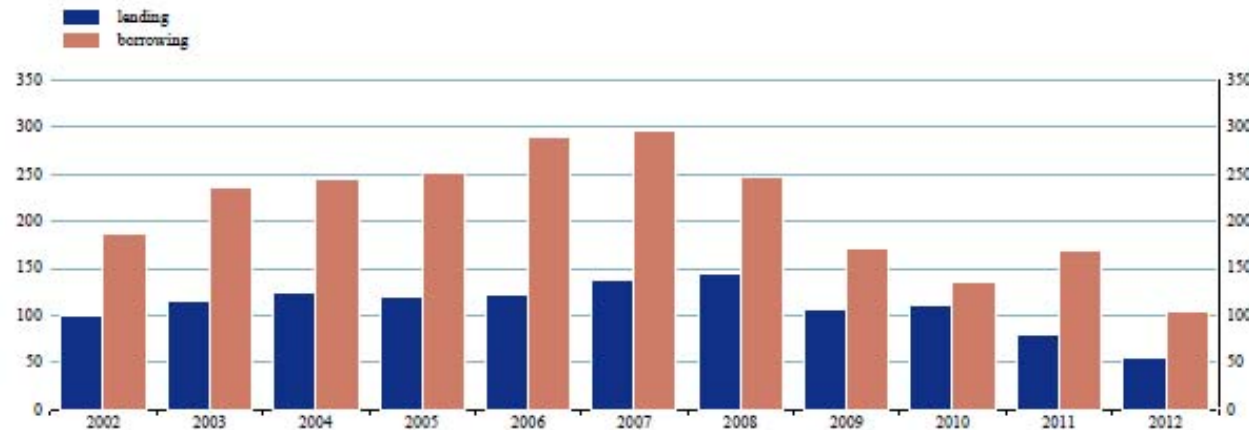
Source: Euro Money Market Survey sept. 2012 – ECB

ECP has proved to be resilient during the whole crisis and is trying to bottom-out, also for financial issuers.

# Assessing the current situation in interbank market

## 2.1 TURNOVER ANALYSIS

Chart 1 Average daily turnover in unsecured cash lending and borrowing  
(index: cash lending volume in 2002 = 100)



Note: The panel comprised 105 credit institutions.

Source: Euro Money Market Survey sept. 2012 – ECB

We have observed a tangible decrease in interbank turnover, even after two LTROs.

As banks for several reasons are no longer on the lending side in the term interbank market, it is crucial that real money investors enter/increase their presence in the money market as lenders.

# Money Market: the proposal

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The “new” Pan European Money Market should be based on:

## Products

- Interbank Deposits
- CP and CD STEP labelled

## Players

- Banks
- MM Funds and “real money” accounts
- Insurance companies
- Central Banks (both as supervisors and as investors)

# Money Market: requirements

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The “new” Pan European Money Market would be successful if supported by an ad-hoc regulation that would:

- Allow for reduced **capital absorption for interbank lending**, in order to trigger a recovery of credit activity by banks;
- Smooth the current stretched **liquidity rules** for Money Market funds, with reduced WAL and WAM treatment for these instruments
- Allow for a neutral **treatment of regulatory liquidity** invested in the instruments traded in the “new” market<sup>1</sup> and in particular for loans that should be included in the LCR liquidity buffer;
- Lead to a non-punitive, harmonized **fiscal treatment across all countries**
- Additionally, loans/paper should be **made eligible** for central bank refinancing at least under a back-stop/contingency scenario;

# Money Market: benefits

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The **direct and indirect benefits** could be:

- Improvement of **liquidity** conditions for almost all banks;
- More efficient **transmission of Central Bank monetary** policy through increased liquidity exchange.
- Reduced need for banks to recur to **MRO/LTRO**
- Reduced excess liquidity at the **deposit facility**
- Reductions of **RWA** (regardless of IRM or standard model)
- Instead of changing benchmarks rules (with possible legal litigations), the new money market could be used as the underlying for a transparent and consistent new **benchmark, reflective of real transactions' rates**



**The bottom line:** The overall project aims at addressing **systemic issues** currently damaging the overall financial markets and the transmission mechanism of the monetary policy, and its success could ultimately benefit the real economy.

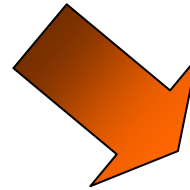


# Critical issues and next steps

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## SHARING THIS VIEW ?

*not all counterparties feel the same pressure  
and bear the same costs of the lack of a  
properly functioning interbank market*  
The new buy-side of the market  
has to be put "on board"



## STRONG COMMITMENT/PATRONAGE

*from a supranational entity is required.*  
We deem this "institutional" support  
a fundamental prerequisite in order for banks  
to prioritize the project in the  
current cost-cutting environment

**ANY REAL ALTERNATIVE ?**  
**Feedbacks and discussion**

