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ICMA
International Capital Market Association

8 April 2016

ICMA

International Capital Market Association

ICMA is the long-established trade association for the international debt capital market. It has almost 500 member firms from 57 countries, including banks, borrowers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market. www.icmagroup.org

European markets' efficacy: forgetting the basics

Foreword by Godfried De Vidts

Eyebrows were raised when, following on from its April 2013 report, *Economic Importance of the Corporate Bond Markets*, ICMA launched the study, *Avoiding Counterproductive Regulation in Capital Markets*, in October 2013. This was followed in November 2014 with the report, *Liquidity in the European Secondary Bond Market*, and in November 2015 by *Perspectives from the Eye of the Storm: The Current State and Future Evolution of the European Repo Market*. All these reports had a common underlying purpose, getting back to basics, reflecting on what benefits the fixed income market brings to the real economy and its direct link to the financing that each company and citizen needs to improve their life, providing housing, education and opportunities for future generations.

In recent months, the ICMA European Repo and Collateral Council (ERCC) has refocused its work, looking not only at the repo market but also at the collateral market. In most banks it has become the repo desk that receives calls for information about the stock of collateral, and demands for collateral for various purposes, like margin calls (initial and variation), payment guarantees, and bilateral collateralisation. Many regulatory initiatives are based on the use of collateral to ensure the orderly management of risk: eg EMIR/Dodd Frank. In response to this, banks repo/treasury desks are now transformed with bank-wide collateral management of all available collateral, be it equities, fixed income, or more exotic assets. Collateral then has to be transferred to the right place, for the right purpose, in the right currency, in optimal conditions with the best collateral being safeguarded for liquidity coverage ratio purposes.

Lately, the ERCC has been involved in discussions with other stakeholders, in particular the central bank community. The objective here is not to "dial-back" or reduce existing regulation, but to identify any "rough edges", or recalibrate, where prudential or regulatory measures are not working smoothly. The financial media have picked up the theme of reduced market liquidity but the regulatory community is puzzled as to why. This is where we have to go back to basics. Many of the reforms have focused on specific financial products while ignoring that they are components of the whole financial system, within which each product plays its part; and it is clear that bond, repo and derivatives markets are inseparably interwoven. Consequently, if (intentionally or otherwise) you adversely impact one product, you may find that other products no longer work the way you expect. For example, the decline in corporate bond market liquidity is often attributed solely to the impact of increased capital costs for market-makers holding inventory. This is one factor, but one should also look at the interaction with altered repo and derivative market conditions, as banks struggle to come to terms with the implementation of various regulatory initiatives (well ahead of the official deadlines, in response to shareholder pressure).

The implementation of the leverage ratio has a significant impact on the cost of taking repo positions on the balance sheet. Further uncertainty as to the implications and potential consequences of other pieces of regulation on the repo market, such as the NSFR, mandatory clearing obligations for the buy-side and bilateral collateralisation of non-cleared derivatives, add to the costs of doing business. Hence, repo market liquidity is reduced and could reduce further. The real economy needs loans for investments and economic development. So the goal of a bigger capital market in Europe is undeniably a good thing, but Rome was not built in one day. We need time, since an abrupt rebalancing from bank financing looks counterproductive, as so many regulatory initiatives depend on a fluid repo market. Hence some recalibration should be allowed. A delay to MiFID II to allow for better implementation is welcome, yet there are many other files where small changes can also make a huge difference. The ERCC will continue its work, trying to increase focus on the benefits our market segment brings as the oil on the wheels of financial markets. When oil leaks from a car engine we all know what happens. Well, the same is true for the modern financial markets. When the repo market cannot function properly, the base for the next financial crisis will be laid bare – a collateral crunch!

Godfried De Vidts is Chair of the ICMA European Repo and Collateral Council and Committee.

Challenging times for ICMA members

by Martin Scheck

The extreme market volatility prevailing in the first quarter of 2016 has emphasised the difficulties many of our members are facing as they go about their day-to-day business. Issuers are having to be ever more nimble to take advantage of short-lived funding windows before they shut; market makers and brokers find the regulatory environment and lack of client activity exacerbate secondary market illiquidity and limit their possibilities; and, of course, our buy-side members are challenged by the volatility, lack of liquidity and most of all the negative rate environment. It remains to be seen how the recent expansion of the ECB's quantitative easing in Europe will be implemented and what impact it will have on the functioning of the capital markets.

The overall industry outlook remains unclear: we can sense a shift in the geographical balance of investment banking, and if these market conditions persist then the pressure on market participants to adapt their business models, and in some cases fundamentally restructure their fixed income operations, will only increase.

Against this background ICMA's priorities are, as ever, directed towards ensuring that the capital markets remain able to perform their function as effectively as possible.

The following specific initiatives in our core focus areas of primary, secondary, repo and collateral, green finance and buy side are all covered in detail in this quarter's publication:

- This is a critical time for the new Prospectus Regulation, and ICMA has prepared a series of papers elaborating our members' views – in particular stressing the importance of maintaining the distinction between a full retail prospectus and a wholesale prospectus suitable for qualified institutional investors.
- In the secondary markets, liquidity – or rather the lack of it – remains a key focus for issuers intermediaries and investors. We are updating the seminal ICMA corporate bond liquidity study published in November 2014, and will release the new study in the next few months following a series of interviews with market participants. MiFID II/R continues to require attention and in January we issued a briefing note on MiFID II/R trade transparency requirements for bonds, in the light of the draft regulatory technical standards published by ESMA in September 2015.
- Sticking with secondary markets, the dearth of liquidity provides opportunities for certain categories of our members – the ICMA Platform Working Group and Electronic Trading Working Group have both developed constructively in 1Q 2016.
- During the first quarter, we reviewed the long awaited draft regulatory technical standard for the contentious imposition of mandatory buy-ins under the CSDR. Whilst ESMA has taken on board many of the industry recommendations to lessen the damage this will cause, the underlying problem still remains – in particular the asymmetric treatment of the payment of the differential between the buy-in or cash compensation reference price and the original trade price. ICMA will continue to discuss this with the authorities.
- Given the pivotal role collateral and repo play in a well-functioning capital market, our work here is closely aligned with our secondary market activities. The annual update of the repo opinions which underpin the repo market in over 60 countries, will be released shortly. In February we published the 30th semi-annual European repo market survey, highlighting that overall repo market outstandings in Europe remained stable despite a decline in repo books of G-SIFIs.
- Our efforts to develop the green bond market have intensified over the last few months – not merely in helping the Green Bonds Principles evolve in our role of secretariat but also in addressing the many public sector led initiatives, such as those in China and with the G20. The AGM and conference for the GBP takes place in London on 16 June.
- Our Hong Kong office remains focused on primary market processes, secondary market liquidity, repo and of course green finance – all with an Asian flavour.
- In Europe the Capital Markets Union initiative groups together many important ICMA workstreams: amongst these we responded to the European Commission's Call for Evidence with a particular focus on secondary market liquidity; and our Covered Bond Investor Council provided the buy-side view to the European Commission's covered bond consultation.
- Our contribution to the debate on the forthcoming UK referendum on membership of the European Union has been to publish a study entitled *Brexit: Practical Implications for Capital Markets*, which is included as the Quarterly Assessment in this edition.

Finally, I would like to invite you to the 48th ICMA AGM and Conference which this year is taking place in Dublin from 18 to 20 May. The full programme is on our website. Please take a look and if you are able to make it we would love to see you there!

Martin Scheck
martin.scheck@icmagroup.org

Brexit: Practical Implications for Capital Markets

Quarterly Assessment by Paul Richards

Summary

Following the renegotiation of the terms of UK membership of the EU, agreed by the UK Government in the European Council on 19 February 2016, there is to be a referendum in the UK on 23 June on whether to remain in the EU or to leave. If the UK votes to remain in the EU, the practical implications for capital markets are unlikely to change significantly from the position at present, where the UK has unrestricted free access through the "single passport" to the EU Single Market, but is not a member of the euro area. The main change affecting capital markets in the UK is the introduction of safeguards designed to prevent discrimination between members of the euro area and non-members of the euro area in the rest of the EU. If the UK votes to leave the EU, there will be considerable uncertainty in capital markets about the implications. It is quite possible that the uncertainty will affect capital markets before the referendum if the expectation is that the UK will vote to leave. In the event that the UK votes to leave, this paper discusses: the negotiation of withdrawal terms; the implications of the withdrawal negotiations; the implications for capital markets in the UK; the implications for the rest of the EU; and contingency planning for Brexit.

Introduction

1 Following the renegotiation of the terms of UK membership of the EU, agreed by the UK Government in the European Council of all 28 EU Member States on 19 February 2016, there is to be a referendum in the UK on 23 June on whether to remain in the EU or to leave. This paper does not address the pros and cons of UK membership of the EU, nor make a recommendation whether the UK should remain in the EU or leave. That is a decision for the British people. But the paper does consider the practical implications of UK exit from the EU (ie Brexit) for financial institutions involved in the capital markets.[1]

If the UK votes to remain

2 If the UK votes to remain in the EU, the practical implications for capital markets are unlikely to change significantly from the position at present, where the UK has unrestricted free access through the "single passport" to the EU Single Market[2], but is not a member of the euro area. The main change affecting capital markets in the UK, under the Decision of the European Council on a New Settlement for the UK within the EU[3], is the introduction of safeguards designed to prevent discrimination between members of the euro area and non-members of the euro area in the rest of the EU. If – but only if – the UK votes to remain in the EU, the European Council Decision provides for the following:

- Acknowledging that Member States not participating in the euro area will not create obstacles to further deepening of Economic and Monetary Union in the euro area, any further integration by euro-area Member States will conversely respect the rights and competences of non-participating Member States.
- Discrimination between the euro area and the rest of the EU is prohibited. Any difference in treatment must be based on objective reasons.
- EU law on Banking Union applies only to credit institutions in the euro area and in other EU Member States which have opted in to Banking Union. In these Member States, measures may be needed that are more uniform than in the rest of the EU, while preserving the level playing field within the EU Single Market and contributing to financial stability.

1. This paper is based on an earlier ICMA working paper on *Brexit: Practical Implications for Capital Markets*, posted on the ICMA website on 24 February 2016. ICMA has been encouraging international capital market integration for almost 50 years.

2. The "single passport" allows financial services operators legally established in one EU Member State to establish or provide their services in the other Member States without further authorisation requirements.

3. Decision of the Heads of State or Government, meeting within the European Council, concerning a New Settlement for the United Kingdom within the European Union, 19 February 2016.

> If the UK votes to leave the EU, there will be considerable uncertainty in capital markets about the implications.

- Crisis measures safeguarding the financial stability of the euro area will not entail budgetary responsibility for Member States not in the euro area nor opting in to Banking Union.
- The supervision or resolution of financial institutions and markets, and macroprudential responsibilities, to preserve the financial stability of Member States not in the euro area are a matter for them, unless they join common mechanisms to which they can opt in.
- Any Member State can ask the President of the European Council for an issue relating to the application of the European Council's Decision to be discussed in the European Council, and due account will be taken of the urgency of the matter.

3 Now that these safeguards for EU Member States not in the euro area have been agreed by a European Council Decision of all 28 Member States in advance of the UK referendum, financial institutions involved in the capital markets should be in a good position to assess the implications for their EU business, if the UK votes to remain in the EU.

If the UK votes to leave

4 If the UK votes to leave the EU, there will be considerable uncertainty in capital markets about the implications.[4] It is quite possible that the uncertainty will affect capital markets before the referendum if the expectation is that the UK will vote to leave. The focus in this paper is on the practical implications of Brexit for capital markets rather than the broader political issues at stake or the potential impact of Brexit on the UK economy, the sterling exchange rate, UK interest rates, the UK's credit rating and the stability of the UK financial system. These will no doubt be continuing issues for debate during the referendum campaign.

Negotiation of withdrawal terms

5 In order to leave the EU, the UK must invoke Article 50 of the Treaty on European Union.[5] Under the terms of Article 50, before the UK leaves there will be a two-year period for the negotiation of a withdrawal agreement with the Council, acting by enhanced qualified majority voting[6] with the consent of the European Parliament, and "taking account of the framework for its future relationship with the Union". The negotiating period will have a two-year limit, "unless the European Council, in agreement with the Member States concerned, unanimously agrees to extend this period".[7] In other words, either agreement is reached on the terms of withdrawal, including on the withdrawal date, within two years of the notification of the UK's decision to withdraw, or withdrawal will take place automatically at the end of two years, unless there is unanimity among the other 27 Member States on extending the negotiating period beyond two years.

6 In the negotiations with the EU on the terms of UK withdrawal, the main question affecting capital markets will be the terms for future UK access to the EU Single Market, given that the UK currently has unrestricted free access through the "single passport" as a member of the EU. While the UK runs a trade deficit with the rest of the EU, the UK runs a surplus in financial services. Around 45% of the UK's exports of goods and services go to the rest of the EU, while less than 10% of the rest of the EU's exports go to the UK because of the EU's much larger size.

> The negotiating period will have a two-year limit, unless there is unanimity on extending the negotiating period beyond two years.

4. If the UK votes to leave, the UK Government has ruled out a second referendum (eg to vote on any subsequent offer by the EU, if there were to be one). If the UK votes to remain, another referendum on the EU at some point in the future has not been ruled out, should a future UK Government so decide.

5. The EU has two Treaties: the Treaty on European Union; and the Treaty on the Functioning of the European Union. If and when the UK withdraws from the EU, the Treaties would no longer apply to the UK, and the UK would no longer participate in the EU institutions, such as the European Commission, European Council, Council of Ministers, European Parliament and the European Court of Justice.

6. Qualified majority voting: at least 55% of EU Member States representing at least 65% of the total EU population. Enhanced qualified majority voting: at least 72% of EU Member States representing 65% of the EU population.

7. Treaty on European Union, Article 50.

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To obtain the most favourable terms of access to the EU Single Market after Brexit, the UK would need to comply with the terms of EU regulations, but without any influence over making them.

7 There is no precedent for withdrawal from the EU under Article 50, which has never been tested.[8] The four main options most frequently cited as precedents for countries outside the EU seeking access to the EU Single Market through a new agreement with the EU are as follows:[9]

- *Norwegian option:* If the UK followed the Norwegian option, it would apply to join the European Free Trade Association (EFTA), which consists of Iceland, Liechtenstein, Norway and Switzerland, and also to join the European Economic Area, which includes the EU Member States and EFTA except for Switzerland. (It is not possible to become a member of the EEA without being a member of the EU or EFTA, and the EU and all four EFTA members would need to agree to UK EEA membership.) Under this option, the UK would not participate in the EU's common agricultural and fisheries policies, judicial affairs and foreign policy, but the UK would continue to have unrestricted free access to the EU Single Market. In order to do so, the UK would have to comply with the EU's Single Market regulations under EU law without having a vote on them; free movement of labour to and from the UK across the EU would continue; and the UK would be expected to pay nearly as much into the EU budget as it does now.
- *Swiss option:* The Swiss option would involve the negotiation by the UK of membership of EFTA and a series of bilateral agreements with the EU. In the Swiss case, there are around 120 bilateral agreements with the EU covering a Single Market for goods, but not services in general or financial services in particular, apart from some forms of insurance; Switzerland needs to ensure that its regulations continue to be equivalent to EU regulations in future; and, like Norway, Switzerland also contributes to the EU budget. Since Switzerland voted in 2014 against unlimited immigration from the EU in contravention of the EU Treaties, the EU has renewed an earlier call for a new agreement under which Switzerland would automatically update its regulations to match EU rules within a time limit, and accept the jurisdiction of the European Court of Justice. So the EU might be reluctant to adopt the Swiss model again in the UK case.
- *A customs union:* An alternative option would be for the UK to join a customs union with the EU, like Turkey. This would involve accepting the EU's external tariffs without having any say in setting them, with access to the EU Single Market in goods in exchange for adopting relevant EU regulations, but not access to markets for services, which would have to be separately negotiated with the EU.
- *A free trade agreement:* Another option would be for the UK to trade with the EU under World Trade Organisation (WTO) rules[10], which would be subject to the EU's common external tariff, or to negotiate a comprehensive free trade agreement with the EU, under which tariffs would be lower than WTO tariffs. Most free trade agreements do not currently cover services.[11] Canada has negotiated a Comprehensive Economic and Trade Agreement (CETA) with the EU, which will eliminate tariffs on industrial products, but differences in regulations and standards will remain, and financial services are not covered. CETA took five years to negotiate; the negotiations were concluded in 2014; and, subject to agreement in the Council and European Parliament, could enter into force in 2017.

Practical implications of the withdrawal negotiations

8 One of the practical issues in the run-up to the UK referendum is that it may not be clear which of these options will be adopted by the UK Government in its negotiations with the EU after a vote to leave, nor what the response from the EU would be. Indeed, the UK may want to negotiate its own tailor-made agreement with the EU which does not conform to any single one of the precedents but which is intended to deliver the most favourable terms of access to the EU Single Market. A common feature of the precedents is that, in order to continue to obtain the most favourable terms of access to the EU Single Market after Brexit, the UK would need to comply with the terms of EU regulations, but without

8. Algeria seceded from France in 1962, and Greenland, as an autonomous dependency of Denmark, withdrew from the EU in 1985, following a referendum in 1982. Both these withdrawals took place before Article 50 came into effect.

9. See Clifford Chance, Britain and the EU, August 2015; and Jean-Claude Piris, If the UK Votes to Leave: the Seven Alternatives to EU Membership, Centre for European Reform, January 2016.

10. Including the WTO General Agreement on Trade in Services (GATS).

11. However, in addition to the Transatlantic Trade and Investment Partnership (TTIP) negotiations between the EU and the US, the proposed Trade in Services Agreement (TiSA), which the EU is negotiating with the US, Canada, Australia, Turkey and others, may cover 70% of global trade in services.

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Leaving the EU would not be expected to lead to less capital markets regulation in the UK.

any influence over making them. In the case of some EU capital market legislation, provision is made for a third country regime allowing non-EU firms access to EU markets, provided that they are authorised in a third country with a regulatory regime deemed by the EU to be equivalent, and provided that the third country offers reciprocal access to EU firms. It is not clear whether the UK would be able to benefit from this, as it would depend on the outcome of the withdrawal negotiations.

9 The UK negotiations with the EU on withdrawal would be expected to take two years and could take longer.[12] Besides the time needed to agree with the EU on the terms of withdrawal, extensive changes in UK legislation would be required. In the case of the capital markets, the regulations affecting the UK at present are largely set at EU level. EU regulations take the form of Directives, which have to be transposed into UK law[13], and Regulations, which apply directly in UK law without transposition. Although EU Directives have been transposed into UK law, the UK Government would need to take decisions about whether to keep, modify or discard them, if the UK decided to leave the EU. As EU Regulations apply directly in the UK, they would cease to apply if the UK left the EU and the British European Communities Act 1972, which gives legal effect in the UK to EU law, was repealed. The question would then arise whether to replace them, and if so on what basis. In the case of the capital markets, this question would not just relate to EU legislation at Level 1, but to Regulatory and Implementing Technical Standards proposed by ESMA (and the other ESAs) at Level 2. UK legislation might of course need to replicate EU Single Market legislation if the UK wanted to have continued access to the Single Market after Brexit on the most favourable terms. A potential complication is that an agreement between the EEA and the ESAs on passporting rights has been delayed.

10 Leaving the EU would not be expected to lead to less capital markets regulation in the UK, for three main reasons:

- *Global level:* While the detailed regulations affecting capital markets in the UK are set at EU level, the overall framework for capital markets regulation is set at global level by the G20, working through the FSB, BCBS and IOSCO. The UK participates in the G20, and would need to continue meeting these global standards even if it left the EU.
- *EU level:* The UK would need to continue to comply with the terms of EU regulations, if it wanted to obtain the most favourable terms of access to the EU Single Market after leaving the EU.
- *National level:* Since the international financial crisis, the national regulators in the UK – the PRA and FCA (and the FSA before them) – have been among the most prominent national regulators in promoting strict regulation.

