EMMEC Meeting - Summary

Meeting title	EMMEC meeting
Date and time	1 April 2025 18.30 – 2 April 2025 16.30
Location	Hybrid: • The European Money Markets Institute, Brussels • Conference call (Teams)
Attendees	EMMEC Members - physical F. BESET (Rabobank) - Chair - ACI Netherlands F. PAILLOUX (Société Générale) – ACI France P. LE VEZIEL (Credit Agricole SA & Crédit Agricole CIB) – ACI France M. BADIA ORTEGA (Cecabank) – ACI Spain G. SANCHEZ DE ROJAS (Banco Santander SA) - ACI Spain F. SPAHN (DZ Bank) - AEFMA Germany J. LARDINOIS (Belfius Bank) - ACI Belgium M.C. LEGE (Intesa SanPaolo SpA) - Assiom Forex Italy C. HUSS (Union Bancaire Privée) – LFMA Luxembourg R. CORREIA – ACI FMA C. WICHMANN (Danske Bank) - ACI Denmark P. QUINTANS DE SOURE (Erste Group Bank) - TMA Austria B. VAN DER VEEKEN (De Volksbank) - ACI Netherlands EMMEC Members - online L. BRANDTNER (Raiffeisenlandesbank Oberösterreich) - TMA Austria R. BRUNNER (Erste Group Bank AG) - TMA Austria H. WESTERMANN (Commerzbank) - AEFMA Germany M. PESONEN - Finland O. HUBERT (Natixis) – ACI France S. CIMINO (Unicredit) – Assiom Forex Italy Guest speakers C. MANENTI – Intesa San Paolo S. CICOGNA – Pegaso 2000 V. CAILLON - SGCIB P. MCINTYRE - Planixs Observers F. HEBEISEN - ACI France E. WITT – ECB

	P. NICOLOSO - ECB JL. SCHIRMANN – EMMI C. JAVAUX - EMMI M. POLFER - BCEE - LFMA Luxembourg EMMEC Secretariat R. CAPPARELLI – EMMI B. DENECKER – EMMI
Agenda items	**Speaking points**
Introduction	EMMEC members were reminded of competition law, confidentiality and conflicts of interest.
Item 1	Members' roundtable: • Market Liquidity and Monetary Policy Outlook - Members noted that given the high level of excess liquidity, they feel relatively shielded from immediate funding pressures. However, uncertainty regarding future monetary policy developments remains high with conflicting signals that make it difficult to anticipate the path forward. Given the uncertain outlook, some members suggested exercising caution in short-term funding strategies, even if it comes at a higher cost. • Challenging Market Conditions and Structural Changes - Members reiterated that the current market environment remains extremely challenging, even as money markets continue a phase of consolidation. Additionally, a shift in the European debt paradigm is being perceived, which could impact funding dynamics over time. • US Treasury Sell-Off and Liquidity Trends - A significant sell-off of US Treasuries was observed, and a "wait-and-see" approach was generally welcomed. As liquidity conditions evolve, further reductions in available liquidity and additional sell-offs remain possible. • Euribor-OIS Spread and Market Stress Indicators - The recent increase in the Euribor-OIS spread was discussed, with members agreeing that this movement is primarily linked to a funding component rather than serving as a pure indicator of market stress. Additionally, the increase in the 3-month Euribor relative to the 3-month OIS in March was noted, with the movement attributed to specific borrowing transactions by some banks. • US Funding in Europe and Cross-Currency Basis Risks - So far no visible reaction to the concerns around USD liquidity provision via Swap lines reported in press last week. Cross currency basis behaves normal so far, but members expressed uncertainty whether US administration may endanger FED independence and request US banks to reduce their engagement in Europe, which could lead to situations reminiscent of 2012-2015 when euro area banks had issues accessing US markets.

- Risk Perceptions Across Asset Classes - In the short-term segment of the yield curve, no significant risks are currently perceived. However, in the equity markets and long-term bond space, some risks may arise, requiring careful monitoring.

- Political Developments and Bond Market Volatility - The uncertain political situation in France was identified as a potential source of volatility in the bond market. Additionally, defense-related funding plans across Europe, particularly in Germany, have been observed to influence asset swap spreads across various jurisdictions.

