



EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS

20 March 2020

**ECB Money Market Contact Group (MMCG)**

Tuesday, 17 March 2020, 14:30-15:30 CET

Telephone conference

**Summary of the discussion**

**MMCG members expressed concerns about market funding conditions, in particular for US dollar funding.** They noted that the conditions are susceptible to further deterioration as long as market distortions continue. At the same time, ample and attractive central bank funding provided by the Eurosystem is helping banks to build liquidity buffers in anticipation of outflows, which can also be passed on to other economic agents and help calm the markets.

**The MMCG welcomed the high level of participation (€109 billion) in the first longer-term refinancing operation (LTRO) on 17 March 2020.** In their view, a high level of participation and attractive pricing help to remove any reputational concerns about drawing on the new ECB facilities. In addition, MMCG members stressed the need for precautionary buffers to anticipate potential demand for liquidity from clients.

**A larger take-up is expected for the new US dollar operations, owing to a larger distortion in US dollar funding markets compared to the corresponding euro markets.** Given strong volatility and the approaching quarter-end, some MMCG members expressed confidence that a high level of participation in forthcoming US dollar operations would contribute positively to alleviating the market tensions. Other MMCG members expressed a more cautious approach towards the take-up in the first operation, as they were still uncertain about the reaction of their supervisors. MMCG members would encourage bank supervisors to recognise a high level of participation by banks in the US dollar operations as a necessary response to the difficult situation in the real economy.

**The modalities of the new US dollar operations were appreciated by the MMCG.** Weekly auctions and two maturities (one week and 84 days) offer various entry points to address forthcoming funding pressures on banks' balance sheets and allow banks to split bids to spread out their maturities and to avoid cliff effects at the maturity of the operations. Together, the modalities offer additional flexibility for banks to react and match their evolving balance sheet needs.

**Operational flexibility of European banking supervision in the implementation of bank-specific supervisory measures, which have been announced on 12 March, – if made concrete – could be instrumental in supporting banks' provision of liquidity to the real economy.** MMCG members would welcome clarification from European banking supervisors of the details of the recently announced flexibility in the implementation of bank-specific supervisory measures and the possibility to draw down liquidity coverage ratio (LCR) buffers, as details were not specified in last week's communication.

**The take-up of the targeted longer-term refinancing operation (TLTRO) in March was expected to be moderate.** At present, until they have a better idea of whether they are likely to be able to meet

new lending targets in view of the COVID-19 repercussions for the corporate sector, banks prefer to participate in LTROs, which offer a favourable rate and unconditional funding.

**Collateral easing measures, announced on 12 March, would support the build-up of banks' liquidity buffers at times of uncertainty about forthcoming drawdowns by corporate customers.**

While MMCG members do not envisage collateral constraints for the March TLTRO III, they noted that an extension of the list of eligible assets to facilitate the utilisation of the illiquid part of banks' balance sheets would be supportive of the TLTRO operation in June. To this end, the MMCG put forward some possible alternatives, such as: (i) allowing "own use" of covered bonds; (ii) simplifying the procedure for additional credit claims, unifying the criteria applied by national central banks and reducing the haircuts; (iii) temporarily also allowing collateral held in the United Kingdom to be used in Eurosystem operations; and (iv) accepting all types of corporate ratings, especially for short-term liquidity operations. One MMCG member mentioned that lowering the ECB acceptance rating would also make a difference, since the resulting increase in eligible collateral would support certain banks' internal liquidity metrics even without participating in TLTRO III and would allow banks to meet liquidity demands from the real economy more easily.

## List of participants

### Money Market Contact Group meeting

<b>Participant's organisation</b>	<b>Name of participant</b>
Bank of Ireland	Mr David Tilson
Barclays Bank	Mr Bineet Shah
Bayerische Landesbank	Mr Harald Endres
BBVA	Mr Miguel Monzon
Belfius Bank & Insurance	Mr Werner Driscart
BNP Paribas	Mr Patrick Chauvet
BPCE/Natixis	Mr Olivier Hubert
Caixabank	Mr Xavier Combis Comas
Caixa Geral de Depósitos	Mr António Paiva
Commerzbank	Mr Andreas Biewald
Coöperative Rabobank U.A.	Mr Frank Beset
Deutsche Bank	Mr Jürgen Sklarczyk
DZ Bank	Mr Michael Schneider
Erste Group Bank	Mr René Brunner
HSBC	Mr Harry Gauvin
ING	Mr Jaap Kes
Intesa Sanpaolo	Ms Maria Cristina Lege
LBBW	Mr Jan Misch
Nordea	Ms Jaana Sulin
Société Générale	Ms Ileana Pietraru
UniCredit Bank	Mr Harald Bänisch
European Central Bank	Ms Cornelia Holthausen (Chair)
European Central Bank	Ms Maria Encio (Secretary)