11 Under none of the options for withdrawal would the UK benefit from free trade agreements between the EU and countries in the rest of the world. (They cover around 60 non-EU countries or organisations and represent around 35% of world trade.[14]) So the UK would need to negotiate new agreements with its trading partners in the rest of the world. Trade agreements are currently negotiated by the EU rather than individual Member States. There are obvious negotiating advantages in doing so, as the EU is a market of around 500 million people. In addition, the leaders of the UK’s largest trading partners outside the EU, such as the US and China, have said that they would prefer the UK to remain in the EU rather than leave. It is not clear whether negotiations with trading partners outside the EU would in practice begin before the UK completed negotiations on a withdrawal agreement with the EU, or only afterwards. As the UK has not been directly involved in trade negotiations for over 40 years, it would also need to train officials or hire experts to conduct them.

Implications for capital markets in the UK

12 There are a number of potential implications from Brexit for international capital markets, particularly in London as an international financial centre. By contrast, domestic UK financial business should not be directly affected by Brexit as such, though there would of course be an indirect effect on domestic UK financial business as a result of the impact of Brexit on the UK economy as a whole, particularly if Brexit led subsequently to Scotland leaving the UK.

13 *Uncertainty about the terms of the UK’s withdrawal agreement with the EU:* First of all, the critical considerations for financial institutions in the capital markets would not only be the eventual outcome of the UK negotiations with the EU on the terms of Brexit, but uncertainty about the outcome in the meantime, and the

12. During the period before withdrawal, EU laws – including new laws – would continue to apply in the UK.

13. ie English and Scottish law.

14. Piris, *op. cit.*

length of time that might be needed to achieve this. In addition, during that period, the safeguards negotiated if the UK votes to remain would not be available if the UK votes to leave. Those financial institutions in the UK which are heavily dependent on EU business (eg fund managers in the UK with EU business and banks that operate their European capital markets business from the UK) would have the opportunity, if they wished, to reduce the uncertainty by shifting at least some of their EU business to other locations in the EU. Any such shift in EU business would not necessarily all be to the same location, and would no doubt vary from one financial institution to another.

14 *Foreign direct investment in the UK:* Second, Brexit could also have implications for foreign direct investment in the UK, as the UK would not be as attractive a location for access to the EU Single Market, if the UK votes to leave, as it has been until now as part of the EU Single Market. Many foreign financial institutions currently use London-based subsidiaries as their "single passport" to the rest of the EU. If the UK votes to leave, they would have the opportunity, if they wished, to establish subsidiaries in the rest of the EU and conduct business from there.

15 *Location of staff in the UK:* Third, Brexit could lead to changes affecting the location of staff. It seems likely that the UK would either need to accept free movement of labour or, if EU citizens required permission to work in the UK in future, UK citizens would require permission in future to work in the EU. (There are currently around two million British citizens living, working or retired outside the UK in the rest of the EU, while around two and a half million EU citizens live in the UK.[15]) The outcome of the negotiations on free movement of people – and uncertainty about the outcome – might also affect the decision by financial institutions where to locate their EU business after a UK decision to leave.

16 *Euro business in London:* Fourth, when the euro was introduced in the euro area in 1999, the UK was well placed to carry out euro-denominated business in London as an international financial centre, despite the fact that the UK was not a member of the euro area, for two main reasons: first, it was well prepared; and second, it remained in the EU and continued to have unrestricted free access through the "single passport" to the EU Single Market. By contrast, in the case of Brexit, it would be difficult to be well prepared, as it would not be clear what form Brexit would take, at least until a UK withdrawal agreement with the EU was reached; and the UK would no longer be a member of the EU Single Market if the UK were to leave the EU.

17 *Euro market infrastructure in London:* Fifth, it is not clear to what extent it would be possible for euro market infrastructure to remain in the UK if the UK decided to leave the EU. A recent court case involving the UK and the ECB tested whether euro clearing houses dealing with large euro-denominated transactions needed to be located in the euro area or could be located anywhere in the EU, such as the UK. In 2015, the European Court of Justice found in favour of the UK. The basis for making this judgment in favour of the UK could change if the UK decided to leave the EU. (It is not clear whether the proposed merger between the London Stock Exchange and Deutsche Börse would affect this, if it goes ahead.) Of course, financial business denominated in euro could still be conducted in London, in the same way as it is feasible to conduct dollar business in London. But London's competitive position as a financial centre for EU business might change in relative terms as a result.

"The critical considerations for capital markets would not only be the eventual outcome of the negotiations, but uncertainty about the outcome in the meantime, and the length of time that might be needed to achieve this.

18 *Stability of financial institutions:* Sixth, given the uncertainties relating to Brexit and its implications, it would be prudent for financial institutions in the UK – and in neighbouring states, such as Ireland – to ensure that they would be well prepared for any financial instability (eg as a result of market illiquidity) that could arise: eg by checking their capital adequacy, their liquidity and their access to funding against the risk of capital flight. The Bank of England announced on 7 March that it would provide additional liquidity to the market, if needed, before and after the EU referendum on 23 June.

19 *Financial contracts:* Finally, financial contracts, especially between parties in the UK and the rest of the EU, would need to be reviewed and might need to be amended (eg to take account of changes in UK legislation after Brexit). In addition:

15. Piris, *op. cit.*

- it is not clear to what extent English law would continue to be used for financial contracts in future (eg between the UK and the rest of the EU);
- large companies in the UK would be expected to set out the risks of Brexit to their business in their annual reports; and
- there is a question whether Brexit might need to be considered in prospectuses as a risk factor. To be meaningful, risk factors in prospectuses should be as specific as possible. But it would be difficult to be specific about Brexit as a risk factor, given the level of uncertainty about its implications, unless an issuer could point to specific implications from Brexit for its business.

Implications for the rest of the EU

20 Apart from the impact of Brexit on the UK, there would also be an impact on the rest of the EU. For example, there could be an impact on the EU economy, which is the UK's main export market. It is also clear that the future of the euro area will affect the UK, even if it leaves the EU.

21 A UK decision to leave might lead to calls in some other EU Member States for renegotiations and referenda of a similar kind. In deciding on the terms for UK withdrawal, one of the questions which the other 27 Member States would need to consider is whether the grant of favourable withdrawal terms to the UK would encourage any other Member States to leave.

22 If the UK decided to leave the EU, there would be additional questions with implications for capital markets, including:

- whether Brexit would fragment capital markets between the UK and the rest of the EU, at a time when the EU's project for Capital Markets Union is designed to integrate them;
- whether new EU regulations after Brexit would in future be as favourable to international capital markets as at present: while the UK can influence the outcome of negotiations on new EU regulations at present, after Brexit they would be negotiated by the remaining 27 Member States without any UK influence;
- whether the euro-area authorities would take steps to encourage more euro business to be conducted within the euro area; and if so, whether they would be able to agree on a single financial centre for the euro within the euro area and where it would be (eg Frankfurt, Paris, Luxembourg or Dublin).

23 Finally, if the UK as a whole voted to leave the EU, but Scotland voted to remain, that would lead to uncertainty in capital markets about whether Scotland would then hold a second referendum (after the referendum in September 2014) on leaving the UK, with a view subsequently to applying as an independent country to rejoin the EU.[16]

Contingency planning for Brexit

24 Contingency planning for Brexit in the capital markets is likely to be difficult ahead of the UK referendum, because of the uncertainty about what Brexit would involve. But contingency planning by financial institutions in the UK might include, *inter alia*:

- taking steps as a precaution to ensure their continued financial stability;
- reviewing their future investment and staff location plans; and
- checking whether their financial contracts would be affected by Brexit.

Similar considerations could arise for financial institutions outside the UK in relation to their UK counterparties.

25 As a result of contingency planning, financial institutions in the UK would incur costs, particularly where they have extensive international business. To the extent that contingency plans need to be made before the referendum takes place, these would be sunk costs if the UK votes to remain. If the UK votes to leave, subsequent planning would be complicated by uncertainty about the terms of the UK's withdrawal. The uncertainty would be likely to last for two years, and could last longer, until a withdrawal agreement was reached with the rest of the EU. And the expectation of uncertainty, if the UK votes to leave, might itself lead to decisions about where financial institutions with international capital markets business, particularly in the EU, would plan their future investment and the location of their staff.

Contact: Paul Richards
paul.richards@icmagroup.org

“Contingency planning for Brexit is likely to be difficult because of the uncertainty about what Brexit would involve.

16. Nicola Sturgeon, First Minister of Scotland, is reported as saying on 24 January 2016 that a vote in favour of Brexit would result in an “overwhelming demand” in Scotland for a second independence referendum.

Financial repression: back to the roots of 1914

By Jérôme Haegeli, Swiss Re's Head of Investment Strategy

Swiss Re

Low interest rates have been one of the biggest financial themes over the last year – and not always for the right reasons, with some countries even introducing negative rates. But it seems that, aside from the market volatility at the beginning of this year, there is still a silver lining.

On 16 December last year, the Federal Reserve raised interest rates, for the first time in almost ten years. The move had been ardently anticipated, and the big debate in financial markets over Fed policy in recent times wasn't about when officials would raise interest rates but about how high they would go.

Why does this matter? First, savers are clear victims of low interest rates as they lose out on interest on their bank deposits. Between 2008 and 2014, US households lost a whopping US$670 billion in net interest rate income. This results in weakened consumption which represents a drag on economic recovery and adds to the excess of cash in search for yield.

What we really need is a search for growth. But long-term investors, who could finance growth-enhancing investments, are also penalised by financial repression. For example, US and EU insurance companies have foregone about US$500 billion in yield income since the financial crisis. They are crowded out of the market and, as a result, are prevented from pumping money into productive areas of the real economy. The lack of economies' funding sources puts financial stability at serious risk.

It's quite paradoxical that the Fed's original brief, when it was enacted on 16 November 1914, was monetary and financial stability, even though the US very much focused on inflation at the time. However, inflation wasn't the paramount objective of monetary policy. The Fed's inflation target, for instance, was actually only officially set in 2012.

The Fed's decision in December 2015 was the first sign that the US is going back to its roots of fostering financial stability. It was also the first sign of relief in a long era of financial repression. Policy makers' ultra-accommodative stance of an open "money tap" has lasted well beyond the end of the global financial crisis.

Switching off that "money tap" will help to unlock long-term investors' funds which can be put to work in growth-promoting investments. Notwithstanding the exceptionally high market volatility and continued global growth uncertainties, the start of the Fed's policy normalisation will be conducive for longer-term financial stability. Keeping the normalisation process on track in the US is, however, being complicated by other central banks' "race to the bottom". It was only in January that the Bank of Japan introduced negative rates – the latest example of deliberate currency devaluation. In the euro area alone, roughly 40% of government bonds now trade with negative yields.

A recipe for future growth

Looking beyond financial repression policies, there are three policy areas where reform could significantly enhance the long-term growth outlook.

The first is to strengthen private capital market intermediation. In the EU up to

80% of financial intermediation takes place through banks, which due to regulatory pressure are forced to reduce their balance sheets. This directly reduces their ability to lend, with clear implications for growth. Furthermore, central bank holdings of various debt securities have created significant price distortions. In the US, UK, euro area and Japan, central banks hold on average 25% of their domestic government bond market on their own balance sheets. Reducing central bank dominance in private capital markets and coordinating policies to avoid a "race to the bottom" would enhance financial market resilience and subsequently support sustainable economic growth.

The second area is public sector support for the development of tradeable asset classes, specifically in relation to infrastructure investing. In 2013 just 10-20% of infrastructure finance was through tradable project bonds with the rest being illiquid bank loans. Greater emphasis on project bonds in tradable form, achieved with standardisation, as well as strengthening investor rights more generally, would significantly enhance accessibility of the asset class.

Finally, regulatory change that incentivises – rather than punishes – long-term investors to invest directly in infrastructure would help prevent short termism, as well as provide financing for projects that create jobs and boost growth. The table below shows that long-term investors hold assets worth 91% of global GDP, giving them the potential to be key financers of growth and development projects.

There's no doubt: to create growth in the future, we need to lower the barriers for long-term investment and enable more economic risk-taking.

Overall, the outlook for 2016 remains uncertain and financial repression policies will continue to drive capital markets over the coming years. The silver lining is that the Fed has started a process of interest rate normalisation. Short term market pain of higher policy rates should not be traded with the benefit of putting in place foundations for a more stable financial market system and an even greater role of private market participants in the price formation process.

Rate hikes are the right thing to do. When it comes to unorthodox measures by central banks, less is more. Let's go back to the roots of fostering financial stability. Let's focus on growth. And let's strengthen the private capital markets.

Read more about the unintended consequences of financial repression in Swiss Re's report.

Dr. Jérôme Haegeli is Managing Director, Head of Investment Strategy at Swiss Re Group Asset Management. Prior to Swiss Re, he was at the Swiss National Bank and International Monetary Fund's Executive Board. Jérôme Haegeli holds a PhD in Economics from the University of Basel, a Master of Science in Economics from the London School of Economics and was a Fellow in the Economics Department at Harvard University.

	Global		Europe	
AuM	USD tn	% of GDP	USD tn	% of GDP
Long-term investors*	70	91	16.4	88
Thereof insurers	27	35	9.5	51

* Includes insurance companies, pension funds, sovereign wealth funds, endowments and foundations.
Source: Swiss Re, IMF, Towers Watson, Sovereign Wealth Fund Institute, Insurance Europe

Practical initiatives by ICMA

There are a large number of practical initiatives on which ICMA is currently, or has recently been, engaged with, and on behalf of, members. These include:[1]

Primary markets: issuers

1 *Public sector Issuers:* The Public Sector Issuer Forum (PSIF) met at the Agence France Trésor in Paris on 15 March to discuss the impact of quantitative easing, introduced by Denis Beau, Head of Operations at the Banque de France, as well as the impact of regulation on market liquidity, introduced by Benoit de Juvigny, Head of the Autorité des Marchés Financiers.

2 *Corporate issuers:* A meeting of the ICMA Corporate Issuer Forum was held at ICMA in London on 28 January, focusing in particular on new issue processes, introduced by Hugh Carter (Commerzbank) representing the ICMA Primary Market Practices Committee.

3 *Financial issuers:* A new Steering Committee has been appointed for the ICMA Financial Institution Issuer Forum, which met on 23 February.

Primary markets: lead managers

4 *New issue processes:* Representatives of the ICMA Primary Market Practices Committee are involved in the work of the FICC Markets Standards Board.

5 *Prospectus Regulation:* Following the launch on 30 November by the European Commission of its proposal for a Prospectus Regulation, ICMA has consulted its Prospectus Directive Review Working Group, and has met the Dutch Presidency of the EU, the European Parliament rapporteur, Philippe De Backer, MEP, the assistants of various shadow rapporteurs, and national regulators to discuss members' concerns.

6 *PRIIPs:* The Joint Association Committee, in which ICMA participates with ISDA and AFME, responded to the consultation by the three European Supervisory Authorities on PRIIPs on 29 January.

7 *Benchmarks:* ICMA responded to the EMMI consultation on EURIBOR on 29 January, and the ESMA Discussion Paper on the Benchmarks Regulation on 31 March, emphasising the importance of continuity of contract.

8 *BRRD Article 55:* Language on the contractual recognition of bail-in under the BRRD, together with a side letter for non-EEA law-governed CP and CD programmes, has been finalised and communicated to members.

Secondary markets

9 *European Commission Call for Evidence:* ICMA responded on 20 January to the European Commission's Call for Evidence on the cumulative impact of regulatory reform, focusing on the impact on repo and secondary market liquidity. The European Commission also attended the ICMA Secondary Market Practices Committee meeting on 4 February to discuss secondary market liquidity with issuer, dealer and investor members.

10 *MiFID II workshop:* ICMA held a workshop on 19 January involving sell-side and buy-side members to discuss a number of different aspects of MiFID II.

11 *MiFID II briefing note:* ICMA issued a briefing note on MiFID II/MiFIR trade transparency requirements for bonds, taking account of the draft regulatory technical standards published by ESMA in September 2015.

12 *Electronic trading:* Following ICMA's initiative to map electronic trading platforms, ICMA has prepared an article giving a market view on the future evolution of electronic trading, in response to an invitation from the Banque de France, for inclusion in its *Financial Stability Review.*

13 *CSDR Level 2 settlement discipline:* The new regulatory technical standards published by ESMA on 3 February go some way to meeting the concerns which ICMA and others have expressed about the potential market impact of mandatory buy-ins.

Repo and collateral markets

14 *ERCC:* Following the ICMA European Repo and Collateral Council (ERCC) AGM in Luxembourg on 27 January, the election period for the 2016 ICMA ERCC Elections closed on 12 February and the names of the 19 individuals elected to the Committee by the ERCC were announced.

15 *ERCC Operations:* The ERCC Operations Group, which covers both repo and cash operations, held a well-attended seminar on operational issues at JPMorgan in London on 10 February, and has

1. ICMA responses to consultations by regulators are available on the ICMA website.

posted detailed information on its work on a new section of the ICMA website.

16 *European repo survey:* On 11 February, the ERCC released the results of its 30th semi-annual survey of the European repo market.

17 *ERCC Guide to Best Practice in the European Repo Markets:* A working group comprising members of the ERCC Committee the ERCC Operations Group and ICMA staff has been set up to consider amendments to the Guide. It met for the first time on 16 March.

Asset management and investors

18 *Systemic risk:* Following the decision by the G20 to focus on the systemic significance of the activities of asset managers rather than on asset managers themselves, ICMA's Fund Liquidity Working Group has prepared a paper, jointly with EFAMA, on liability management on the buy side. This was one of the issues for discussion at the AMIC Council at the Banque de France on 4 April.

19 *Bail-in:* The ICMA Bail-In Working Group has written a second letter to the ECB following up its original letter in July about the need for transparent, consistent and comparable treatment of bad loans and encumbered assets, and the need for a clear roadmap about how bail-in would work over a weekend, if needed. Adam Farkas, Executive Director of the EBA, joined a meeting of the Bail-In Working Group at ICMA on 30 March.

20 *Covered bonds:* The ICMA Covered Bond Investor Council responded, by the deadline of 6 January, to the European Commission consultation on a pan-European framework for covered bonds, drawing attention to the risk of disrupting existing national frameworks which work well.

21 *Securitisation:* Concerned at the lack of progress on amending Solvency II, the AMIC Securitisation Working Group has joined AFME, EFAMA and Insurance Europe in a joint position paper showing the broad consensus in the industry on the proposal, and has also joined a separate position paper coordinated by Prime Collateralised Securities (PCS).

Capital market products

22 *Pan-European private placements:* Following the presentation to the EU Financial Services Committee on 9 December, ICMA updated the European Commission on 21 January with the work of the Pan-European Private Placement Joint Committee, and on the steps which ICMA is taking to cooperate with representatives of the Schuldschein market in Germany. The PEPP Joint Committee and Coordination Committee met on 3 March to update stakeholders and agree next steps.

23 *Green bonds:* The Green Bond Principles community has more than doubled in size over the past year, and now totals 175 members and observers. Six new working groups have been set up. In Asia, ICMA has provided substantive feedback on green finance recommendations from the People's Bank of China, NAFMII and Shanghai Stock Exchange, as well as the Securities and Exchange Board of India.

24 *Panda bonds:* Under the auspices of the UK-China Economic and Financial Dialogue, a joint working group chaired by ICMA and NAFMII has worked on a comprehensive report on panda bonds from the foreign issuer's perspective, focusing on the regulatory framework and suggested reforms.

Other meetings with central banks and regulators

25 *CMU:* All ICMA's workstreams on Capital Markets Union (CMU) were discussed with Niall Bohan, Head of the European Commission's Unit on CMU, and his team, in Brussels on 21 January.