- Repo Market and Liquidity Access - The repo market functioned well during the recent quarter-end period, signalling that banks have no significant issues accessing liquidity. However, concerns persist regarding the situation in the US. While dollar funding for European banks has remained stable, there is growing uncertainty, particularly given potential government pressures on the Federal Reserve. Members noted that unexpected policy measures, as it happened with the introduction of negative interest rate policy (NIRP) in the past, cannot be ruled out.

- Monetary Policy Operations and Market Perceptions - A member mentioned that Denmark's tender operations experienced increased participation, reflecting both the normalization of central bank facilities and a decline in the associated stigma. The lending facility was used for the first time in almost three years. Members emphasized the importance of reducing stigma around the use of central bank liquidity facilities to support smooth market functioning. The Danish Central Bank actively communicated to encourage Danish banks to make use of its equivalent to the ECB's MRO facility, resulting in an increase in uptake from DKK 15 billion to DKK 40 billion and contributing to contained spreads. In contrast, in Sweden, the absence of strong communication from the Swedish Central Bank led banks to pay market rates above the central bank's policy rate.

- It was recalled that ECB's Board Member, Ms. Schnabel, recently reiterated that the uptake of Main Refinancing Operations (MRO) should not be viewed negatively, emphasizing the need for banks to maintain operational readiness to access MRO when required. This stance has been supported by both the ECB's monetary policy and supervisory sections. Banks are encouraged to test their operational processes for pledging collateral and determining its value.

- MRO Stigma and NSFR Considerations - The stigma around MRO usage was attributed to current market conditions, where Euribor, repo rates, and other funding rates remain close to the Deposit Facility Rate (DFR). The key factor driving the stigma is the spread between MRO rates and market funding rates. Additionally, there is a regulatory misalignment in how MRO and repo funding are treated in the calculation of the Net Stable Funding Ratio (NSFR). Some members noted that MRO allows for the pledging of certain types of collateral that would not be accepted in the repo market. The decision-making process within banks, whether it is led by the

	treasury department or CFO-level executives, also influences MRO accessibility. • **NSFR Impact on Liquidity Operations** - Concerns were raised regarding the interaction between MRO funding and its treatment in the NSFR framework. If MRO operations were fully recognized in NSFR calculations, take-up levels would likely increase. While previous estimates suggested that MRO take-up would not rise significantly as long as excess liquidity remained above 1.8 trillion euros, some participants mentioned that the actual threshold may be higher in the current environment. Future ECB longer-term operations could also influence NSFR considerations. • **Regulatory Developments and Market Indicators** - The EU NSFR framework was briefly discussed, with EMMEC having participated in the latest European Commission consultation process.
Item 2	Liquidity management in USD with the QT going on by Chiara Manenti, Head of Rates, Fx & Commodities Research, Research Dept in Intesa Sanpaolo. • Ms. Manenti noted that while the Federal Reserve has been reducing its balance sheet, bank reserves have remained largely unchanged. The reduction of the Fed's balance sheet relative to GDP over the past year was particularly significant. • Ms. Manenti mentioned that predicting liquidity conditions between now and the end of 2025 remain challenging due to multiple influencing factors, including the use of the reverse repo facility, whose rate was recently reduced relative to the Reserve Facility rate. • Ms. Manenti also pointed out the expectations that the Federal Reserve will likely halt its quantitative tightening (QT) program by the end of the year. • Indicators of tightness in USD money markets were discussed and indicated moderate increase in nervousness. Q&A and discussion among members: • The members discussed the potential of asset swap rates rising in the US. If the market sees a risk of downgrade there could be an effect on spreads. It was noted that risk considerations are expected to be increasingly priced in, potentially reversing the recent tightening in spreads between U.S. Treasuries and SOFR. • The impact of tariffs was discussed. The market is focussed on the topic and it's expected to have negative impact on GDP as initial impact. However this could (partially) be counterbalanced in a later stage by tax cuts. • The expectation in terms of rate cut is to have one cut by end of year: if inflation will go down it will be the first months, in the second half of the year it's unlikely to have decreasing inflation. • A question was raised regarding the potential impact of Bitcoin adoption as a reserve asset. Some participants suggested that a reallocation away from gold in favor of cryptocurrencies could act as a trigger for movements in money market rates. • Members expressed growing concerns that a combination of rising protectionism—reflected in enhanced tariffs—a shift in the

	Federal Reserve's stance on USD liquidity provision to non-U.S. banks, and a more lenient approach to domestic banking supervision could have significant adverse effects on global financial markets.

