# EMMEC Meeting - Summary

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| **Meeting title** | EMMEC meeting |
| **Date and time** | 20 September 20h00 - 21 September 2023 16:30 CET |
| **Location** | Cecabank premises in Madrid and conference call |
| **Attendees** | EMMEC Members<br>F. PAILLOUX -Chair- (Société Générale) for ACI France – physical<br>P. LE VEZIEL (Credit Agricole SA & Crédit Agricole CIB) for ACI France – physical<br>L. BRANDTNER (Raiffeisenlandesbank Oberösterreich) for TMA Austria - physical<br>R. BRUNNER (Erste Group Bank AG) for TMA Austria - virtual<br>H. WESTERMANN (Commerzbank) for AEFMA Germany - physical<br>F. SPAHN (DZ Bank) for AEFMA Germany - physical<br>P. BYRNE (Bank of Ireland) - physical<br>M.C. LEGE (Intesa SanPaolo SpA) for Assiom Forex Italy - virtual<br>S. CIMINO (UniCredit) for Assiom Forex Italy - virtual<br>M. GALLI (Banco BPM) for Assiom Forex Italy - physical<br>C. CAGNAZZI (Banca Populare di Sondrio) for Assiom Forex Italy - virtual<br>C. ORIGER (BCEE - Banque et Caisse d'Épargne de l'Etat, Luxembourg) for LFMA Luxembourg - virtual<br>C. HUSS (Union Bancaire Privée) for LFMA Luxembourg - virtual<br>F. BESET (Rabobank) - physical<br>J. M. TASSARA (Cecabank) for ACI Spain - physical<br>L. BARRIGON (Banco Santander SA) for ACI Spain - physical<br>J. PIASKO (Julius Baer) for ACI Suisse - physical<br>M. PESONEN (Nordea) - virtual<br>J. LARDINOIS (Belfius Bank) for ACI Belgium - virtual<br>C. WICHMANN (Danske Bank) for ACI Denmark - physical<br><br>Guest speakers<br>G. DE VIDTS - ICMA<br>C. MANENTI – Intesa Sanpaolo<br>V. DESCHAMPS – Société Générale<br>R. TORRES - FUNCAS<br><br>Observers<br>J. JACKOVICKA – ECB<br>R. CAPPARELLI – EMMI |

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| | **EMMEC Secretariat**<br>P. DE DEYNE - EMMI<br>G. DILLEN - EMMI |
| **Agenda items** | **Speaking points** |
| **Introduction** | EMMEC members were reminded of competition law, confidentiality and conflicts of interest. |
| **Item 1** | **Members' roundtable: speaking points**<br>Theme 1: Minimum Required Reserves (MRR) are now remunerated at zero %.<br>• Members expressed doubts on how this measure could be effective for the ECB monetary policy, reduce the balance sheet and reduce inflation. On the contrary, they feared the opposite, in that it would have a downward effect on short-term interest rates. Some also expressed fears around the possibility of higher MRR in the future.<br>• Overall, members foresee that costs of the measure will be passed on to banks' customers.<br>• One member pointed out that the measure will lead to a discrepancy between the deposit facility rate and Euribor, which will be problematic in other areas. Higher volatility in €STR rates could result as well.<br>• Members also discussed the impact of MRR on the LCR. These reserves are excluded from the Level 1 HQLA (high quality liquid assets) and are thus by all banks trimmed in the numerator of the LCR. So if the ratio should be increased to 3 % versus 1%, all the European banks will see their LCR decreased by a total of €328 BN (which equals the average daily reserve requirements of €164 BN x 2)<br>• Some bank clients (asset managers) have expressed concerns that banks may not accept their cash over month-end (as it was already the case for the Single Resolution Fund); negative rates on deposits may occur again. They may move to other products such as reverse repo instead or move their cash out of the eurozone all together.<br>Theme 2: Latest rate hikes<br>• The latest FOMC decision was coupled with a moderate stance: the Fed is understood to move cautiously going forward, with no big moves to be expected in the near future. Members pointed to the FED's consistency in that they are hawkish as long as economy remains strong.<br>• Expectations following the latest ECB rate hike were discussed: members overall expect stable rates for a longer time, even if the markets are pricing in a first decrease by the end of 2024.<br>• They expect Inflation to persist, pointing to high oil prices and a perceived shift from a supply to a demand-driven inflation. |