26 *RPC:* The ICMA Regulatory Policy Committee (RPC) had a discussion with David Rule, an Executive Director of the Bank of England, at its meeting in London on 15 March.

27 *Pan-European private placements:* Nicholas Pfaff had a meeting on 15 February with Carlos Montalvo, Executive Director, and Tomas Walter of EIOPA to discuss the pan-European private placement initiative.

28 *Official groups:* ICMA continues to be represented, through Martin Scheck, on the ECB Bond Market Contact Group; through René Karsenti, on the ESMA Securities and Markets Stakeholder Group; and through Godfried De Vidts on the ESMA Secondary Markets Standing Committee, the ECB Contact Group on Euro Securities Infrastructures (COGESI), the ECB Macroprudential Policies and Financial Stability Contact Group and the Bank of England's Securities Lending and Repo Committee (SLRC). ICMA is also an official member of China's Green Finance Committee under the auspices of the People's Bank of China, as well as the Green Finance Study Group under the G20.


Primary Markets

by Ruari Ewing and Charlotte Bellamy

EU prospectus regime

Prospectus Directive Review

The European legislative process for overhauling the current Prospectus Directive regime is well under way. ICMA has been engaged in this process since it began, as reported in previous editions of this Quarterly Report.

Currently, the European Parliament and Council are considering a new proposed Prospectus Regulation intended to replace the existing Prospectus Directive, which the European Commission published on 30 November 2015. The initial reactions of those bodies to the European Commission's proposal can be seen in the draft Economic and Monetary Affairs Committee (ECON) report and the first EU Council Presidency compromise.

The draft ECON report appears to reflect some of the key messages ICMA has been communicating to MEPs and regulators through a series of meetings and other correspondence, which is heartening. In particular:

(i) The draft report proposes an exemption from the prospectus summary requirement and a differentiated disclosure regime for prospectuses for admission to trading on a regulated market of bonds offered solely to qualified investors. As reported in the First Quarter 2016 edition of this Quarterly Report, these points are very important for the wholesale bond market, which currently enjoys, among other things, a prospectus summary exemption and a differentiated disclosure regime in relation to prospectuses for admission to trading on a regulated market of bonds with a minimum denomination of €100,000 or more. The removal of the €100,000 minimum denomination regime has been supported by the ECB (as set out in the ECB Opinion on the proposed Prospectus Regulation), among others.

(ii) The new requirement for third country issuers to appoint a representative in the EU has been deleted in the ECON draft report, which is welcome because this requirement had the potential to disincentivise third country issuers from accessing Europe's debt capital markets.

(iii) The ECON draft report also envisages that the date of application of the Prospectus Regulation would be 24 months (rather than 12 months) from entry into force, and certain Delegated Acts would be adopted six months before the date of application. This is helpful because it should minimise the risk of a disorderly implementation of the new Prospectus Regulation due to Level 2 measures not being available in time for the application of the Level 1 provisions.

On the other hand, the draft ECON report appears to make no change to the proposed requirement for issuers to categorise risk factors in to three categories according to materiality. There also appears to be no change to the cap on risk factors in summaries. These points are concerning for the wholesale bond market, primarily due to the significant liability concerns that could arise for issuers, as explained in more detail in the First Quarter 2016 edition of this Quarterly Report.

ICMA is also concerned that the changes to the prospectus exemption for a request for admission to trading on a regulated market of shares resulting

> **The draft ECON report appears to reflect some of the key messages ICMA has been communicating to MEPs.**

from the conversion or exchange of other securities contained in Article 1.4(b) of the proposed Prospectus Regulation could have unintended consequences for certain types of convertible security. Article 1.4(b) introduces a new proviso stating that this exemption will only apply if the resulting shares represent less than 20% of the number of shares already admitted to trading. The proposed 20% limit would mean that a prospectus may be required for the admission to trading of securities issued as a result of banks' and other institutions' regulatory capital instruments automatically and mandatorily converting into shares on the occurrence of a breach of a capital ratio or at the point of non-viability of the institution.

This is concerning for a number of reasons. First, there is no investment decision to be made by investors at the time of conversion of these instruments which would require an offer prospectus. Information in relation to the shares will be available to investors in the usual way under Transparency Directive and Market Abuse Regulation requirements, given that the shares would be of the same class as those already listed. Second, it would be impracticable for a distressed issuer to produce a share listing prospectus either at all or in the brief period required by the interaction of the terms of the securities (which require immediate share issuance) and the relevant local listing regime (which is likely to require almost immediate listing to mitigate fungibility concerns as between existing and new shares). The proposed 20% limit in Article 1.4(b) is unlikely to provide sufficient headroom given increasing regulatory requirements for such forms of capital and loss absorbing capacity; in particular where conversion is into a variable number of shares depending on the issuer's share price at the time of conversion. In light of the above, ICMA has suggested to relevant MEPs and regulators that the 20% proviso in Article 1.4(b) should be deleted or, if it is not deleted, various other, more complicated drafting amendments will need to be made in order to prevent this provision having unintended consequences for issuers of regulatory capital instruments.

In terms of next steps, ICMA understands that the draft ECON report was due to be presented in the European Parliament on 7 April 2016. There are likely to be amendments to the report after that point, culminating in a vote in ECON on the report on 13 June. The Internal Market and Consumer Protection Committee is also understood to be preparing an opinion on the proposed Prospectus Regulation, which should be available in early April.

Separately, the first Council Presidency compromise text is understood to be a first draft reflecting the non-contentious points upon which Member States currently agree. We understand there is likely to be further discussion and amendment (particularly on the more contentious points) in the coming weeks. This is reassuring as, from an initial review, many of ICMA's key concerns (eg in relation to wholesale disclosure, summaries, risk factors and the 20% threshold for convertibles described above) do not appear to have been addressed. However, the positive points appear to include (i) a change to the third country issuer representative requirement (where the responsibility element has been removed) and (ii) the implementation period (where the date of application has been extended to 24 months from entry into force), which is in line with the draft ECON report.

The timing for the Council to finalise its position is unclear.

If the Council and European Parliament were to finalise their respective positions in Summer 2016, then the final text could be published in the *Official Journal* in early 2017 and apply from early 2019 (assuming the proposals to extend the date of application are taken forward).

ICMA intends to continue to engage with relevant MEPs and national and European regulators in relation to the proposed Prospectus Regulation.

Other developments under the current Prospectus Directive regime

A Delegated Regulation concerning prospectus approval and publication and advertisements was published in the *Official Journal* on 4 March 2016 and entered into force on 24 March 2016. The text is very similar to the version adopted by the Commission on 30 November 2015, which was reported in the First Quarter 2016 edition of this Quarterly Report. It was anticipated previously that ESMA would publish Q&A in relation to certain areas of uncertainty regarding the advertisements provisions in the spring of 2016. However, it is understood that ESMA is reconsidering this and, if there is to be Q&A, it is unlikely to be published before the end of June 2016.

Contact: Charlotte Bellamy
charlotte.bellamy@icmagroup.org

MAR implementation: pre-sounding and stabilisation

The EU's new Market Abuse Regulation (MAR) regime is due to replace the existing Market Abuse Directive (MAD) regime from 3 July (regardless of the probable MiFID II regime postponement). The MAR legislative process is not complete, with various Level 2 measures still pending and potentially only likely to be finalised shortly before the 3 July coming into application deadline and any Level 3 guidance only anticipated thereafter. In this respect, ICMA's lead-manager constituency is considering potential practical implications for pre-sounding and stabilisation in the context of investment grade Eurobond syndicated issuance – with a clear picture potentially only emerging once the new regime will have bedded down.

Pre-sounding

Regarding pre-sounding, the European Commission had been expected (further to an early March Commission list of planned initiatives) to adopt final technical standards in March, ahead of a European Parliament and Council objection period of one month or three months (depending on whether the text is the same as the draft standards set out in ESMA's September 2015 Final Report reported in the First Quarter 2016 edition of this Quarterly Report).

It seems firms are fairly clear as to the practical implications of the expected new requirements, with expectations that MAR sounding processes will generally be similar to current MAD processes, albeit substantially more burdensome procedurally (notably in terms of detailed disclosure and record-keeping obligations). One conceptual change however relates to soundings that are considered not to involve inside information (bearing in mind that firms tend to treat information as "inside" if in doubt), with firms expecting the additional non-wallcrossed compliance burden to be manageable given the overwhelming majority of soundings being likely to be on a wallcrossed basis anyway. No consequential amendments to the ICMA Primary Market Handbook seem necessary at this time (though this will be kept under review).

Distinctly, ESMA published on 28 January a consultation *inter alia* on draft guidelines for persons receiving market soundings (with a response deadline of 31 March) that ICMA did not respond to given the proposed guidelines' relevance to investors rather than to lead-managers.

Stabilisation

Regarding stabilisation generally, the Commission adopted regulatory technical standards (in the form of a Commission Delegated Regulation) on 8 March with entry into application from 3 July. The standards are subject to a Parliament and Council objection period, which the Parliament has indicated it expects to expire on 8 June (ie three months from adoption). However, regarding stabilisation-related publication means, the Commission had again been expected to adopt final standards in March further to ESMA's "draft implementing technical standards on the technical means for appropriate public disclosure of inside information and for delaying the public disclosure of inside information" set out in Annex XII of ESMA's September 2015 Final Report.

Whilst it seems firms are fairly clear as to the practical implications of the new requirements (with expectations that MAR stabilisation processes will generally be similar to current MAD processes), some significant new considerations and/or additional practical burdens seem to arise (notably to mitigate some uncertainties around the new regime:

(i) Stabilisation reports seem likely to be addressed to all EEA national regulators, as it may not be clear which of them will be a "competent authority of the trading venue" given MAR's scope extension to Multilateral Trading Facilities (MTFs) and (once the MiFID II regime applies) Organised Trading Facilities (OTFs) – for many of which timely certainty as to the securities concerned does not seem possible.

(ii) To the extent neither ESMA nor EEA national regulators have published dedicated stabilisation reporting addresses, it seems likely that national regulators' general addresses will be used.

(iii) Pending the coming into application of the MiFID II regime, the stabilisation reports will be required to comply with the transaction reporting provisions of the current MiFID regime (which will be familiar to firms). However, once the MiFID II regime comes into application, any familiar national nuances stemming from national implementation of the current MiFID regime (being solely Directive-based) will be replaced by just the one set of provisions set out in MiFIR (a direct effect Regulation).

(iv) To the extent ESMA does not provide guidelines as to what stabilisation transaction "details" are to be published, it seems likely that firms will publish (on the same timeline as their reports to regulators) what they currently report to regulators

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A clear picture will only emerge once the new regime has bedded down.

under the MAD regime. Counterparty details would be omitted on the basis that a generic rule to publish "details" seems likely to remain subject to explicit rules on client counterparty confidentiality.

(v) Updated forms of stabilisation announcements and legends are likely to be needed. In this respect, ICMA is reviewing Chapter 9 on *Stabilisation* and Appendix A15 on *Stabilisation Materials* of the ICMA Primary Market Handbook.

(vi) It seems, according to the 8 March regulatory technical standards, that the means of stabilisation-related publication will be those "making information public in a manner which enables fast access and complete, correct and timely assessment of the information by the public in accordance with the [expected] standards on public disclosure of inside information." The practical considerations as to what such means are in practice however is a matter of general import to firms (in terms of their inside information announcement obligations), and so is expected to be addressed in other industry fora and not require detailed ICMA work. It is unclear however to what extent such means simply reflect existing EEA Transparency Directive publication mechanisms.

Other aspects

A couple of other aspects are also likely to be considered carefully by firms in the coming months. Following MAR's extension of suspicious transaction reporting to orders, in the form of suspicious transaction and order reports (STORs), firms will need to consider whether they suspect inflated investor orders to be market manipulation (eg to the extent such an order "gives, or is likely to give, false or misleading signals as to the […] demand for, or price of, a financial instrument") and so be confidentially reportable regulators. Another is the potential extra-territorial scope of the MAR regime following its extension *inter alia* to securities admitted to MTFs or traded thereon or (once the MiFID II regime applies) on an OTF, as some MTFs at least may systematically on-board securities of their own initiative (including securities that do not have an obvious EEA incidence such as issuer incorporation, investor base or stock exchange listing).

Pre-sounding: MAR defines pre-sounding as "the communication of information, prior to the announcement of a transaction, in order to gauge the interest of potential investors in a possible transaction and the conditions relating to it such as its potential size or pricing, to one or more potential investors" by specified persons (notably an issuer or someone acting on its behalf). Complying with MAR's pre-sounding procedures deems "disclosure of inside information made in the course of a market sounding" to be "in the normal exercise of a person's employment, profession or duties" and so not to be "unlawful disclosure of inside information" that MAR prohibits.

Stabilisation: MAR defines stabilisation as "a purchase or offer to purchase securities, or a transaction in associated instruments equivalent thereto, which is undertaken by a credit institution or an investment firm in the context of a significant distribution of such securities exclusively for supporting the market price of those securities for a predetermined period of time, due to a selling pressure in such securities." MAR's market manipulation prohibition does not apply to stabilisation that complies with MAR's stabilisation procedures.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

Bank recovery and resolution

Contractual recognition of bail-in

BRRD Article 55 generally: ICMA has continued to discuss the practical implications of BRRD Article 55 in its relevant Committees and working groups and has been making efforts to increase awareness of the implications of the rule among non-ICMA members who may be dealing with ICMA members on affected transactions.

The implications of BRRD Article 55 are particularly pertinent in Asia Pacific, given the rules require contractual recognition of bail-in in non-EEA law governed agreements. From discussions among the ICMA Legal & Documentation Committee and ICMA Asia Legal & Documentation Forum, ICMA understands that the model clause for contractual recognition of bail-in mentioned on page 45 of the First Quarter 2016 edition of this Quarterly Report and circulated to various ICMA Committees and working groups at the end of 2015 is generally being used in documentation for primary DCM transactions. ICMA understands that there may be some additional reservations in Asia Pacific legal opinions where there could be public policy issues in certain jurisdictions with including the clause, but this should not preclude the inclusion of the clause in documentation.

Concerns in relation to the practical implications of the rule, given its very broad scope, remain. ICMA understands that European official institutions may be considering an amendment to BRRD Article 55 at Level 1, although the scope or timing of any such amendment remains unclear.

Commercial paper and certificate of deposit programme side letter: ICMA has developed and circulated to various ICMA Committees and working groups a form of side letter developed for the purposes of contractual recognition of bail-in in respect of BRRD liabilities arising under non-EEA law governed commercial paper or certificate of deposit dealer agreements. It is envisaged that individual in-scope dealers can enter into the side letter bilaterally with the issuer, pending a programme update when a BRRD Article 55 clause could be inserted into the dealer agreement.

UK Prudential Regulation Authority consultation on contractual recognition of bail-in: The UK Prudential Regulation Authority (PRA) published a consultation on amendments to the PRA rules relating to the contractual recognition of bail-in in March 2016. The proposed amendments are in line with the PRA modification by consent, which is currently in place and expires on 30 June 2016. If taken forward, the amended rules would disapply the contractual recognition requirement for "phase 2" liabilities (those liabilities other than unsecured debt instruments) where the inclusion of such language is impracticable. The amended rules would apply from 1 July 2016.

The Consultation Paper also sets out a draft supervisory statement on the meaning of impracticable. Guidance of this type is helpful, in particular the PRA's reference to contracts where the BRRD liability in question is contingent on a breach of the contract. This guidance may be relevant to UK managers of bond issues in analysing the need for a contractual recognition of bail-in in the context of contracts like auditors' arrangement letters, confidentiality agreements and mandate letters.

Generally, the PRA's proposed approach is welcome, absent an amendment to BRRD Article 55 at a European level (which ICMA would support for the reasons outlined on pages 44 to 45 of the First Quarter 2016 edition of this Quarterly Report). ICMA is considering the need for a response to the consultation with its relevant Committees.

Contractual stays

The PRA rules in relation to contractual stays in financial contracts governed by third-country law, which are accompanied by a PRA Policy Statement and PRA Supervisory Statement, will prohibit in-scope firms from creating new obligations or materially amending existing obligations under certain non-EEA law governed financial arrangements unless the counterparty has agreed to be subject to similar restrictions on termination to those that would apply as a result of a UK firm's entry into resolution or the application of crisis prevention measures if the financial arrangement were governed by the laws of any part of the UK.

The background to these rules is a need to ensure that once a firm enters resolution, its counterparties in derivatives and other financial contracts (such as repo or reverse repo, securities lending and other similar transactions subject to contractual set-off and netting arrangements) cannot terminate and "close out" their positions solely as a result of the firm's (or a related entity's) entry into resolution.

As a general matter, these rules appear to be intended to apply primarily to derivatives and securities financing transactions, in order to stabilise an in-scope entity's position were it to enter into resolution or become subject to crisis prevention measures. As reported in the First Quarter 2016 edition of this Quarterly Report, ICMA's repo constituency has been looking at the implications of resolution stays for GMRA transactions. It is possible that secondary market cash transactions could also be affected.

There is, however, some ambiguity in the precise

> **As currently drafted, the vast majority of the ABCP transactions will not qualify as STS.**

definitions used in the PRA rules, which has led some market participants to query whether the obligation to underwrite a new issue of bonds might also fall within the scope of these rules. As such, ICMA has engaged with the PRA to determine the precise scope of the rules.

The final effective dates of the rules for in-scope firms are staggered based on counterparty type. They will apply from 1 June 2016 in respect of third-country law financial arrangements with counterparties who are credit institutions or investment firms, regardless of whether the counterparty is acting directly or through an agent; and from 1 January 2017 in respect of third-country law financial arrangements with all other counterparties.

Contact: Charlotte Bellamy
charlotte.bellamy@icmagroup.org

ECP market

ABCP: On 3 March 2016, ICMA – including taking note of the views of its buy-side constituents – joined with AFME, EFAMA and Insurance Europe in publishing the Joint Associations Position Paper, *Investors and Issuers Unite to Support Simple, Transparent and Standardised [STS] Securitisation*. This paper sets out common views on a number of issues under consideration which we hope will help in the building of consensus around key provisions. It specifically addresses the question of the treatment of ABCP, in the context of the development of the proposed STS securitisation framework, saying:

"We welcome the inclusion of ABCP in the proposed STS framework as it is the source of cost efficient funding for a number of key economic actors such as SMEs and the auto manufacturers; however, we have concerns that the STS criteria as proposed by the Commission do not sufficiently recognise the specific structural characteristics of ABCP programmes. Consequently, as currently drafted, the vast majority of the ABCP transactions will not qualify as STS. This in turn will result in investors (MMFs in particular) being unable to invest in ABCP issued by a non-STS ABCP programme. Criteria such as the maturity limits, transaction level requirements and disclosure requirements are unnecessary to establish stable and transparent ABCP programmes that fully meet the STS principles, and as proposed are extremely problematic. Further, the STS criteria for ABCP as currently drafted misunderstand the risks that an investor in ABCP is exposed to. Effectively, the rules address risks that actually fall on the bank sponsor and not the investor."

The Joint Associations conclude that for the European securitisation market to revive on a safe and robust footing the new STS framework must be attractive for both issuers and investors whilst operating under a strong but fair and rational regulatory regime; and urge all policymakers to take steps to address the regulatory factors holding back the recovery of the securitisation market as soon as possible.

MMFs: On 16 February 2016, ESMA issued a follow-up peer review, covering the period from 1 May 2014 to 1 May 2015, into the compliance of national competent authorities (NCAs) with guidelines regarding MMFs. This report follows up an earlier peer review already published in April 2013, focusing on eight NCAs that were not compliant with the guidelines. It provides an update on the findings of that first peer review and sets out the result of this second assessment. Out of the eight jurisdictions subject to this follow-up peer review assessment, in seven countries (Bulgaria, Cyprus, Liechtenstein, Lithuania, Latvia, Malta and Portugal) the guidelines are now applied; however, in Hungary the authority is assessed as "not applying", since it did not show its ability to ensure application of the transitional provision in all instances.