Item 3	Sound practices for managing intraday liquidity risk by Vincent Caillon - Intraday Group Treasurer, Société Générale.
	• Mr. Caillon introduced the ECB's sound practices for intraday liquidity risk management, emphasizing the importance of managing liquidity under stress conditions. The ECB has identified 55 key practices and 22 good practices, providing a structured framework for banks.
	• Mr. Caillon suggested that banks aiming to comply with these guidelines must launch an intraday liquidity project, including the implementation of suitable IT tools. He highlighted the necessity of reviewing payment practices across different currencies and accounts to ensure alignment throughout the entire value chain, from the back office to the front office.
	• Mr. Caillon also presented an internal IT tool using data science resources developed by Société Générale, which produces real time intraday liquidity forecasts in line with ECB guidelines on intraday liquidity management. Currently, it is used for euros and sterling, with plans to extend it to other currencies.
	• Some of the main challenges associated with ECB guidelines were highlighted:
	    ◦ Developing a real-time IT tool requires fully reliable data.
	    ◦ Onboarding the whole bank, from Front Offices to Back Offices, for a robust framework across all Business Units.
	    ◦ Forecasting outflows on a T+1 basis, as required by the ECB, is particularly difficult as many outflows are initiated with same-day value, either related to market activities or to clients flows.
	    ◦ Transferring liquidity and collateral between different legal entities within the same banking group may present some regulatory obstacles.
	    ◦ Under stress conditions, access to credit lines granted by correspondent banks for the settlement of securities and cash may be reduced. Lines often are uncommitted and /or not guaranteed so under stress the risk is high
	• The evolution of intraday liquidity management has been influenced by the introduction of instant payment regulations. However, Mr. Caillon noted that instant payments at the moment remain marginal but the expectations is for a relevant increase. Banks have expressed concerns regarding access to intraday funding due to a misalignment between the Instant Payment Regulation (IPR) and the Eurosystem's current liquidity framework. While the IPR mandates 24/7/365 availability with a high fulfilment

	limit (EUR 1bn - 1cent), banks' access to liquidity sources for large transactions is not guaranteed under the same conditions. In addition to leave liquidity on TIPS account for amounts larger than the reserve requirement at the current conditions has a negative economic impact. Q&A and Member Discussion • In response to a question about the FX swap intraday product in the Front Office system—specifically whether it is currently being used for intraday liquidity management (presuming Murex is in use)—the answer was negative. But some intraday FX swaps can be traded in the market using tools developed by private Fintechs. • The role and responsibilities for intraday liquidity management were discussed, with Mr. Caillon clarifying that it falls under a dedicated team that oversees the full value chain within the bank. • The potential use of Distributed Ledger Technology (DLT) for intraday liquidity management was debated, but Mr. Caillon noted that the ECB's requirements are based on the current system. • When asked whether AI is used for intraday liquidity management, Mr. Caillon responded that it is used for active management (forecasting), but not for the sizing of the intraday reserves. • One member emphasized the importance of having sufficient liquidity and collateral to access ECB facilities, as correspondent banking intraday credit lines may be cut or even cancelled during crises. • The benefits and costs of developing an in-house intraday liquidity management tool versus using an external provider were discussed. Mr. Caillon noted that Société Générale's approach was tailored to its internal structure.
Item 4	Actual examples of how banks use real-time liquidity systems to deliver the ECB's intraday sound practices by Pete McIntyre - FS Director, Planixs. • Mr. McIntyre explained that the ECB learned from the UK PRA's understanding of intraday liquidity. Planixs is fortunate as its early clients were the large UK banks who needed to meet UK PRA expectations, so its Realiti® system (used now by many European banks) provides a complete fit to the ECB sound practices, • The ECB sound practices cover governance, policy, intraday framework. But 80%+ of the practices cover the data and systems that a bank needs monitor, control and manage intraday liquidity. • Creating a real-time intraday system is difficult. In particular: Consuming & processing very large transaction volumes; Reconciling expected cashflows to actual cashflows in real-time; Combining all requirements into one system so all parts of the bank use the same data set (treasury, risk, operations) • There then followed a series of practical illustrations of how to deliver the ECB data/systems sound practices, using Planixs' Realiti