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| | • One member would prefer to see "indirect hikes" via draining excess liquidity from the market.<br><br>Theme 3. Remuneration of domestic government deposits at €STR minus 20 basis points<br><br>• Since May 2023, overnight government deposits have been remunerated at €STR minus 20bps. As of 1 October, Germany will again remunerate these deposits held at the Bundesbank at zero %.<br>• Some members expect that similar decisions could be taken bilaterally by other countries as well, with a downward impact on short term secured rates, potentially less government issuance, less available collateral and more market fragmentation on the horizon. Some treasuries may extend the duration of their deposits. |
| Item 2 | Presentation: Tour de Table of repo issues – Mr G. De Vidts (Senior Advisor to the ERRC / ICMA)<br><br>Discussion among members on the following points:<br><br>• Capital Markets Union is perceived as failing. The focus should be on back-office functions rather than on the front-office whereby technical solutions should be harmonized and have the same legal basis. This would avoid that the sovereignty of the different countries is jeopardized (e.g. local Central Securities Depositories would continue to exist) while fostering cross-border operations.<br><br>• Discussion also followed on the notion of "green repo", which is often misunderstood. Repo can finance green collateral, but a "green repo" would imply that the trading entity must be "green".<br><br>• EU issuance (AAA rated) does not fit the current Global Master Repurchase Agreements (GMRA) as to eligibility; legal agreements need to be changed. |
| Item 3 | Presentation: Instant Payments - European Regulation – Ms V. Deschamps (Senior Advisor in Interbank relationships / Société Générale)<br><br>Discussion among members on the following points:<br><br>• The regulation is expected to be finalized by year-end and voted, for implementation. The first obligations should be implemented 6 months thereafter from the date of entry into force of the legislative text. Currently there are no technical requirements available yet, so a lot of practical questions are still unanswered.<br><br>• Members discussed the impact of instant payments on banks' liquidity management and liquidity ratios. Discrepancies are seen to arise where payments are made outside of normal business hours (i.e., when T2S is closed), where month-end falls on a weekend and where transaction amounts would not be limited. Another concern around days of accrued interest for buffers held over the weekend was mentioned as well. Impact on intraday liquidity profiles could be important as there is no netting effect<br><br>• Concerns were voiced around the protection of all customers in particular the retail clients, especially around phishing. While the |

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| | regulation foresees IBAN checks and sanctions screening for the set-up of new accounts it may not be sufficient to combat fraud.<br>• The possibility that instant payment is made available to larger entities such as corporates would entail that banks would need to be anticipate their clients' payment behaviour, for example where corporates intend to pay salaries on a fixed day of the month which could also fall on a weekend. Questions were raised if the "funding"-"defunding" mechanism would work if the liquidity buffer is then depleted.<br>• Members discussed possible mechanism to limit outflows needed (caps outgoing amounts, remuneration. Banks will need to develop certain monitoring tools and best practices<br>• Disintermediation to be expected from non-bank entities such as Revolute in the context of the current review of the Settlement Directive Finality. |
| Item 4 | **Presentation: Monetary Policy, inflation and the eurozone economy – Mr R. Torres (Director for macroeconomic and international analysis / FUNCAS)**<br>Discussion among members on the following points:<br>• When comparing US and EU consumer demand, it was pointed out that differences are due to fiscal policy and the fact that European households have again become cautious on savings (contrary to 2021-2022 where consumption was higher). New bank loans to the private sector are declining, slowdown is also seen in PMI services (Purchasing Managers' Index) which are moving into negative demand.<br>• The impact of the current rise in oil prices (15 to 20% over the last two months) was discussed. However, this rise is lower than last year, and it is not accompanied by rises in other energy sources or commodities, which keeps the impact rather contained.<br>• Members exchanged views on potential further interest rate hikes. It was argued that higher rates would now lead to recession and further depreciation of the Euro, as inflation seems to pause. |
| Item 5 | **Presentation: Change in operational framework (Ms C. Manenti – Fixed income strategist / Intesa SanPaolo)**<br>Discussion among members on the following points:<br>• Members discussed if under the new framework, TLTRO operations could be extended to 6 or 12 months. This could occur if needed for financial stability reasons; in a demand-driven floor system this would depend on the banks' needs.<br>• The new framework could be operational by year-end.<br>• The consideration to include reverse repo for non-banks might be explored; this is a politically sensitive issue.<br>• When excess liquidity reduces heavily, stress on money markets could occur in different ways, so it is important for the ECB to have all options in their toolkit available to be able to act effectively. The |

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| | experience of the Fed shows the introduction of measures such as the inclusion of non-financials.<br>• Members also exchanged on the possibility of narrowing the corridor and lowering the MRO (Main refinancing Operations) level; this could be a good solution to reduce excess liquidity without creating any negative side effects. Another solution could be to reduce investments in the pandemic portfolio which would move markets somewhat (especially the peripherals but, however, without the same risk that an overall securities sale would have on markets<br>• There were no strong opinions whether the corridor should be narrower. |
| **AOB** | • Promotion of EMMEC: by EMMI<br>• Article will be published in the upcoming EMMI newsletter (Oct/Nov)<br>• Next meeting: 27-28 November;  Paris - ACI France premises |