On 24 February 2016, IMMFA published its summary position on the EU's proposed Money Market Fund Regulation (MMFR), which summarises the key issues for IMMFA members in the MMFR (drawing on both the Commission and European Parliament texts). In particular, this short paper includes IMMFA positions on MMF product design, where IMMFA supports the introduction by the Parliament of new types of fund but considers that further work is needed to make these funds viable; structural reforms, including capital buffers and sponsor support; MMF investments, including points in relation to eligible assets, eligible securitisation, diversification, and liquidity; and client-facing considerations regarding transparency and implementation.

Contact: David Hiscock
david.hiscock@icmagroup.org

Other primary market developments

Packaged retail and insurance-based investment products (PRIIPs): As anticipated in the First Quarter 2016 edition of this Quarterly Report, the Joint Associations Committee on Retail Structured Products (JAC) responded on 29 January to a Joint Committee of the European Supervisory Authorities' (ESAs – gathering EBA, EIOPA and ESMA) Joint Consultation Paper on PRIIPs key information documents (KIDs). The JAC subsequently filed on 17 February a letter to the European Commission, ESMA, EIOPA and ESAs on significant uncertainties relating to the PRIIPs Regulation and a further letter (annexing the first letter and the above response) to ESMA, EIOPA and EBA on interpretation and application of the PRIIPs regime.

Negative interest: ICMA continues to respond to various member queries relating to the impact of negative interest rates on floating rate notes. While the impact of negative interest rates will depend on the terms and conditions applicable to the debt security concerned, terms and conditions for a vanilla bond will customarily only provide a "promise to pay" by issuer, with no countervailing contractual promise by investors to pay anything. It is unlikely that the terms and conditions for a vanilla bond would provide that any negative interest can be offset against subsequent positive interest payments or capital redemption amounts. Furthermore, clearing and settlement infrastructure is unlikely to be set up to execute negative coupon cash-flows.

Benchmarks: As reported in previous editions of this Quarterly Report, ICMA has been engaging with the process for the evolution of LIBOR and EURIBOR. The latest development is the publication of an ICE LIBOR Roadmap for the evolution of LIBOR. It appears that many of the changes suggested in IBA's position papers in relation to evolving LIBOR will be taken forward.

ICMA has been supporting initiatives to improve the robustness of benchmarks, while highlighting the need to ensure that there are no negative side effects for outstanding contracts that reference that benchmark. In this respect, it is helpful that LIBOR will continue to be published at 11 am London time each day, and it is to be hoped that other practical measures, such as LIBOR continuing to be published on the same screen pages on which it is currently published (or notices being posted on current and new publication sites in relation to any change in publication venue) will also be adopted. In addition, the statement in the Roadmap that LIBOR "will continue to measure the same underlying interest being the rate at which banks can fund themselves in the wholesale markets" is helpful. IBA has stated that the standardising and updating measures set out in the Roadmap will be implemented progressively during 2016.

IBA is also asking global users of LIBOR rates to complete a brief questionnaire to help it understand the current level and nature of use for each of the 35 daily LIBOR rates. The questionnaire can be found on the IBA website.

In relation to the evolution of EURIBOR, ICMA responded to an EMMI consultative position paper on the evolution of EURIBOR (mentioned on page 46 of the First Quarter 2016 edition of this Quarterly Report) on 29 January 2016. ICMA's response supported EMMI's goal for a "seamless transition" in the evolution of EURIBOR and noted that, in this regard, it is desirable to evolve EURIBOR in such a way as to maintain a rate that is commercially as close as possible to the current rate.

Separately, ICMA reiterated its previous comments in relation to the importance of contractual continuity in the process of evolving benchmarks in a short response to the ESMA Discussion Paper on the Benchmarks Regulation on 31 March 2016.

Contacts: Ruari Ewing and Charlotte Bellamy
ruari.ewing@icmagroup.org
charlotte.bellamy@icmagroup.org

Secondary Markets

by Andy Hill and Elizabeth Callaghan

ICMA's second European corporate bond liquidity study

Following the seminal study published in 2014, in March 2016 ICMA announced the launch of its second study into the current state and ongoing evolution of the European investment grade corporate bond secondary market. The new study is intended to be more forward looking and focused on potential solutions to the identified risks to market quality and liquidity, as well as re-highlighting the sources of these risks. The study will be conducted over the coming months, with a view to publishing the final report at the end of June.

The new study will use a mix of quantitative and qualitative analysis, and will set out to answer three key questions:

- What is the current state of and likely course for European corporate bond market quality and liquidity?
- If market quality and liquidity are declining, what are the implications, is this necessarily a problem, and to what extent should policy makers be concerned?
- How is the market evolving, and what can and should market practitioners and stakeholders do, or consider, to help address any potential problems arising from the state of the market?

One of the objectives of the study is to create a "dashboard" for the European investment grade corporate bond secondary market quality and liquidity, something which will be even more pertinent in light of the announcement of the ECB's Corporate Sector Purchase Programme, due to start around the same time as the publication of the ICMA study.

As in the previous study, ICMA will rely on the active participation and input of its member firms, including broker-dealers, asset managers and investors, corporate and financial issuers, as well as platform providers and intermediaries. If you or your firm is interested in participating in the study, please contact Andy Hill at ICMA who is leading the study.

A copy of the terms of reference for the study, which were developed in close consultation with the ICMA Secondary Market Practices Committee, can be found on the ICMA website.

Contact: Andy Hill
andy.hill@icmagroup.org

MiFID II

Generally speaking, MiFID II concerns the framework of trading venues and structure in which instruments are traded. MiFIR, on the other hand, concentrates on regulating trading venues and shaping its operations. So, "who" the market structures are; "what" they trade; and then "how" they trade. Regarding trading, the most important obligations are the key pre- and post-trade transparency regulations, best execution obligations and reporting responsibilities.

MiFID II is the largest regulatory "trigger event" generating change in fixed income trading today.

Key objectives of MiFID II/R and the transparency requirements

- Increase transparency and create a price discoverymechanism, by expanding pre- and post-trade transparency requirements to fixed income instruments.
- Preserve liquidity in already challenged markets:
  — pre-trade waivers and post-trade deferrals;
  — tailored approach to calibration of transparency requirements for different types of trading systems.
- Move OTC trading onto trading venues through a trading obligation for fixed income instruments: eg Organized Trading Facility (OTF). Systematic Internalisers will also become more relevant for bond trading.

- Increase available data (so that market participants are informed as to the true level of potential transactions).

Key objectives of MiFID II/R best execution requirements

- Through MiFID II's best execution policy, individual firms will demonstrate how they go about achieving "best possible result for the client". Firms will be required to "evidence" best execution.
- The public will be provided with relevant data on execution quality to help them determine the best way to execute client orders.
- Investment firms will demonstrate transparently a summary of the analysis and conclusions of the quality of the execution for each class of financial instruments traded on execution venues.
- Investment firms (including buy-side firms) will evaluate the quality of their execution practices by identifying and publishing the top five execution venues, in terms of trading volumes, where those firms executed client orders in the preceding year.

Reporting responsibilities: who reports post-trade publicly when?

- If executing on a venue – Venue reports: eg Bloomberg.
- If executing with an SI – SI reports: eg Citi.
- If executing via OTC – OTC "seller" reports: "seller" investment firm: eg AXA, Citi.

Current MiFID II timeline expectations

- *Second half of April:* MiFID II Delegated Acts will be approved.
- *To be confirmed:* MiFID II RTS approved by Commission, Parliament and Council and sent back to ESMA.
- *3 January 2018 (recommended by the Commission):* MiFID II comes into effect.

Contact: Elizabeth Brooks Callaghan
elizabeth.callaghan@icmagroup.org

CSDR mandatory buy-ins: secondary markets

Having originally been expected in October 2015, the much delayed draft regulatory technical standards (RTS) for CSD Regulation mandatory buy-ins were finally submitted by ESMA to the European Commission in February 2016. Given the restrictions of the Level 1 text, and the concerns raised by earlier draft RTS, the final draft RTS attempt to strike a balance between consistency with the intent of the Regulation and minimising the potential for unintended adverse impacts to European capital markets. Accordingly, a number of recommendations made by ICMA and other market stakeholders were included in the RTS.

Of key significance, the buy-in process will be initiated and executed at the trading level; that is, between the trading parties involved in the original transaction, and not at the participant (ie custodian or settlement agent) or trading venue levels, as had been envisaged by the Level 1 Regulation. ICMA and many others had gone to great trouble to highlight, and even cost, the potential impact of a non-trading level buy-in process. Similarly, cash compensation will also be settled at the trading level.

Fixed income products are also afforded the maximum allowable period before a buy-in is initiated (the "extension period"), that being seven business days. A further seven business days will then be allowed between the initiation and settlement of the buy-in.

Where a buy-in is not completed, the purchasing party has the option to "defer" the buy-in for one more attempt, before a cash compensation remedy is applied. The RTS set out possible methodologies for calculating the cash settlement reference price.

Securities Financing Transactions (SFTs) are brought in scope of the buy-in regime. However, the RTS provide an exemption for all SFTs with a term of less than 30 business days.

However, one significant issue remains with respect to the provisions for the payment of the buy-in or cash compensation price differential; that is, the payment of the difference between the original transaction price and the buy-in or cash compensation reference price. In a standard buy-in the payment is made in either direction, between the original seller and purchaser, depending on whether the original transaction price is higher or lower than the buy-in or cash compensation reference price. This ensures an equitable outcome, with neither party to the transaction being unduly penalised or enriched as a consequence of the buy-in. In a CSDR mandatory buy-in or cash compensation process, the price differential can only be paid by the seller to the purchaser in the event that the buy-in or cash compensation reference price is higher than the original transaction price. In the event that the buy-in or cash compensation reference price is lower than the original transaction price, the RTS do not allow for the corresponding payment of the differential by the purchaser to the seller. This asymmetric treatment, in cases where the buy-in or cash compensation reference price is lower than the original transaction price, will create an unjustifiable profit for the purchaser and a loss for the seller, the extent of which being directly proportionate to the size of the differential. From a risk perspective, this is the equivalent of any seller of securities writing a free "at the money" put-option which becomes active in the event of a buy-in.

ICMA has published a paper illustrating the problems arising out of the asymmetric treatment of the payment of the CSDR mandatory buy-in or cash compensation differential.

ICMA is hopeful that the European Commission and ESMA will be able to rectify this asymmetry, not least since it could compromise the credibility of the buy-in regime, as well as creating additional, and largely unpredictable, market risks for seller of securities as well as intermediaries to transactions.

In light of ESMA's proposal for a two-year delay for implementing CSDR settlement discipline measures, it is widely expected that CSDR mandatory buy-ins will come into force in the first half of 2018.

Contact: Andy Hill
andy.hill@icmagroup.org

MAR: investment recommendations

The EU Market Abuse Regulation (MAR) final draft regulatory technical standards for investment recommendations were submitted by ESMA to the European Commission in September 2015, and adopted by the European Commission in March 2016. Following approval by the European Council and European Parliament in the coming months, the Regulation is intended to come into force from 3 July 2016.

MAR replaces the 2003 Market Abuse Directive (MAD), and has been developed in parallel with other EU and international post-crisis initiatives to regulate financial markets and instruments, in particular MiFID II/R, with which MAR has a degree of interdependence. MAR is designed to cover a broad range of potential market abuses, including market manipulation (including benchmark manipulation), unauthorized disclosure of inside information, suspicious transactions, irregular directors' dealings, and conflicts of interest.

Whereas MAD broadly captures financial instruments admitted to trading on a regulated market, MAR captures financial instruments traded on a much wider range of trading venues, including Multilateral Trading Facilities (MTFs) and Organized Trading Facilities (OTFs). It also covers instruments which may not be admitted to trading on a regulated market, MTF, or OTF, where the price or value of those instruments effect the price or value of instruments that are admitted to trading on a regulated market, MTF, or OTF (such as credit default swaps).

Supplementing MAR is a Delegated Act outlining regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. Essentially, the Regulation sets out harmonized standards with respect to investment recommendations to ensure that information is objectively presented and interests or conflicts of interest are effectively disclosed. This in effect means that any investment recommendation must be accompanied by appropriate disclosures including (although not limited to):

- the identity, job title, and relevant competent authority of the person making the recommendation;
- the distinction between facts and interpretations, estimates, opinions, and other types of non-factual information;
- sources of information, and the extent of their reliability;
- the labelling of all projections, forecasts, and price targets, along with any material assumptions underlying these;
- a summary of any basis of valuation or methodology and the underlying assumptions;
- an indication of the place where detailed information about the valuation or methodology is directly and easily accessible;
- the meaning of any recommendation, such as "buy", "sell", or "hold", the recommended length of time for the investment, and an adequate explanation of the related risk including a sensitivity analysis of the assumptions;
- the planned frequency of updates to the recommendation;
- where the recommendation differs from a previous recommendation concerning the same instrument or issuer that has been disseminated in the preceding 12-month period, the change(s) and date of the previous recommendation;
- a list of all recommendations relating to the relevant instrument or issuer from the previous 12-months, along with the date of dissemination, price target, the price at the time of the recommendation, the direction of the recommendation, the recommended time period of the recommended investment, and the price target, along with the identity of the person(s) who made the recommendation;
- disclosure of any interests or conflicts of interest of the person(s) or legal entity making the recommendation, including whether they hold a meaningful position in the security, if they are a market maker or liquidity provider, or were a lead manager or co-lead manager over the previous 12-months of any publicly disclosed offer of financial instruments of the relevant issuer.

An investment recommendation is defined as: "information recommending or suggesting an investment strategy, explicitly or implicitly, concerning one or several financial instruments or the issuers, including any opinion as to the present or future value or price of such instruments." In practice, this would seem to include any buy, sell, or relative value recommendation, for any in-scope instrument, regardless of whether any time horizon for the trade is specified and irrespective of whether there is a specific price target.

MAD defines a distribution channel as "a channel through which information is, or is likely to become, publicly available". Such channels could include a Regulatory Information System, media specializing in disseminating information (news agency, news provider, a newspaper, etc), or the website of the producer of the recommendation. In addition, MAR takes the view that an investment recommendation is intended for distribution channels or for the public not only when it is intended or expected to be made available to the public in general, but also when it is intended or expected to be distributed to clients or to a specific segment of clients, whatever their number, as a non-personal recommendation, ie without the provision of the investment service of investment advice. The implication here is that investment recommendations are in scope of MAR where they are disseminated to more than one client.

Whereas MAD disclosures were designed to cover the more traditional, standardized, equity market "buy/hold/sell" research template, the extension of MAR to include less standardized sales recommendations, which could include relative value plays between different securities, vastly increases the disclosure obligations of investment firms and their investment professionals. In particular, investment firms and their employees will have to record every single investment recommendation at the security and issuer level, and make the last twelve months of this data available whenever making new recommendations. Given these onerous disclosure demands, it is reasonable to assume that this will not only impact the extent of investment recommendations firms provide to their clients (likely to be a significant reduction), but also the form in which they are made (via electronic media as opposed to voice). Furthermore, compliance with the Regulation is likely to require significant investment in information technology as well as a high level of staff training. Particularly where investment firms are not already recording every investment recommendation, they may struggle to comply with new obligations when they come into force in July of 2016.

Contact: Andy Hill
andy.hill@icmagroup.org

The future of electronic trading in European cash bonds

As part of its leading work in the development of the European fixed income market structure and the advancement of electronic trading, ICMA is about to publish a paper that discusses the potential evolutionary path for electronic trading in the European bond markets. The article below provides an overview of some of the paper's discussion points and conclusions.

Evolutionary change

Bond market trading is going through unprecedented change today and will continue to do so over the next years. The traditional bond trading model, mostly reliant on market makers and voice broking, is being eroded. This is partly due to a natural evolution of bond trading driven by technological progress and the drive for cost efficiencies, resulting in an increasing electronification of markets and regulatory pressures undermining broker-dealers' capacity to hold, finance, or hedge trading positions. The upcoming implementation of

ECB Corporate Sector Purchase Programme

At the meeting of its Governing Council in Frankfurt on 10 March 2016, the ECB announced that it was not only extending its monthly purchases under the Asset Purchase Programme (APP) from €60 billion to €80 billion, but that it also intended to expand the list of eligible assets for purchases to include investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area. While full details of the new Corporate Sector Purchase Programme (CSPP) have yet to be made public, ICMA believes that central bank purchases of euro-denominated corporate bonds as part of quantitative easing measures will have serious and potentially extensive repercussions for the European investment grade corporate bond markets. It will almost certainly have significant impacts on market quality and liquidity, both secondary and primary, with implications for investors, dealers, and issuers.

Through its various councils, committees, and forums, including the Asset Management and Investors Council (AMIC), the Secondary Market Practices Committee (SMPC), the Primary Market Practices Committee, the Corporate Issuer Forum (CIF), the European Repo and Collateral Committee (ERCC), as well as through its regional committees, ICMA will continue to engage and work closely with its constituents, monitoring market developments, both quantitatively and qualitatively, as the CSPP is rolled out.

ICMA has already reached out to the ECB and intends to remain a vital link between the ECB and ICMA's members, as well as serving as an ongoing sounding board for the state and health of the European investment-grade corporate bond market. Key questions related to the CSPP structure include:

- What is the likely size for corporate bond purchases, and how will this be split between primary and secondary market purchases?
- What will be the criteria for selecting bonds, in terms of issue sizes, country of issuer, and liquidity? And will there be concentration limits for issues or credits?
- What will be the structure of purchases (on venue or OTC), and will the ECB or NCBs act as principal or will purchases be outsourced to dealers?
- How will the purchases impact market liquidity and quality, and how will this be monitored?
- What are the likely impacts with respect to various regulatory initiatives such as the MiFID II/R transparency regime or the CSDR mandatory buy-in regime?
- How does this interact with the objectives of Capital Markets Union?

As the principal representative body for the European investment grade corporate bond markets, ICMA will continue to work with its various constituents and members, as well as with policy makers, regulators, and other key stakeholders, to ensure that the CSPP achieves its objective without compromising resilient and well-functioning European corporate bond markets.

Contact: Andy Hill
andy.hill@icmagroup.org

Europe's new trading rules under MiFID II will accelerate the market structure transformation.

Change is afoot. For trading desks, the priority is in achieving the flexibility necessary to access bond liquidity across multiple counterparties and trading platforms while using a variety of protocols. The stage is set for a business model that has more in common with equities electronic trading than ever before.

As previously noted, the ability of broker-dealers to provide liquidity as market makers has greatly reduced. The shape, size and roles in fixed income are also reducing or becoming streamlined. The "trigger events" for these changes are electronification/automation of bond trading and regulatory pressures.

No one knows for sure yet the percentage split of impact on fixed income markets these evolutionary "trigger events" have created. However, in regard to regulations, Basel III's impact on market making and MiFID II's transformational impact on trading practices are the leading contributors to the continued altering state of the market. Technology is the "forcing mechanism" speeding up this change in fixed income trading. Technology is starting to create a more efficient, rationalised model of trading and some say "smarter". However, before this optimised model of fixed income electronic trading is realised, a journey has to be undertaken. Like equities, fixed income trading will have its successes and failures or, as Darwin puts it, natural selection and "survival of the fittest".