	as an example of an appropriate software solution. These illustrations covered the following topics: real time visibility; forecasting liquidity positions; using real time settlement status; performing intraday stress modelling; providing insight on intraday risks, drivers & costs; payment throttling; monitoring securities positions to complete the full picture of intraday liquidity sources. • Mr McIntyre concluded that: having the right intraday solution was vital to meet the ECB requirements; there are now some good examples of how banks have managed to do this; the data that is generated by a solution also provides great insight to help the bank manage its risks and improve its financial position. Q&A and discussion among members: • Members asked whether Mr. McIntyre noticed a different organisation structure for intraday management inside the bank compared to the past. He replied that some banks create a coordinating leader/group to do this and the most successful banks define their intraday approach in a framework to explain roles and responsibilities, the risk appetite of the bank etc • Following the publication of the intraday liquidity management sound practices and the pressure coming from regulatory supervisions, the interest surrounding real-time liquidity systems has increased. • It was asked how much time the proposed system takes to be linked to the existing infrastructure of a bank. Mr. McIntryre replied that the answer depends on the bank. Consuming data from bank account providers (via SWIFT) is quick and relatively easy. Consuming 'ledger' data from the bank's internal systems takes longer, especially if the bank has not yet created a consolidated view of its 'ledger" positions. But banks can roll out capability in stages, with the first 'go-live' happening after 3-6 months with all data/functionality available in 12-18 months.
Item 5	The Eurosystem Collateral Management System (ECMS): solid principles for a project with a complex start by Sandro Cicogna - Money Markets Manager, Pegaso2000. • Mr. Cicogna provided an overview of the Eurosystem's collateral framework, distinguishing between credit claims and marketable assets. He discussed the implementation of the European Collateral Management System (ECMS), detailing its scope, key activities, and interactions with market participants. • The launch of ECMS has been postponed multiple times, with an extended testing phase that revealed several defects. Issues remain, particularly concerning credit claims, corporate actions and pool positions. Notably, the Bundesbank will continue using its national collateral management system for credit claims, diverging from the broader ECMS framework. • Mr. Cicogna highlighted that the ECMS process for credit claims appears more complex compared to current operations, potentially creating inefficiencies. He also pointed out that credit claims can be

	used for synthetic securitization, as pledging them to the ECB does not require removing them from banks' balance sheets. • Regarding the stigma around MRO, Mr. Cicogna reiterated that it should not exist, citing recent public statements from Ms. Schnabel. He also noted that the ECB has begun preparatory work to integrate pools of non-financial corporate credit claims into its general framework. • To conclude, Mr. Cicogna mentioned, as an auspice, that the ECB should launch a new fixed-rate full allotment refinancing operation with a one-year maturity to make ECB funding more appealing. This would enable the banks to use a more economical form of funding, with a clear advantage also for the real economy. It would be a good idea for the ECB to also make consumer credit portfolios structural, as they have shown to be very liquid, reliable in terms of customer solvency and easily enforceable by the regulator (sale en bloc) Q&A and discussion among members: • Members asked whether a new postponement of the go live of ECMS could be announced and Mr. Cicogna answered that there is a very low probability of a rescheduling of the go live date as the ECB is hard working to solve all the residual issues.
Item 6	Members roundtable: • Members discussed the implementation of the intraday liquidity guidelines. Some members suggested that the ILAAP document is a bit high level and some more details are needed.
AOB	• EMMEC members unanimously elected Frank Beset as the new EMMEC Chair and expressed their gratitude to Frédéric Pailloux for his contributions during his mandate. • Members agreed to reschedule the June meeting by one day, with the new dates set for 17-18 June instead of 16-17 June. • ACI CEO, Mr. R. Correia, introduced himself following his recent nomination.