"Survival of the fittest"

In order to endure, bond trading must adapt and innovate. This will involve all facets of trading. The bond trading eco-system will see new possibly disruptive entrants, innovative incumbents and adaptive trading protocols and venues emerge. Some are mentioned below:

(i) New entrants

New entrants will not be hindered by the fragmented IT legacy of large incumbents, so they may be more agile in solving challenges for the industry. These tools, solutions and new business ventures will use advanced technology. Below is a description of why some of these new entrants might emerge successfully onto the electronic trading landscape:

Order Management Systems and Execution Management Systems (OMS/EMS): OMS/EMS provide straight-through processing (STP) connecting internal systems across the institution. The benefits are: smooth, efficient, seamless integration interconnecting risk management, credit checking, and position management – ensuring trades are within risk limits and meeting client obligations.

Transaction Cost Analysis (TCA): TCA lets a firm analyse the cost of a decision to trade over a specified time period with respect to various benchmarks.

Data analysis tools (of any kind): Deep trading history along with sophisticated data processing tools will increase the level of granularity and allow an almost forensic approach to data analysis.

Algorithmic trading in fixed income: Algorithmic trading (complex computer-based programmes following defined set of instructions) is usually thought of in terms of equities trading. However, algo traders from equities now see an opportunity to leverage their existing investment in fixed income trading.

Liquidity ratings: Several banks and buy sides already do this to an extent today. In the future, it will become more commonplace and standardised. The likelihood is that rating agencies might take this up in order to truly standardise liquidity ratings.

Regulatory tech services: Any technology-based service or consultancy firm that can assist with keeping market participants (buy side, sell side and platforms) on the right side of compliance and best execution will do well in the years ahead.

Internaliser engine: Firms that operate multiple trading desks, across different time-zones or subsidiaries will require an advanced technology system that provides the ability to internalise order flow automatically.

Information Networks (INs) – sourcing and aggregating liquidity: IN firms provide an aggregation layer, providing the trader with two key sets of functionality: a global view of liquidity and a choice of trading protocols and execution mechanisms from which to select.

Consortium-owned networks between buy side and sell sides: Collaborative efforts between the buy side and sell side where market participants are coming together to attempt to create liquidity in the bond markets. The hope is to enable greater transparency of trading interests across the marketplace between buyers and sellers of bonds.

(ii) Innovative incumbents

Price-maker hedge funds: Hedge funds are not new entrants but they will adapt to the new landscape. While traditional buy-sides will most likely not step in as "price makers" on Central Limit Order Books (CLOBs) or other agency-only trading venues, hedge funds *may* step in (providing it suits their trading strategies) and provide larger illiquid pricing, bolstering liquidity.

Independent market making firms: Independent market makers will start to emerge focusing on market making in specialised instruments or sectors.

Niche trading: Banks will also develop specialised expertise and be known for trading and making markets in certain asset classes or regions.

Multi-asset trading: As banks and buy-sides review their bottom lines more, it will become obvious that some IT and skill-sets can be shared. It is too expensive to have totally separate infrastructure carrying out trades that would ultimately benefit from sharing of knowledge between asset classes.

"Super trading desks" or "outsourced trading": Large regional sell sides and buy sides will create centralised super-desks where they have the market making capabilities and global reach. An outsourced provider will be able to evidence best execution to regulators and trade report to the public for their clients. Further offerings the outsource provider could provide their clients (using TCA) is, the ability to report back on broker performance measurement.

(iii) Adaptive protocols and venues

One thing is certain: electronic trading (including trading venues and protocols) is at the core of senior management planning for market structure redesign. Traditional trading protocols and platforms will also evolve and adapt to the new world of electronic trading in cash bonds. MiFID II, particularly in combination with other regulations will be the biggest driver for radical change in market structure. Some are prophesying the disappearance of protocols we have practised for years such as OTC (over-the-counter voice-based broking). However, most believe this is not the case. Current platforms and protocols will still exist but the usage weightings will shift and over time shift quite dramatically. Further down the line, today's platforms and protocols will be joined by new innovative platforms and protocols.

The platforms and protocols are split between the categories below.

- *Bilateral:* RFQ, RFS, OTC including market making.
- *Multilateral:* Central limit order books (CLOBs), exchanges, MTFs and post MiFID II; SIs and OTFs; crossing platforms, anonymous or semi-lit; and finally auctions: time-based bid/offer multilateral trading.

All electronic platform and protocol usage will increase, to some degree or other. Even bilateral protocols will take on more electronic characteristics. For example, the market is already seeing a rise in automated RFQs – where buy-side traders seek quotes from brokers in a more controlled, auditable environment versus what is offered via traditional voice-broking (pure OTC).

While agency only and multilateral trading will increase, it is a matter of "horses for courses". Not all of the multilateral protocols and platforms are suited to all types of trades. Set out below is a discussion and some examples of how they are used and may possibly evolve.

All to All: This is the true definition of multilateral trading (connecting dealers, investor and other market participants on a centralised all to all platform).

CLOBs (Central Limit Order Books, one example of an "All to All") will increase but only in retail-sized flow. This is due to the buy side not having the mandate to make prices and post on platforms. Also, no one (buy or sell-side) will want to leave a large/illiquid price available to be picked off on a CLOB. However, CLOBs may end up assisting price discovery as a "reference price" (even though the average trade size will be small).

RFQs (request for quote: bilateral, one to one): While there will be an increase in multilateral trading, bilateral RFQs will not disappear. A trusted conversation between a buy-side and sell-side trader about the nuances of a trade will always be valued.

OTC market making: While market making may be choosier in the future, it will always be necessary, particularly, when a buy-side trader requires size.

Anonymous trading platforms (multilateral): Anonymity is attractive to market participants who want to complete large transactions without drawing attention to their trades, since such attention could impact market prices. Price formation is in the dark (non-transparent) as the anonymity protects participants.

Systematic Internaliser (SI): The rationale for the SI regime is to move "dark", off-venue trading, on to 'lit' venues by creating a level playing field and greater price transparency between OTC and venues. (Basically, SIs prevent activity moving off "lit" venues onto dark – "lighting up" the more active OTC markets). The key requirement of an SI, compared to a non-SI, is that it is subject to similar pre-trade transparency obligations as a RM, MTF, or OTF, as this is expected to aid price formation for investors.

Multilateral Trading Facilities (MTFs): In MiFID II, requirements for MTFs have been aligned with those of RMs in order to create a more level playing field. Most agency trading platforms will be classified as MTFs.

Organised Trading Facilities (OTFs): Alongside MTFs, this will be a third type of multilateral system (Regulated Markets, MTFs and now OTFs) in which multiple buying and selling interests can interact in a way which results in contracts. The execution of orders on an OTF is carried out on a *discretionary* basis and will come into force with MiFID II.

Adaptive landscape: As just described, there are signs of a new "electronic" eco-system to come but no one can predict exactly how the secondary cash bond markets will look in 5, 7 or 10 years. We can only take an educated guess, based on the experience of market practitioners in the asset classes that have gone through the transition to a functioning electronic market structure.

Conclusion

What is certain is that bond trading must adapt and innovate in order to endure. This will involve all facets of trading. The change will affect the entire market place: sell side and buy side but also trading platforms and ancillary trading technology providers. Although often referred to as an "equitisation" of fixed income, the changes in bond trading will take a different path to equities. Many believe this transformative pathway will be a painful one as regulation and technology are already proving disruptive influences on the established market structures. Alternatively, a larger proportion of the market supposed that for its cannier participants, this next stage of evolution in cash bond trading will create opportunities through innovation. In order to succeed, platforms, protocols and business practices will have to change with the needs of the environment. A successful European cash bond electronic trading landscape will be an "adaptive" landscape.

Contact: Elizabeth Brooks Callaghan
elizabeth.callaghan@icmagroup.org

Repo and Collateral Markets

by David Hiscock and Alexander Westphal

The importance of collateral management

The ICMA European Repo and Collateral Council (ERCC)

At the ICMA Board meeting in Copenhagen, in September 2015, approval was given to change the name of the ICMA European Repo Council (ERC) to the ICMA ERCC, the "European Repo and Collateral Council". This change was not expected to presage a dramatic shift in the nature or role of the ICMA ERC, but rather was made to recognise the reality of the way in which the market and the work of the ICMA ERC had already evolved. In particular, this reflects a shift from focusing on the repo market to a wider focus on the collateral market, recognising that these markets are inherently intertwined.

The increasing significance of collateral

The importance of collateral has grown over many years, but has accelerated significantly since the advent of the financial crisis in mid-2007. This is in no small measure related to the shift in risk appetite of market participants, with an increased demand amongst them to secure their credit risk exposures through the taking of high-quality collateral. Official policy makers have also significantly fuelled the demand for high-quality collateral as they have advanced steps to make markets more robust, to reduce systemic risk and help mitigate the risks of any future financial crises.

Amongst examples of these increasing demands are:

- increased focus on covered bond issuance by banks, secured against high-quality mortgage pools, as against senior unsecured issuance;
- increased use of repo funding to finance assets, including in context of an increase in the use of central bank financing;
- Basel requirements, translated in the EU through the CRR, introducing the holding of liquidity stress buffers – collateral assets to satisfy these requirements comprise a short list of high-quality liquid assets (HQLA);
- the shift of standardised OTC derivatives to CCP clearing, as required in the EU by EMIR, which gives rise to demands for significant amounts of initial margin; and
- increased requirements to margin any bilateral OTC contracts (outside of CCP arrangements), incentivised by penal treatment of uncollateralised exposures in the EU CRR/D requirements.

> “The ICMA ERCC has already done much over the last couple of years to emphasise the importance of collateral fluidity.

With the equivalent G20 agenda demanding ever more collateral in global markets, including the need to collateralise bilateral trading between the buy and sell side, coupled with the downgrade of a substantial part of previously reasonable good collateral, the pressure to widen the collateral base is on.

The essential need for collateral fluidity

Whilst numerous studies have attempted to estimate whether there is an adequate supply of collateral to meet these rising demands or whether there might be a shortfall, inevitably nobody actually has the exact answer. Yet with the supply of safe assets dwindling at the same time as demand for them is rising, it is plainly essential that high-quality collateral be managed as a scarce resource. The ICMA ERCC considers that the aggregate amount of collateral is likely to prove large enough to meet the demands, but sees the risk of suffering from more localised demand-supply imbalances. These will arise in case it is not possible to ensure that the right amount of the right type of collateral is available at the right time, in the right place to meet applicable requirements.

Given this, the ICMA ERCC has already done much over the last couple of years to emphasise the importance of collateral fluidity, which allows collateral to move around the system to meet varying demand requirements across the financial markets landscape. Achieving an adequate degree of collateral fluidity requires the simultaneous existence of robust and efficient settlements infrastructure (the "plumbing"), as well as bank funding desks that are able to source, price, manage, and mobilise collateral (the collateral "pump").

Yet in the European markets both these elements evidence significant need for improvement. Notwithstanding the efforts made over many years, currently most visible in the process of transition to the use of T2S by many of the EU's CSDs, the European market settlements infrastructure remains subject to many inefficiencies associated with its historic evolution in individual EU Member States. The ICMA ERCC is closely involved in work to address this.

At the same time, the ICMA ERCC's most recent study into the state of the repo market records growing concern that the cumulative impact of various prudential and market regulations, along with extraordinary monetary policy, could be affecting the ability of the European repo market to function efficiently and effectively. Uncoordinated measures by public authorities are radically altering the short term secured financing market, degrading the performance of the pump, which may even compromise the success of regulatory measures such as EMIR which depend on the fluidity and availability of collateral. ICMA is aware that market participants and policy makers in the Asia Pacific region share these concerns about the fragmented nature and cumulative impact of regional markets and regulation; and the ICMA ERCC has undertaken, in partnership with ASIFMA, to expand its repo market study into the Asia Pacific region.

The need for collateral efficiency points to the importance of collateral management

Given the competing demands that exist for the use of collateral assets, the management of collateral needs to encompass the deployment of optimisation techniques. These aim to ensure that the available collateral is utilised as effectively and efficiently as possible. This will be best achieved in case minimum acceptable collateral requirements are clearly stated and, wherever appropriate, harmonised across markets, taking due account of the different classes of potential collateral assets. At the same time, although collateral is a good mitigating tool to reduce counterparty risk, there ought also to be focus on how to reduce the risk in the system. Netting through fixed income CCPs is such a measure. Risk reduction tools, like compression in the OTC derivatives markets, are another.

This calls for firms to fully appreciate their sources and uses of collateral and to then identify how best to link these. Yet this is a multi-dimensional challenge of ever increasing complexity, in an increasingly regulated financial market environment, and must be faced against a backdrop of continued exceptional monetary policies and market volatility, in ever less liquid markets.

In conclusion

Repo desks can increasingly be equally considered to be collateral desks, repo and collateral being intimately related in the market; and also bound in to the cash securities and derivatives markets.

In an environment of increasing collateral demand there needs to be sufficient collateral fluidity to avoid the incidence of collateral breaks. Yet both the plumbing and the collateral pump need significant work if the European market wishes to enjoy an adequate degree of collateral fluidity.

Responsive to pressures upon them, there is an inescapable need for firms to focus on enhancing their collateral management, which is an increasingly complex challenge in which the ICMA ERCC can be of assistance.

Contact: David Hiscock
david.hiscock@icmagroup.org

European repo and collateral market developments

Securities Financing Transaction Regulation (SFTR)

On 11 March 2016, ESMA issued a Discussion Paper (DP) on rules under the SFTR, for comment by 22 April. This (187 page) DP sets out proposals for implementing the reporting framework under the SFTR, including tables of the fields with the proposed data to be reported, and the registration requirements for those trade repositories (TRs) which want to accept reports on SFTs. In line with the SFTR requirement to build on pre-existing infrastructures, operational processes and formats which have been introduced with regard to reporting derivative contracts to trade repositories, ESMA has developed its proposals by building on its experience with EMIR and other EU-wide reporting regimes in order to align reporting standards to the extent possible.

ESMA will use the responses to its DP to develop detailed rules on which it will publish a follow-up consultation in the second half of 2016, as it works towards fulfilment of the requirement that it shall send its draft rules for approval to the European Commission by 13 January 2017. ICMA is carefully reviewing this DP, in particular in conjunction with member firm representatives involved in the work of the ERCC Operations Group, with a view to preparing an appropriate response; and is liaising with ISLA and other relevant trade associations.

The ICMA ERCC's broader work in relation to SFT reporting is one of the aspects encompassed in the short separate report on the, 10 February 2016, ICMA ERCC Operations Group Seminar, which can be found in this section of the ICMA Quarterly Report.

FSB: collateral re-use

On 23 February 2016, the FSB published its report, *Possible Measures of Non-Cash Collateral Re-Use*. The FSB considers that non-cash collateral is "re-used" when a market participant, such as a bank, receives securities as collateral in one transaction and subsequently sells, pledges or transfers this collateral in a second transaction. The FSB notes that collateral re-use plays an important role in the functioning of financial markets: it increases the availability of collateral, and consequently reduces transaction and liquidity/funding costs for many market participants, since a given pool of collateral assets can be re-used to support more than one transaction. At the same time, however, the FSB believes it may also present risks to the financial system, for instance by potentially increasing interconnectedness between market participants, and contributing to a build-up of excessive leverage of individual entities and in the financial system as a whole. The FSB concludes that it is therefore important for authorities to improve their understanding of collateral re-use practices and the potential impact of collateral re-use on financial stability.

This FSB consultative report (for comment by 22 April 2016) describes possible measures of non-cash collateral re-use and associated possible re-use metrics; and the related data elements, that could potentially be included in the FSB's global securities financing data standards – in which case authorities would be asked to report national/regional aggregates of these measures to the FSB. The ICMA ERCC is concerned about these proposals and their purported rationale, and will be responding accordingly to the FSB. The FSB's Data Experts Group (DEG) will develop recommendations on potential measures of "collateral velocity" (including measures of collateral re-use) and related data elements by the end of 2016.

NSFR

On 17 December 2015, the EBA published its report on the *Impact Assessment and Calibration of the NSFR*, recommending the introduction of the NSFR in the EU – broadly in line with the finalised Basel NSFR – to ensure stable funding structures. It appears clear to the ICMA ERCC, however, that the NSFR will significantly impact short-term markets. These effects are also increasingly relevant to market participants in Asia Pacific as Basel NSFR is implemented in the region, and ICMA has continued to advise regional policy makers on the potential effects of NSFR on the dynamics of domestic repo and bond markets.

The ICMA ERCC is intensely aware of the importance of collateral to the global financial system and of the vital role played by the repo market in facilitating the movement of collateral, such that it can be available when and where needed. In light of this the ICMA ERCC considers that there is a compelling case for careful impact study and consideration of potential re-calibrations to NSFR.

The ICMA ERCC anticipates that significant effects from the NSFR's impacts will be felt by all clients of the banking industry, be they corporates, sovereigns, or buy-side firms, such as asset managers, pension funds, insurance companies, money market funds, hedge funds, represent money invested from the real economy. Examples of a few of the problems which can be anticipated include:

- Banks being forced to hold billions of longer-term funding in relation to positions taken in the European repo market, in which data shows that almost two-thirds of outstanding volumes are traded for maturities of less than one month – there are significant costs in funding such a cautious mismatch of maturities.
- These much increased funding costs will be passed on to corporates, sovereigns, and buy-side firms, both through their direct involvement in the repo market and through the ways in which repo and collateral markets

more broadly underlie activities in financial markets.

- Compliance with NSFR at a Group level, where any offsets between available and required funding are maximised, does not remove the fact that actual, or implied, NSFR cost impacts will be experienced on a standalone subsidiary level and by particular business lines and trading desks – where corporate structures are likely to offer fewer natural offsetting effects, leading to significantly increased costs for those actually transacting with clients.
- RSF applicable to variation margin for derivatives creates specific, significant effects, which are expected to meaningfully impact behaviours.
- ASF factors incentivise banks to conduct repos < 6 months with Sovereigns/PSEs and non-financial corporates – albeit that Sovereigns/PSEs are not overly enthusiastic to engage in such repo market transactions and that non-financial corporates represent a small, and inconsistent, funding source for the repo market.
- Uneven implementation, including a number of timing issues, will distort the market, as different firms' experiences of NSFR vary.

The ICMA ERCC underscores that the impact of NSFR cannot be considered in isolation, but rather comes as a further part in an accumulation of pressures on the repo and collateral markets. Furthermore, potentially helpful mitigating factors included within the structure of NSFR are very limited in their scope. The ICMA ERCC will be seeking to assist authorities with the necessary process of implementing this important new element within the bank regulatory framework, in a market sensitive manner.

CSDR mandatory buy-ins: repo markets

In February 2016, ESMA finally published the draft regulatory technical standards (RTS) for CSDR mandatory buy-ins. ICMA and the European Repo and Collateral Council had long argued that the securities financing transactions (SFTs) should be out of scope of a mandatory buy-in regime, and that this could prove to be detrimental to repo and securities lending market liquidity. Following a lengthy consultation process, ESMA has proposed an exemption for SFTs with maturities less than 30 business days. Such an exemption would cover the majority of the European repo and securities lending markets, where there is a significant bias toward short-dated SFTs. The CSDR mandatory buy-ins regime is expected to come into force in the first half of 2018

More details of the draft RTS for mandatory buy-ins, including further potential complications, can be found in the Secondary Markets section of this Quarterly Report.

Contact: David Hiscock
david.hiscock@icmagroup.org

ICMA ERCC Operations Seminar 2016

On 10 February 2016, the ICMA ERCC Operations Group held its second cross-industry Operations Seminar, hosted by J.P. Morgan in London. This year's Seminar provided a good platform to discuss the numerous upcoming operational challenges for the management of securities financing transactions (SFTs), resulting not least from the different regulatory initiatives, such as SFTR and CSDR, that are currently under way and expected to radically change the way SFTs are processed today.

Nearly 100 representatives from across the industry, including SFT market participants from sell side and buy side, infrastructure providers, post-trade vendors and regulators, attended the Seminar, underlining the critical importance of the issues addressed. The event offered the opportunity to review the progress that has been made since the first ERCC Operations Workshop held in April 2015, including on the ICMA template for trade matching and affirmation of repo, which the Group published in December 2015. More importantly, the Seminar was also a useful forum to encourage further cross-industry discussion on concrete next steps going forward, including the need for more harmonisation of messaging standards and unique identifiers for repo post-trade processing.

In addition, the event also included an interactive panel discussion, moderated by Adam Bate, Co-Chair of the ERCC Operations Group, which provided valuable insights from different perspectives of the market on the challenges that securities financing markets are expected to face over the next years as well as on potential solutions. Panellists included representatives from ERCC member firms (both trading and operations level), infrastructure providers (both ICSDs were present) as well as representatives from the ERCC (Chairman Godfried De Vidts) and ISLA, the International Securities Lending Association (Chief Operating Officer Andrew Dyson). Encouraged by the success of the first two Seminars, the ICMA ERCC Operations Group is already looking forward to the next edition of this event. In the meantime, more details on the ERCC Operations Seminar 2016, including the final presentations, can be found on the ICMA website. For more information on the work of the ERCC Operations Group more generally, please have a look at the Group's webpage or contact Alexander Westphal, Secretary of the ERCC Operations Group.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org


Asset Management

by Patrik Karlsson and Dr. Nathalie Aubry-Stacey

Covered bonds

As part of the European Commission's work on Capital Markets Union (CMU), the Commission launched a consultation on covered bonds in the EU on 30 September 2015. The ICMA Covered Bond Investor Council (CBIC) responded to the consultation and noted the underlying assumption in the economic analysis that the extreme convergence of covered bond spreads before the crisis should be the norm and that subsequent events point to a sub-optimal fragmentation of markets within the European Union. With regard to the main question in the consultation, the two options for covered bond harmonisation, the CBIC noted that there was insufficient detail in the consultation to give a definitive view. Some CBIC members believed that voluntary convergence of national regimes would suffice, particularly if backed by measures expressing a preference for an EU legal framework with minimum standards based on current best practice.

Following the consultation, the European Commission helda whole day conference on covered bonds (all presentations areavailable).It is worth mentioning that theECB response to the consultationcame on the Friday prior to the conference covering price sensitivity discussions, covered bonds prudential treatment, and calls for reduction in reliance on ratings and for bettertransparency in the market. The response undoubtedly adds pressure for further standardisation.

At the conference, it was agreed that the current risk-weighting remained justified. (As regards the different treatment of covered bonds and ABS, it was deemed that the issue was not the favourable treatment of covered bonds, but how ABS were being penalised). The impact of the crisis was widely discussed, as well as its impact on spreads – but also the fact that analysing covered bond programmes since the crisis involved much more detailed work as covered bonds could not be compared like for like. It was also agreed that the sovereign risk would not be taken out of the equation, even through standardisation, but that it was not the first factor affecting pricing.

Investors were supportive of EU regulatory action as long as it did not disrupt the market. There was clearly a need for more clarity as regards the cover pool (SMEs not to be included). Of course, transparency was seen as a key element to help investors, but also ensuring that current best practices were preserved – there was a great deal of support forthe work of the EBA. National models were also defended, and it was agreed that a first step would be to adopt a European-wide coveredbond definition.

Following the conference, the CBIC reviewed the ECB response to the consultation and more

> **Investors were supportive of EU regulatory action as long as it did not disrupt the market.**

specifically the additional transparency requirements highlighted in the response.

In practice, the next step is for the Commission to review the responses received. There will be a study to deepen the Commission understanding ofthe covered bond market and impact of regulatory intervention. On the basis of these analyses the College of Commissioners will take a decision on the next steps.

Contact: Nathalie Aubry-Stacey
nathalie.aubry-stacey@icmagroup.org

Securitisation and the buy side

Since the European Commission launched its proposal for Simple, Transparent and Standardised (STS) securitisation on 30 September 2015, an AMIC working group has been actively engaged in promoting the importance of securitisation.

AMIC remains concerned at the lack of progress on amending Solvency II. AMIC is disappointed that the Commission did not propose an amendment to Solvency II alongside its proposal to revise CRR capital requirements for holders of STS securitisations. The main benefit of the STS framework is the capital benefit it will give to investors.

The delay in introducing changes to Solvency II until the STS legislation is agreed and published in the *Official Journal* is significant. Insurers will not be able to reflect the lower capital treatment of these products until many years after the framework has been proposed.

While the EU Council has already agreed its view on the legislation, progress in the European Parliament has been much slower. It seems that the text has become part of the negotiating process for another proposal, the European Deposit Insurance Regulation.

AMIC has still been involved in the engagement with MEPs as they begin to assess the legal text. AMIC joined AFME, EFAMA and Insurance Europe in a joint position paper, showing the broad consensus that exists in industry on the proposal. A separate position paper has been coordinated by PCS. AMIC was part of this process as well, and joined other signatories to the paper.

Meanwhile, the European Commission has not indicated when the accompanying proposal on Solvency II will be proposed, even though the proposal for bank capital changes in CRD IV was launched at the same time as the STS proposal.

> **The main benefit of the STS framework is the capital benefit it will give to investors.**

Some reports indicate that the timetable in the European Parliament for the STS Regulation could be considerably slower than initially anticipated. While the swift agreement in Council had given some hope that final agreement could be reached by the third quarter of 2016, it now looks like it will not be before the end of the year at the earliest, and some estimates put final agreement as late as 2018. AMIC will continue to engage with the various actors in this debate and urge a swift agreement to revive this important asset class.

Contact: Patrik Karlsson
patrik.karlsson@icmagroup.org

Fund liquidity

AMIC set up a Fund Liquidity Working Group in the summer of 2015. The group's terms of reference outlined its main tasks:

- Focus primarily on issues related to the liquidity of liabilities of investment funds, and on a secondary basis the liquidity of the assets as they are related (bearing in mind secondary market liquidity is covered in many other ICMA work streams).
- Agree the extent of the mismatch problem, including if possible data gathering among members.
- Explore options for action to raise awareness in the wider regulatory community about the tools available to investment funds to counteract "runs" on funds.
- Explore feasibility of further steps, including but not limited to academic papers or engagement with regulators.

Following its first meetings, the group decided that the best way to influence the debate on systemic risk in the asset management sector would be to produce a paper outlining the tools and practices available to fund managers in case of liquidity shocks. This was due to the widespread concern that the regulatory

> **AMIC and EFAMA hope that the paper will contribute to the international debate on systemic risk in asset management.**

community may have had the impression that funds were unable to address liquidity shocks.

The members of the working group agreed that the paper should be limited to European funds, legislation and market practices, even though the SEC launched a consultation on fund liquidity late in 2015. An IOSCO survey of its members' fund liquidity practices was published in late December 2015, which the working group decided to refer to in the paper.

Furthermore, the paper would focus on fund liabilities, rather than the external market liquidity conditions, although the two are related. The range of tools covers the AIFMD and UCITS Directive, and also market place tools, like swing pricing or redemption gates, available in some jurisdictions.

Finally, the group decided that it would be useful to suggest some recommendations on how to improve the landscape further.

EFAMA joined the working group and members agreed that the paper would be a joint effort between AMIC and EFAMA.

Although not formally published, the paper was promoted at the AMIC Council in Paris on 4 April 2016. The AMIC Secretariat organised a presentation and panel discussion on the topic of fund liquidity at the conference. Formal publication followed soon afterwards.

AMIC and EFAMA hope that the paper will contribute to the international debate on systemic risk in asset management.

Contact: Patrik Karlsson
patrik.karlsson@icmagroup.org

Bail-in: buy-side concerns

It was reported in the Fourth Quarter 2015 edition of this Quarterly Report that the ICMA Bail-In Working Group (BIWG) presented a discussion paper to the ECB setting out investors' concerns and information needs that arise from the implementation of the bail-in regime, how investors should evaluate the risks of investing in bank unsecured paper and what can be done to increase the transparency of the mechanisms of regulatory intervention.

As a direct response to recent regulatory actions in Portugal, the BIWG sent a further letter to the ECB in January 2016 again highlighting these concerns. The ECB responded in terms that they welcome the input of the BIWG and look forward to continued dialogue.

Further, recently reported developments include a call from Adam Farkas, Executive Director of the EBA, for openness on the level of capital required for each bank by the regulators to prevent contagion. Adam Farkas recently attended a meeting of the BIWG, which presented an opportunity for the group to share insights and to explore further some of the BIWG's concerns.

At the latest Financial Institution Issuer Forum (FIIF), issuers were encouraged to articulate the concerns of their investors, and how the issuers are addressing them. Not surprisingly, many of the investors' concerns mirror those of the BIWG members, which has resulted in the Steering Committees of the BIWG and the FIIF identifying commonalities and areas which can be explored further as a joined-up issuer/ buy-side group.

Contact: Katie Kelly
katie.kelly@icmagroup.org



Capital Market Products

by Nicholas Pfaff, Katie Kelly and Valérie Guillaumin

Green bond initiative

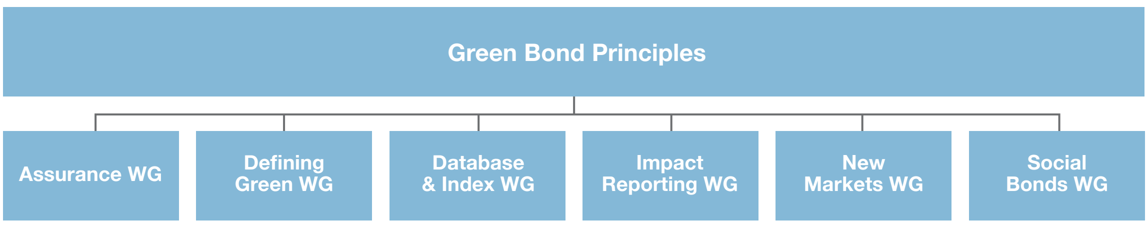
The Green Bond Principles (GBP) community continues to grow and has more than doubled in size in the last twelve months (now totaling 175 members and observers). Following the feedback provided by the 2015 summer consultation of the GBP community, six working groups (see below) were created to make progress on the key issues that were identified. Three have been operational since November and the remaining three have been individually launched since the New Year. Most of these working groups aim to provide input into to 2016 edition of the GBP.

More specifically, the Assurance WG is reviewing the practices of assurance providers while liaising directly with them. The Database and Index WG is looking at how GB issue information is communicated to the market and to financial information companies. Defining Green is reviewing the GBP Green Project categories, as well as taxonomies from the official sector and other sources. Impact Reporting is considering market practice in this area especially with reference to the work of leading International Financial Institutions in this domain. New Markets is considering the progress and implications of the further internationalization of the GBP. Finally, the Social Bond Principles WG has attracted participants with specific focus on social issues, and it is reviewing a draft Social Bond appendix to the GBP.

The new version of the Principles will be released during the 2016 AGM of the GBP which is scheduled to take place on 16 June 2016 kindly hosted by the EBRD in London. The AGM will follow the same format as last year with the formal proceedings open to members and observers only taking place in the morning. In the afternoon, a follow-on conference is being organized for all stakeholders. Early registrations for both events will soon be open on ICMA's website.

On the policy front, ICMA is also actively involved on behalf of the GBP in the G20's Green Finance Study Group (GFSG) coordinated by the People's Bank of China (PBOC) and the Bank of England. ICMA is focusing on the topic of "harmonising global green bond guidelines and standards to facilitate global green capital flows". This input will feed into a formal report to the G20 by mid-2016. ICMA is also a member of China's Green Finance Committee under the auspices of the PBOC, and has provided case studies, international market research, and specific policy recommendations to PBOC, NAFMII, and the Shanghai Stock Exchange. ICMA also contributed to the Securities and Exchange Board of India's green bond recommendations for the Indian market, which were largely based on the GBP.

The most significant events concerning GB market developments are on the one hand the February issue by Apple of a US$1.5 billion Green



Bond and, on the other, major transactions in the Chinese domestic GB for which official guidelines were released end 2015. Apple's transaction is possibly a landmark event that will contribute to the mainstreaming of the GB corporate market. The CNY10 billion (US$1.5 billion equivalent) of China Industrial Bank and the CNY20 billion (US$3 billion equivalent) of the Shanghai Pudong Development Bank points to the potential of the Chinese domestic GB market that some observers estimate can reach as much US$430 billion over the next five years.

Contacts: Nicholas Pfaff and Valérie Guillaumin
nicholas.pfaff@icmagroup.org
valerie.guillaumin@icmagroup.org

Pan-European private placement (PEPP) initiative

The PEPP Joint Committee (PEPP JC), which meets approximately every 6 months and comprises all PEPP market stakeholders, and the PEPP Co-ordination Committee (PEPP CC), which meets approximately every 2-3 months, held a series of meetings on 3 March 2016. These meetings provided an opportunity for ICMA to syndicate progress and information to the market, as well as to source market feedback.

The near-term output of the PEPP initiative is an update of the PEPP Guide, the first version of which was released in February 2015, which will be followed by a further round of promotion in the UK, Italy and Brussels.

The PEPP market is growing: according to Dealogic's most recent data, PEPP volume reached €8.4 billion in 2015, with 103 deals being priced during the year. Awareness is also increasing, as evidenced by the Alternative Finance study sponsored by Allen & Overy, reported in the First Quarter 2016 edition of this Quarterly Report.

So although the PEPP Guide remains fit for purpose, these indicators of growth merit an update of the PEPP Guide to facilitate PEPP issuance by elaborating on and clarifying certain areas. This will include inputs from issuers, as well as from the various PEPP Working Groups. In this regard, a code of best practice for amending a private placement transaction, which is being compiled by the Amendment Working Group, will be included in the next draft of the PEPP Guide. Clarifications from the Tax Working Group, which successfully contributed to the design of an exemption to withholding tax on qualifying private placements in the UK, will also be included, by way of seeking to facilitate the exemption in practice.

As previously highlighted, ICMA has been engaging with relevant parties on complementarities between PEPP and the international Schuldschein markets, with a view to including convergence points in the next version of the Guide, highlighting common best practice for market participants with respect to crossover issuers.

Aside from the update of the PEPP Guide, the Risk Management Working Group, which is run out of the French Euro PP Working Group, has defined its scope as considering, firstly, how best a company should present itself to be market-ready, and secondly, the benefit of financial analysis and credit scoring. ICMA is an observer on this group, and will assess any output relevant for the PEPP initiative.

Meanwhile, the Solvency II Working Group will be continuing its dialogue on a possible revision of the Solvency II framework, and in particular the recalibration of capital charges treatment of private placement.

Contacts: Nicholas Pfaff and Katie Kelly
nicholas.pfaff@icmagroup.org
katie.kelly@icmagroup.org

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The near-term output of the PEPP initiative is an update of the PEPP Guide.


International Regulatory Digest

by David Hiscock and Alexander Westphal

G20 financial regulatory reforms

On 11 January 2016 it was announced that the oversight body of the BCBS, the Group of Central Bank Governors and Heads of Supervision (GHOS), had endorsed the new market risk framework proposed in light of the fundamental review of the trading book. The GHOS also agreed that the BCBS would complete its work to address the problem of excessive variability in risk-weighted assets by the end of 2016. This programme will include the following key elements: (i) consultation on the removal of internal model approaches for certain risks (such as the removal of the Advanced Measurement Approach for operational risk); and (ii) consultation on setting additional constraints on the use of internal model approaches for credit risk, in particular through the use of floors. The GHOS will review the BCBS's proposals on the risk-weighted framework and the design and calibration of capital floors at or around the end of 2016. The BCBS will conduct a quantitative impact assessment during the year and, informed by the result of this assessment, will focus on not significantly increasing overall capital requirements.

The GHOS also discussed the final design and calibration of the leverage ratio, agreeing that the leverage ratio should be based on a Tier 1 definition of capital and should comprise a minimum level of 3%, together with additional requirements for G-SIBs. The GHOS will finalise the calibration in 2016 to allow sufficient time for the leverage ratio to be implemented as a Pillar 1 measure by 1 January 2018.

Following revisions to the Basel II market risk framework, introduced by the BCBS to address pressing deficiencies, a fundamental review of the trading book was initiated to tackle a number of structural flaws in the framework that were not addressed by those revisions. This has led to a revised market risk framework, which was published, on 14 January 2016, following its endorsement by the GHOS. The purpose of this revised market risk framework is to ensure that the standardised and internal model approaches to market risk deliver credible capital outcomes and promote consistent implementation of the standards across jurisdictions. The final standard incorporates changes that have been made following two consultative documents published in October 2013 and December 2014 and several quantitative impact studies.

The key features of the revised framework include:

- a revised boundary between the trading book and banking book;
- a revised internal models approach for market risk;
- a revised standardised approach for market risk;
- a shift from value-at-risk to an expected shortfall measure of risk under stress; and
- incorporation of the risk of market illiquidity.

The revised market risk framework comes into effect on 1 January 2019; and an explanatory note has been published to provide a non-technical description of the rationale and main features of these January 2016 revisions.

IOSCO's media release, of 22 February 2016, reports that its Board met for two days, in Madrid, to discuss and respond to the many ongoing and emerging challenges facing global securities markets. On recent market developments, Board members discussed the implications for global securities markets of slowing economic growth, declining commodity prices, continuing low or negative interest rates and market volatility. Members recognized the need to carefully monitor developments and continue to build resilience to ensure the markets they regulate will continue to be a sustainable source of finance to support economic recovery.

On identifying and responding to emerging risks, the meeting was preceded by round tables discussing (i) recent market developments and volatility in world capital markets; and (ii) the challenges and opportunities posed by fintech, which highlighted the potential new financial technologies can have to improve global market efficiencies and provide emerging market jurisdictions with the infrastructure needed to further develop their capital markets. The Board discussed and endorsed intensifying work on technological change, with a focus on harnessing the opportunities while mitigating the risks.

Amongst other things, the Board:

- agreed on further research on financial technology subsectors with particular relevance for securities regulators, including blockchain;
- supported further work on the use and regulation of automated advice tools in securities markets and understanding the risks arising from the use of cloud technology;
- discussed a report on IOSCO's work addressing the challenges of cyber risk;
- heard updates on the work of the Growth and Emerging Markets Committee on digitization and fintech;
- progressed work on the enhanced IOSCO Multilateral Memorandum of Understanding on cooperation and the exchange of information, with a view to seeking Presidents' Committee approval in Lima in May;
- supported further work on regulator powers to compel witness statements on behalf of a foreign securities regulator and another proposal about regulators taking enforcement action based on sanctions in foreign jurisdictions;
- heard updates on IOSCO´s work on securitization; and
- heard updates on revisions to IOSCO's Objectives and Principles of Securities Regulation and supporting Methodology; and the forward work plan for 2016.

FSB Chair, Governor Mark Carney, attended the first afternoon of the Board meeting and outlined the FSB priorities for 2016 in the context of the Chinese G20 Presidency for 2016. He confirmed the critical importance of IOSCO contributions to the ongoing FSB work on financial stability and highlighted the growing importance of capital market development to economic growth. Discussions with him on asset management, CCPs and market conduct were an opportunity for the Board to underscore and advocate IOSCO's shared objectives with the FSB, as well as ensuring consistent implementation of market reforms, building strong capital markets and responding to potential risks. Board members agreed to explore further opportunities to strengthen the cooperation between the two organizations; and, in the context of the Chinese G20 Presidency, also discussed IOSCO's contributions to work on G20 green finance initiatives and infrastructure financing.

A letter, dated 22 February 2016, from Mark Carney, Chair of the FSB, was sent to G20 Finance Ministers and Central Bank Governors in advance of their meeting in Shanghai on 26-27 February. In the letter, the FSB Chair notes that more difficult economic and financial conditions since the start of this year reflect in part downward revisions to the expected medium-term growth prospects of the world economy as a result of renewed appreciation of the structural challenges facing a number of advanced and emerging economies. More specifically in the financial sector they also reflect concerns that many banks have more to do to adjust their long-term business models to the lower growth/lower nominal interest rate environment and to the strengthened international regulatory framework. At the same time the greater resilience of the financial system resulting from that new regulatory framework will ensure that the financial system can better support jobs and growth in the short, medium and long term. Recent market turbulence really serves to underline the importance of continued progress in building resilient financial institutions and markets.

The letter goes on to set out the FSB's priorities for 2016 which are:

(i) Supporting the full and consistent implementation of post crisis reforms, while remaining ready to address any material unintended consequences.

(ii) Addressing new and emerging vulnerabilities in the financial system, including potential risks associated with market-based finance, asset management activities, conduct, correspondent banking and climate change.

(iii) Promoting robust financial infrastructure, working with the CPMI and IOSCO to assess policies on CCP resilience, recovery and resolvability, and recommending any necessary improvements.

The FSB will also be supporting the objectives of the Chinese G20 Presidency by:

(iv) Drawing lessons, working with the IMF and the BIS, from the practical application of macroprudential policy frameworks and tools; and

(v) Assessing the systemic implications of financial technology innovations, and the systemic risks that may arise from operational disruptions.

The letter describes in more detail the FSB's work programme to advance these and other goals during the Chinese G20 Presidency in 2016.

A communiqué was issued following the G20 Finance Ministers and Central Bank Governors Meeting, held on 26-27 February 2016, in Shanghai, China. Within this, paragraph 6 addresses ongoing financial regulatory reform, starting by stating: "We remain committed to timely, full and consistent implementation of the agreed financial reforms, including the Basel III and total-loss-absorbing-capacity (TLAC) standard." The paragraph then goes on to state that: "To this end we:

- encourage national authorities to strengthen cross-border cooperation, including in implementing effective cross-border resolution regimes and over-the-counter derivatives reforms, and to defer to each other when it is justified, in line with the St. Petersburg Declaration;
- support the work by the Basel Committee to refine elements of Basel III framework to ensure its coherence and maximize its effectiveness without further significantly increasing overall capital requirements across the banking sector;
- will continue to monitor and assess reform implementation and effects, including to address any material unintended consequences, including for emerging market and developing countries;
- support the work under way to improve the assessment methodology for G-SIIs and the further progress in developing the Insurance Capital Standard according to the agreed timeline;
- strongly encourage implementation of the agreed CPMI-IOSCO Principles for FMIs, and further strengthening the regulation and oversight of FMIs;
- look forward to further progress in identifying and addressing gaps related to resilience, recovery planning and resolvability of CCPs, including cooperation arrangements for CCPs that are systemic across multiple jurisdictions;
- continue to closely monitor, and if necessary, address emerging risks and vulnerabilities in the financial system, including those associated with shadow banking, asset management and other market-based finance;
- welcome the work by the BCBS and IOSCO on criteria for identifying simple, transparent and comparable securitizations;
- will review holistically changes in market liquidity and impact on market stability, and we will consider policy measures if necessary;
- welcome the ongoing work by the international organisations, as set out in the FSB work plan on the decline in correspondent banking services, and look forward to accelerated progress in assessing and addressing this issue as appropriate;
- welcome the planned work by the FSB, IMF and BIS to take stock of experiences and potential lessons with macroprudential frameworks and tools, and report back to us by our meeting in July; and
- remain committed to strengthen the financial inclusion agenda; and ask the Global Partnership for Financial Inclusion (GPFI) to produce a framework for implementing the G20 SME Finance Action Plan, and explore developing a set of high-level principles on digital financial inclusion, and improving data collection and indicators."

On 4 March 2016, the BCBS issued for consultation (for comment by 3 June 2016) proposed revisions to the operational risk capital framework. The new Standardised Measurement Approach (SMA) for operational risk builds on the BCBS's earlier consultation paper issued in October 2014. The SMA aims to address a number of weaknesses in the current framework. In particular: (i) it will replace the three existing standardised approaches for calculating operational risk capital as well as the Advanced Measurement Approach (AMA), thus significantly simplifying the regulatory framework; and (ii) it combines a financial statement-based measure of operational risk – the "Business Indicator" (BI) – with an individual firm's past operational losses, resulting in a risk-sensitive framework while also promoting consistency.

On 11 March 2016, the BCBS issued for consultation (for comment by 10 June) *Pillar 3 Disclosure Requirements – Consolidated and Enhanced Framework*, seeking to further promote market discipline through required disclosure. The proposed enhancements include the addition of a "dashboard" of key metrics; a draft disclosure requirement of hypothetical risk-weighted assets calculated based on the BCBS's standardised approaches; and enhanced granularity for disclosure of prudent valuation adjustments. The proposals also incorporate additions to the Pillar 3 framework to reflect ongoing reforms to the regulatory framework, including disclosure requirements for: the TLAC regime for G-SIBs; the proposed operational risk framework; and the final standard for market risk. It is also proposed to consolidate all existing Pillar 3 disclosure requirements of the BCBS framework, including the leverage ratio and liquidity ratios.

On 18 March 2016, the FSB published the *Second Thematic Review on Resolution Regimes*, which forms part of a series of peer reviews to support timely and consistent implementation of the *Key Attributes of Effective Resolution Regimes for Financial Institutions*. This peer review examines the range and nature of resolution powers available to authorities for the banking sector in FSB jurisdictions, as well as any requirements for recovery and resolution planning and resolvability assessments for domestically incorporated banks; and makes a number of recommendations to FSB jurisdictions to address identified gaps so as to fully implement the Key Attributes. By December 2016 jurisdictions will report to the FSB what actions they have taken, or plan to take (including implementation time frames), in order to address these gaps. As a follow-up to another review recommendation, the FSB will provide additional clarification and guidance in certain areas to assist jurisdictions in effective and consistent implementation of the Key Attributes, and to enhance, in collaboration with international financial institutions and other bodies, the sharing of experiences and practices on resolution regimes.

As announced on 31 March 2016, the FSB met in Tokyo to take forward its 2016 priorities, including the work it will deliver to the G20 Leaders at their Summit in Hangzhou in September. A key deliverable agreed at this meeting was elements of a public consultation to take place in mid-2016 on policy recommendations to address structural vulnerabilities from asset management activities. The FSB's priorities for 2016 are:

- supporting the full, timely and consistent implementation of post crisis reforms, while remaining ready to address any material unintended consequences;
- addressing new and emerging vulnerabilities in the financial system, including potential risks associated with market-based finance, misconduct, reduction in correspondent banking and climate risk; and
- promoting robust financial infrastructure, working with CPMI and IOSCO to assess policies on central counterparty (CCP) resilience, recovery and resolvability, and recommending any necessary improvements.

Contact: David Hiscock
david.hiscock@icmagroup.org

European financial regulatory reforms

The European Commission welcomed the entry into application, on 1 January 2016, of the Solvency II Directive. Solvency II is a revision of EU insurance and reinsurance law intended to improve consumer protection, modernise supervision, deepen market integration and increase the competitiveness of European insurers. Under the new system, European insurers are required to assess all the types of risk to which they are exposed and to manage those risks more effectively and with greater transparency.

The official launch of the Netherlands Presidency of the Council of the EU took place, on 7 January 2016. As part of this the Netherlands published the national programme for its Presidency, which takes an in-depth look at the priorities for the coming six months; and ties in closely with the recently published trio programme of the Netherlands, Slovakia and Malta, which applies from 1 January 2016 to 1 July 2017. The Netherlands has based its priorities for the Presidency on three principles: a Union that focuses on the essentials, a Union that creates innovative growth and jobs, and a Union that connects with society.

In respect of Economic and Financial Affairs the programme states, in summary, that the Netherlands Presidency:

- aims to further strengthen and streamline the European Semester; and continue work on certain aspects of the Five Presidents' Report;
- will work on the proposed European deposit insurance scheme and endeavour to ensure that the extra measures required to complete the Banking Union are developed further;
- seeks to complete the two proposed regulations on securitisations and will start to address the proposal to revise the Prospectus Directive, all as contemplated in the CMU Action Plan;
- will attend to necessary work on bank structural reform, where agreement has already been reached in the Council and trilogues will begin as soon as the EP has determined its position;
- anticipates the Commission will put forward a legislative proposal at the start of 2016 for a framework for CCP recovery and resolution;
- expects to start trilogue negotiations on the revision of the European directive on institutions for occupational retirement provision;
- will prioritise action against tax evasion and tax avoidance, including increasing transparency in efforts to tackle corporate tax avoidance, based on the package of measures agreed as part of the OECD's Base Erosion and Profit Shifting project;

- will publish an action plan for a more effective VAT regime, including VAT on cross-border transactions within the EU;
- may need to re-discuss FTT, if the leading group of Member States that have opted for closer cooperation in this area agree on a proposal for a directive; and
- will table the question of the EU budget system and the need to endow it with greater transparency, predictability and consistency.

On 8 February 2016, it was announced that ESMA and the ECB have concluded an MoU that will allow the exchange of information and cooperation to help both authorities in fulfilling their respective mandates. This MoU describes in general terms how the authorities will cooperate with one another in the performance of their respective tasks and mandate under EU law including in relation to financial institutions and markets. The framework proposed by the MoU covers cooperation in the field of statistics, risk management, supervision, market infrastructures and regulation.

On 11 February 2016, ESMA published its first Supervisory Convergence Work Programme 2016 (SCWP), which details the activities and tasks it will carry out to promote sound, efficient and consistent supervision across the EU. The priority areas for 2016 are:

- preparing for the sound, efficient and consistent implementation and supervision of MiFID 2/MiFIR;
- finalising the data and IT infrastructure needed to support the effective implementation and supervision of MiFID 2/MiFIR and MAR;
- facilitating the sound and consistent supervision of OTC derivatives markets and in particular of EU CCPs; and
- supporting the effective application of the European Commission's Capital Markets Union plan.

In addition, ESMA also aims to provide support to NCAs through supervisory briefings, workshops, live case forums and mediation assistance. Implementation of the 2016 SCWP will be monitored in the course of 2016 and priorities may be readjusted depending on developments during the year. It will also be used to inform ESMA's Annual Work Programme and its supervisory convergence work programme for future years, both of which will be risk-based.

On 12 February 2016, the European Commission released a joint statement regarding an EU-US Financial Markets Regulatory Dialogue (FMRD) meeting held, on 3 February 2016, in Washington.

It was announced that ESMA and the ECB have concluded an MoU that will allow the exchange of information and cooperation to help both authorities.

US participants included staff of the US Treasury, including the FIO, and independent regulatory agencies, including the Federal Reserve, the CFTC, the FDIC, and the SEC, as well as the OCC and the PCAOB; whilst EU participants included representatives of the European Commission, the ECB/SSM and the SRB. The participants held productive discussions and exchanged views on bank capital and liquidity measures, approaches to cross-border bank supervision, bank structural reform, recent developments in bank resolution, CCP resolution, OTC derivatives reforms, alternative investment fund managers, benchmarks, insurance, cooperation on audit oversight, and information sharing for supervisory and enforcement purposes. Looking forward, the participants committed to review the functioning of the dialogue with a view to improving US-EU cooperation on financial regulation.

Contact: David Hiscock
david.hiscock@icmagroup.org

Financial benchmarks

On 11 February 2016, the Commission sent a mandate to ESMA for technical advice on possible delegated acts concerning the incoming EU Benchmarks Regulation. The Commission's cover note explains that certain elements of this Regulation need to be further specified in delegated acts to be adopted by the Commission, which in most cases should enter into application by 18 months after the entry into force of the Regulation (which is expected to be in late May or early June 2016). The current mandate addresses only those, as the other delegated acts concern issues which become relevant only at a later stage, and requires ESMA to submit its advice by no later than four months after the entry into force of the Regulation.

On 15 February 2016, ESMA published a Discussion Paper (DP) regarding the technical implementation of the incoming Benchmarks Regulation. ESMA is seeking stakeholder's input to inform its future proposals on draft RTS and technical advice to the European Commission. The DP is seeking stakeholder's feedback in the following areas: definition of benchmarks; requirements for the benchmark oversight function; requirements for the benchmark input data; governance and control requirements for supervised benchmark contributors; authorisation and registration of an administrator; and transparency requirements regarding the benchmark methodology. ESMA held an open hearing on the DP, on 29 February 2016, in Paris; and will use the responses to its DP to develop detailed implementing measures on which it will publish a follow-up consultation in 3Q 2016.

On 26 February 2016, IOSCO published its report on the second review of the Implementation of IOSCO's, July 2013, *Principles for Financial Benchmarks* by Administrators of EURIBOR, LIBOR and TIBOR. This report is a follow-up to IOSCO's first review, which was published in July 2014, as reported in Issue 35 of ICMA Quarterly Report, and contained remedial recommendations for the three administrators intended to strengthen their implementation of the Principles. The second review found that all three administrators have been proactively engaged in addressing the issues raised by the first review.

In regard to the principles on governance, transparency and accountability, the second review found that a majority of the recommendations made by the first review had been implemented by the administrators. In regard to the Principles related to the quality of the benchmark, the second review found that all three administrators are in the process of conducting work to evolve the three benchmarks to further anchor them in transactions. IOSCO notes that the most part of this work is at the stage of planning and consulting and the level of implementation of the relevant Principles will depend on the outcome of the planned work, rather than the plans themselves. The second review makes further recommendations for each administrator, with relevant national authorities now expected to monitor the progress made by the three administrators to implement these recommendations.

On 17 March 2016, ICE Benchmark Administration (IBA) published its *Roadmap for the Evolution of ICE LIBOR*, which sets out evolutionary reforms, to be implemented this year, to reduce the risk profile of LIBOR and create the conditions for more banks to participate, including: incorporating transaction data into the LIBOR methodology to the greatest extent possible ; publishing a single, clear and comprehensive LIBOR definition; implementing a construct for ensuring the rate can adapt to changing market conditions with appropriate consideration for the interests of all stakeholders; and conducting a feasibility study on transitioning the calculation of LIBOR to a new IBA developed algorithm, using only transaction data to deliver an even more robust and sustainable rate for the long term.

Contact: David Hiscock
david.hiscock@icmagroup.org

Credit Rating Agencies

On 25 January 2016, ESMA held its open hearing on the issues set out in its Discussion Paper (DP) on the Validation and Review of CRA's methodologies and published the slides from the hearing which sum up the key themes and the DP questions. The publication of this DP was reported on in Issue 40 of ICMA Quarterly Report.

On 31 January 2016, ESMA welcomed the European Court of Auditors' report on ESMA's role as the single supervisor of CRAs in the EU. The report, which covers the period from the start of ESMA's CRA supervisory role, in July 2011, to September 2015, finds overall that ESMA has laid down good foundations for supervising CRAs in the EU in a short period of time but there is still room for improvement. This external evaluation will assist ESMA in improving its supervision of CRAs, and in several areas the report has recommended enhancements that ESMA will take into consideration in reviewing and developing its practices and procedures. ESMA's detailed response to the findings and recommendations can be found on pages 53 to 69 of the report.

On 5 February 2016, ESMA published its 2016 supervisory priorities for CRAs and trade repositories (TRs), as well as its annual report summarising the key supervisory work and actions undertaken during 2015. ESMA has seen a number of changes in the CRA and TR industries during 2015, with new applicants for registration in both sectors, and current authorised entities seeking to develop their businesses. ESMA identifies its supervisory priorities on the basis of risk assessment exercises conducted throughout the year; and in 2016 will focus its supervisory activities on (i) CRA governance and strategy and the quality of credit ratings; (ii) TR data quality and data access; and (iii) fees charged and information security for all supervised entities.

On 15 February 2016, EBA published final draft ITS on the mapping of External Credit Assessment Institutions' (ECAIs) credit assessments for securitisation positions. These ITS will be part of the Single Rulebook in banking aimed at enhancing regulatory harmonisation across the EU and will allow the credit ratings on securitisations assigned by registered CRAs to be used for the purposes of calculating institutions' capital requirements. These ITS specify the correspondence or "mapping" between credit ratings and credit quality steps that shall determine the allocation of appropriate risk weights to credit ratings issued by ECAIs on securitisations where the Standardised Approach (SA) or the Internal Ratings Based Approach (IRB) for securitisations are used.

In the short-term, these ITS maintain the current mapping in place for all ECAIs. The mapping is supported by the outcome of an impact analysis as well as by qualitative considerations; but the EBA is also considering developing a securitisation-specific systematic mapping methodology mainly based on the historical performance of securitisation ratings. These ITS include a proposal to review the mapping of securitisation ratings, especially where default of securitisation positions are observed and to regularly monitor the performance of issued securitisation ratings by assessing the appropriateness of the mapping for any particular ECAI.

On 24 March 2016, the BCBS released a consultative document (for comment by 24 June 2016) entitled *Reducing Variation in Credit Risk-Weighted Assets – Constraints on the Use of Internal Model Approaches*. This sets out a proposed set of changes to the Basel framework's advanced and foundation IRB approaches (which permit banks to use internal models as inputs for determining their regulatory capital requirements for credit risk, subject to certain constraints), including a number of complementary measures that aim to: (i) reduce the complexity of the regulatory framework and improve comparability; and (ii) address excessive variability in the capital requirements for credit risk. The final design and calibration of the proposals will be informed by a comprehensive quantitative impact study and by the BCBS's aim to not significantly increase overall capital requirements; and will take account of complementary work on the design and calibration of capital floors, based on standardised approaches.

Contact: David Hiscock
david.hiscock@icmagroup.org

OTC (derivatives) regulatory developments

EMSA's list of CCPs authorised to offer services and activities in the EU, in accordance with EMIR, was last updated on 3 March 2016; its list of third-country CCPs recognised to offer services and activities in the EU was last updated on 31 March 2016; its *Public Register for the Clearing Obligation* under EMIR was last updated on 31 March 2016; and its (non-exhaustive) list of CCPs established in non-EEA countries which have applied for recognition was last updated on 8 January 2016.

On 7 January 2016, ESMA announced that it has established three MoUs under EMIR, which establish cooperation arrangements, including the exchange of information, regarding CCPs established and authorised or recognised in Canada (Alberta, Manitoba, Ontario and/or Quebec) or Switzerland, and which have applied for EU recognition under EMIR. These MoUs are, for the most part, effective as of 30 November 2015. Then, on 26 January, ESMA announced its establishment of two further MoUs under EMIR – with the Mexican Comisión Nacional Bancaria y de Valores (effective 26 January) and the South African Financial Services Board (effective 30 November 2015). A further announcement was made by ESMA on 22 March 2016, covering MoUs (effective 15 March) with the applicable South Korean authorities.

Article 85(3) of EMIR, *inter alia*, tasks ESMA with delivering a report on "the extension of the scope of interoperability arrangements under Title V to transactions in classes of financial instruments other than transferable securities and money-market instruments". Article 85(4) then states: "The Commission shall, in cooperation with the Member States and ESMA, and after requesting the assessment of the ESRB, draw up an annual report assessing any possible systemic risk and cost implications of interoperability arrangements. The report shall focus at least on the number and complexity of such arrangements, and the adequacy of risk-management systems and models. The Commission shall submit the report to the European Parliament and the Council, together with any appropriate proposals. The ESRB shall provide the Commission with its assessment of any possible systemic risk implications of interoperability arrangements." Against this background, the European Commission asked the ESRB to provide its assessment of interoperability arrangements by 31 January 2016; and the ESRB's report was duly published on 18 January, covering both the assessment required by Article 85(4) of EMIR and the ESRB's response to the Commission.

In the ESRB's opinion, CCP interoperability arrangements can have benefits but they can also have systemic risk implications, since the establishment of interoperable links introduces a significant element of complexity into the overall risk management system and adds a channel for direct contagion between two or more CCPs; and the additional complexity appears to be directly proportionate to the complexity of the products which might be cleared through the link. The most significant implications of interoperability arrangements

"CCP interoperability arrangements can have benefits but they can also have systemic risk implications.

in terms of systemic risk materialise in the event of an interoperable CCP defaulting, so the ESRB points to the need to carefully develop CCP recovery and resolution procedures. The report also identifies a number of other policy issues which, in the ESRB's opinion, merit further consideration from a macroprudential point of view.

On 2 February 2016, ESMA issued a set of opinions regarding the exemption of 16 UK pension schemes from the obligation to centrally clear OTC derivative contracts under EMIR. Pension scheme arrangements meeting certain criteria were granted a transitional exemption from the clearing obligation under EMIR; but to be so exempted pensions schemes have to ask their national competent authority, which before deciding on an exemption needs to obtain the opinion of ESMA (to be provided in consultation with EIOPA). After such exemptions are granted by the national competent authority (in these particular cases the FCA), ESMA will publish the list of the types of entities and arrangements that have been exempted.

On 4 February 2016, ESMA issued an update of its Q&A on practical questions regarding EMIR. The updated Q&A includes new answers regarding CCP's default management, competent authorities' access to trade repository data and reporting of notional in position reports. A further update, issued on 12 February 2016, clarifies how the clearing obligation should apply to swaps resulting for the exercise of a swaption, including during the frontloading period and the approach on frontloading that was adopted in ESMA's first RTS on the clearing obligation, which entered into force on 21 December 2015.

On 10 February 2016, the European Commission and the US CFTC announced a common approach regarding requirements for CCPs, which is designed to ensure that European CCPs will be able to do business in the US more easily and that US CCPs can continue to provide services to EU companies. Following from this, on 15 March, the European Commission announced its determination that the US CFTC has the equivalent requirements as the EU in regulating CCPs. This means that CCPs registered with the CFTC will be able to obtain recognition in the EU; and that market participants will thus be able to use them to clear standardised OTC derivative trades as required by EU legislation, while the CCPs will remain subject solely to the regulation and supervision of their home jurisdictions. Those CCPs wishing to obtain recognition must apply to ESMA, which will then process the application in cooperation with the relevant regulators of the applicant CCP. Allied to this, the US CFTC announced its approval of the substituted compliance framework on 16 March.

On 19 February 2016, ESMA published an update of its Public Register for the Clearing Obligation. This update concerns the so-called category 1 clearing members, which are either financial counterparties or non-financial counterparties above the clearing threshold who are clearing members of a CCP. Category 1 firms will be the first firms to start the central clearing of certain types of derivative contracts by 21 June 2016; and ESMA has worked with NCAs and CCPs to facilitate the identification of those Category 1 counterparties. All EU CCPs and third-country CCPs which are authorised or recognised to clear OTC interest rate swaps in the G4 currencies have now published on their websites the lists of their Category 1 clearing members in a common format.

On 1 March 2016, ESMA issued its final report on systemic risk and cost implications of interoperable arrangements between CCPs established under EMIR. First, this report details how the concept of interoperability has emerged in the EU and the general EU regulatory framework applicable to it as described in Title V of EMIR and in the Guidelines and Recommendations for establishing consistent, efficient and effective assessments of interoperability arrangements (the Guidelines and Recommendations).

Then it provides a mapping and a description of the current interoperability arrangements between EU CCPs for different product types ie EU equities, EU government bonds and EU Exchange-Traded Derivatives (ETDs). Further an assessment of the benefits and impacts on costs for the relevant parties is included.

Finally, the last section is dedicated to the prudential analysis at CCP level and the risk management tools used to mitigate the potential risks arising from interoperability, including some quantitative data. The key risk under consideration is the counterparty credit risk resulting from exposures between interoperable CCPs. Whilst there are scenarios under which under-collateralisation can materialise, EMIR and ESMA Guidelines and Recommendations address how these cases should be catered for via inter-CCP arrangements. Along those lines, the evidence collected on the current CCP practices show that EU CCPs have set-up mechanisms to adequately mitigate potential risk of under-collateralisation, even in cases where re-use is permitted. This report is being submitted to the European Commission and is expected to feed into the report on any possible systemic risk and cost implications of interoperability arrangements that the Commission shall prepare and submit to the European Parliament and the Council.

Also on 1 March 2016, the European Commission announced a decision implementing the clearing obligation under EMIR with respect to some types of credit default swaps (CDS). This Delegated Regulation refers in particular to certain CDS that are denominated in euro covering some European corporates. This clearing obligation will enter into force subject to scrutiny by the European Parliament and Council; and will be phased in over three years to give extra time for smaller market participants to comply.

On 9 March 2016, the Joint Committee of the ESAs (EBA, EIOPA & ESMA) published the final draft RTS outlining the framework of EMIR. These RTS cover the risk mitigation techniques related to the exchange of collateral to cover exposures arising from non-CCP cleared OTC derivatives. They also specify the criteria concerning intragroup exemptions and the definitions of practical and legal impediments to the prompt transfer of funds between counterparties. The draft RTS (i) prescribes that for OTC derivatives not cleared by a CCP counterparties have to exchange both initial margin and variation margin; (ii) outlines the list of eligible collateral for the exchange of margins, the criteria to ensure the collateral is sufficiently diversified and not subject to wrong-way risk, as well as the methods to determine appropriate collateral haircuts; (iii) lays down the operational procedures related to documentation, legal assessments of the enforceability of the agreements and the timing of the collateral exchange; and (iv) covers the procedures for counterparties and competent authorities related to the treatment of intragroup derivative contracts.

The RTS will be applied in a proportionate manner to allow counterparties to phase in the requirements. Therefore, whilst the RTS propose that the requirements will enter into force on 1 September 2016, the requirements for the initial margin will, at the outset, apply only to the largest counterparties until all counterparties with notional amounts of non-CCP cleared derivatives in excess of €8 billion are subject to the rules, as from 2020.

Contact: David Hiscock
david.hiscock@icmagroup.org

Market infrastructure

ECB: Contact Group on Euro Securities Infrastructures (COGESI)

The latest COGESI meeting took place, on 18 February 2016, in Frankfurt. Besides the usual general review of recent euro market infrastructure developments, members of the Group discussed the impact of recent regulation in the post-trade space, in particular the CSDR rules on settlement discipline and requirements on account segregation to be introduced by the CSDR and other EU laws. In addition, the Group also looked at possible activities for the harmonisation of collateral management arrangements and services. This discussion followed up on a questionnaire on this issue which COGESI members had been asked to complete. Finally, during the meeting the Group also exchanged views on a questionnaire prepared by the CPMI, which had been circulated as a basis for an update to its 2010 report on *Strengthening Repo Clearing and Settlement Arrangements*.

ECB: Money Market Contact Group (MMCG)

The latest meeting of the MMCG was held on 15 March 2016. No documents have been published yet for this meeting. The full summary and other documents of the previous MMCG meeting, of 8 December 2015, are however now available on the ECB website. At the December MMCG meeting the ECB presented the results from the latest quarterly Money Market Survey (3Q 2015), which was followed by a discussion on recent euro money market developments based on a presentation by Belfius. Under this agenda item, members also reviewed the impact of excess liquidity on money markets in Europe, in particular on market turnover. This discussion was introduced by a presentation given by Landesbank Baden-Württemberg. The next meeting of the MMCG has been scheduled, for 9 June 2016.

ECB: Bond Market Contact Group (BMCG)

The BMCG last met on 19 January 2016. A full summary of the meeting as well as several presentations are available on the ECB website. The main discussion item on the agenda was the evolution of electronic trading and the growth of automated trading strategies. The discussion included presentations on automated trading strategies both from a sell-side (Citi) and a buy-side (Union Investment) perspective as well as a presentation by ICMA Chief Executive Martin Scheck on ICMA's Electronic Trading Platforms Mapping Study, published in October 2015 and regularly updated since then. In addition, the Group also reviewed other bond market developments and had a longer discussion on the transmission mechanism of the ECB's ongoing Asset Purchase Programme (APP), again from a sell-side as well as from a buy-side perspective. In this context, the ECB presented some findings on recent developments in market-based indicators of inflation expectations.

The next quarterly BMCG meeting will take place on 7 April 2016. A tentative agenda for the meeting has been published and includes discussions on the ongoing reform process in relation to money market benchmarks, the impact of the low or negative interest rate environment as well as a discussion on banks' changing fixed income business models and the implications for bond market liquidity, trading venues and investors.

ECB: The Eurosystem's "Vision 2020"

On 15 February 2016, the ECB launched a public consultation on the *Future of the Eurosystem's RTGS services*, focusing in particular on the planned integration of the TARGET2 and TARGET2-Securities platforms. The consultation was published as part of the Eurosystem's broader "Vision 2020" initiative on the future of Europe's financial market infrastructure, which was first announced in October 2015 in a speech by Yves Mersch (Member of the ECB's Executive Board). This wider initiative is based on three main pillars. The present consultation focuses on the first pillar only, which aims to explore synergies between TARGET2 and T2S. In addition, in the context of the 'Vision 2020' project the ECB will also consider the development of a pan-European instant payments solution (Pillar 2) and possibilities to further harmonise collateral management arrangements and make the mobilisation of collateral for use in Eurosystem credit operations more efficient (Pillar 3). The deadline for stakeholders to respond to the current consultation on RTGS services was 4 April 2016. Within ICMA, the ERCC Operations Group submitted a response to the consultation.

ECB: New Market Infrastructure Board established

The Governing Council of the ECB approved the establishment of a Market Infrastructure Board (MIB) on 16 March 2016. The new body will support the operation and development of Eurosystem market infrastructure services. Marc Bayle, Director General Market Infrastructure and Payments at the ECB, will take up the role of Chair until 31 January 2017, when the MIB's first term will expire. The MIB can meet in different compositions and will initially be responsible for TARGET2 and T2S (where it continues to meet as the T2S Board). Moreover, the existing Eurosystem/ESCB Payments and Settlement Systems Committee has been renamed as the "Market Infrastructure and Payments Committee" to indicate the changing focus of its mandate. Marc Bayle has been appointed as Chair until 31 December 2016.

ECB: TARGET2-Securities (T2S)

On 2 February 2016, the T2S migration plan was again slightly revised to accommodate the Baltic CSDs' migration in the final wave in September 2017. Initially the three Baltic CSDs were scheduled to migrate within Wave 4 in February 2017. The revised migration plan was approved by the Governing Council of the ECB, on 18 March 2016.

The roll-out of T2S has moved forwards as the Portuguese and Belgian central securities depositories (CSDs) – Interbolsa and National Bank of Belgium Securities Settlement System (NBB-SSS) – successfully completed their migration activities, as scheduled, over the Easter weekend and started operating on the platform as of 29 March 2016. These two CSDs made up the second wave of the approved revised T2S migration plan. Final preparations are also under way for the following larger third migration wave scheduled for September 2016. The September migration will include the T2S go-live of Euroclear's three ESES CSDs from Belgium, France and the Netherlands, which had initially been scheduled for March 2016, as well as that of VP's two CSDs from Denmark and Luxembourg.

The T2S Advisory Group (AG) last met on 17 and 18 February 2016. The agenda of the meeting included updates from the Operations Managers Group (OMG) on the latest T2S operations, including figures on settlement efficiency and overall volumes which showed that in January already more than 1.8 million transactions with a value of close to €9,700 billion were processed through T2S with a settlement efficiency rate of 96.21% in terms of volume or 99.46% in terms of value. Members of the AG also discussed the T2S Programme status, including the latest changes to the migration timeline and received updates from the different T2S governance bodies and sub-groups, in particular the T2S Board, the CSD Steering Group (CSG), the Change Review Group and the Directly Connected Parties Group. The relevant updates from each Group are available on the AG's website. Finally, the Group dedicated, as usual, much time to review recent progress in relation to the T2S harmonisation work stream. Several briefing notes and reports on the different harmonisation activities were discussed and approved by AG members and subsequently published on the ECB website.

Probably most importantly, AG members approved the *Sixth Harmonisation Progress Report*, which was published subsequently, on 18 March 2016. As previous editions, the Sixth Harmonisation Report provides a comprehensive overview of progress on all the 24 harmonisation activities pursued in the context of the T2S project, divided into 16 priority 1 and eight priority 2 activities. The report shows good progress towards full compliance with the common T2S standards in all areas, albeit with a few remaining gaps. In particular, as regards level 1 priority activities, corrective action is still needed in some markets in relation to the T2S corporate action standards. The key gap to completing the high-priority T2S harmonisation activities remains however the definition and implementation of a common settlement discipline regime, which relies on the parallel adoption process of the EU CSD Regulation which will harmonise settlement discipline rules across Europe.

An interesting high level overview of all the different aspects of T2S can be found in the report *T2S in 2015*, the Annual Report of the Eurosystem's flagship project, published in February 2016. The report recaps the road to the T2S launch in July 2015 and provides some interesting facts, figures and charts on the first months of T2S operations. It also provides an overview of the headline financial aspects of the T2S project and its timeline. Finally, the report reflects on the importance of T2S for market infrastructure integration in Europe more generally, in particular in the context of broader initiatives such as the EU's Capital Markets Union initiative and the Eurosystem's "Vision 2020" (see above).

On 8 April 2016, the Eurosystem will hold the first Focus Session on market infrastructure developments, hosted by the Banco de España in Madrid. The event is open for market participants and builds up on the good experience with the previous T2S Info Sessions, but will broaden the range of topics discussed beyond T2S and the post-trade world to address current market integration topics more generally. The programme as well as further information on the event is available on the event's webpage.

Bank of England: Annual Report on Supervision of FMIs

On 4 March 2016, the Bank of England published its Annual Report on the supervision of financial market infrastructures, which sets out how the Bank exercised its responsibilities for FMI supervision over the past year. Areas of focus included enhancing cyber resilience; increasing the robustness of a range of financial risk mitigants across FMIs; and improving the governance of FMIs. The CPMI and IOSCO independently assessed the Bank's supervision of FMIs against the responsibilities set out in the CPMI-IOSCO Principles for FMIs, and concluded that all responsibilities were fully observed. The Annual Report also outlines the Bank's priorities for 2016-17 – for example, the Bank is taking an active role in shaping and delivering several elements of the international regulatory CCP workplan published in April 2015 by the FSB, together with the BCBS and CPMI-IOSCO.

European Commission

In early February, the Commission announced the composition of its newly established post-trade expert group, the European Post-Trade Forum (EPTF). The Group was launched in the context of the Commission's CMU initiative and follows up on the work undertaken by its predecessor post-trade groups, such as the EPTG. ICMA aims actively to contribute to the discussions to assess ways to remove remaining barriers in the post-trade space in Europe, in particular in view of facilitating crucial cross-border collateral flows.

The first meeting of the EPTF took place, on 4 March 2016, and the Group will continue to meet on a monthly basis. The 4 March agenda identifies the meeting objectives as being endorsement of EPTF's work plan; identification of key initiatives/developments in post-trading; obtaining an initial understanding on EU post-trading landscape; and launching of Phase 1, agreement on organisation and next steps. A summary note of the meeting has been published, together with eight presentations provided by various meeting participants.

European Securities and Markets Authority (ESMA)

On 5 February 2016, ESMA published the *Annual Report on the Supervision of Credit Rating Agencies and Trade Repositories*. The Report provides a comprehensive overview of the direct supervisory activities carried out by ESMA during 2015 regarding both types of institutions and outlines ESMA's main priorities in these areas for 2016.

European Parliament

On 23 February 2016, the European Parliament's Committee on Economic and Monetary Affairs (ECON) published a draft own initiative report on *Virtual Currencies* and distributed ledger technology, calling for a flexible and smart regulatory response to such financial innovation. The report was prepared by MEP Jakob von Weizaecker and is expected to be adopted in the ECON Committee by the end of April. With the report the Parliament is adding itself to the long list of policy makers that have been looking at blockchain and its potential implications for financial markets and regulators.

Global Legal Entity Identifier System (GLEIS)

In October 2015, the Global LEI Foundation (GLEIF) took over as central operating unit of the GLEIS and is now responsible among other things for the accreditation and monitoring of Local Operating Units (LOUs), which handle the actual issuance and distribution of the 20-digit LEI codes in their respective jurisdiction. Applications that have been received before October 2015, are however still processed by the LEI Regulatory Oversight Committee (LEI ROC), the supervisory authority of the GLEIF. Since the last edition of the Quarterly Report, two new entities have received endorsement as LOUs from the LEI ROC: KDD from Slovenia received this status on 20 January 2016 and IRN from Portugal on 10 February 2016, increasing the total number of endorsed LOUs to 30. The total number of LEIs issued by these 30 LOUs around the globe had reached close to 430,000 by the end of March 2016. All those LEIs are freely accessible through the Global LEI Index, a web based search tool launched by the GLEIF in October last year. A new Data Quality Management Program was announced by the GLEIF on 9 February 2016 and is hoped to ensure on an ongoing basis the integrity of the extensive data pool of LEIs.

Following two rounds of consultation in the course of 2015, the LEI ROC published, on 10 March 2016, the final version of its report on *Collecting Data on Direct and Ultimate Parents of Legal Entities in the Global LEI System - Phase 1*, which outlines the policy process for collecting this data and will be implemented within the GLEIS.

BIS: Committee on Payments and Market Infrastructures (CPMI)

Jointly with IOSCO, the CPMI is working on harmonised standards for Unique Trade Identifiers (UTIs) and Unique Product Identifiers (UPIs) for OTC derivatives. Following the end of the latest consultation on the Harmonisation of UPIs which had been published in December 2015, all the comments received have now been published. Based on the feedback received, CPMI-IOSCO are now working on their final guidance which is expected to be published later this year.

On 31 December 2015, the CPMI published its annual *Statistics on Payment, Clearing and Settlement Systems* in the CPMI countries, the so-called Red Book, based on 2014 figures. The Report contains comparative tables with aggregate figures as well as detailed tables for each of the CPMI markets individually.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org

Macroprudential risk

Published on 14 January 2016, *Is Macroprudential Policy Instrument Blunt?* is a BIS working paper. The authors note that macroprudential instruments have attracted an increasing amount of attention as potentially the best tools for stabilizing boom-and-bust cycles, because, in contrast to short-term interest rates, macroprudential instruments are regarded as particularly precise tools that act only on the area of concern. Focusing on the case of a Japanese government implemented policy instrument called Quantitative Restriction (QR), the authors conduct an empirical examination to determine if this is the case. QR explicitly required banks to curb their lending to the real estate industry and related activities, and was used in the wake of the credit boom. The authors find that QR affected the aggregate economy as well as the real estate sector and land prices. In examining why QR was a "blunt" instrument, they find evidence that shocks to QR affected the aggregate economy by damaging the balance sheets of banks and non-financial firms.

On 21 January 2016, the CGFS and the Markets Committee released two reports on the structure and liquidity of fixed income markets. The CGFS report, *Fixed Income Market Liquidity* finds signs of greater fragility, with liquidity conditions being more susceptible to disruptions, such as sudden stops of liquidity in key segments of the market and a deterioration of market depth metrics. The report identifies the key drivers of the change as (i) the rise of algorithmic trading in fixed income markets, which may accelerate the rate at which seemingly ample liquidity can evaporate after the first signs of stress; (ii) banks' trimming of trading-related exposures in response to lower risk appetite in the wake of the financial crisis and to more demanding regulatory requirements; and (iii) unconventional monetary policies, which can give rise to crowded trades and one-sided risk expectations on the part of market participants.

The Markets Committee report, *Electronic Trading in Fixed Income Markets*, focuses on the first driver and finds that the rise of electronic trading in fixed income markets tends to facilitate the matching of buyers and sellers. This improves market quality in normal times, but may also mean less robust liquidity conditions in times of stress. A survey of more than 30 electronic trading platform providers across the world shows a 40% increase in average daily trading volume between 2010 and 2014. Findings in the report also suggest that automated trading has picked up, although it remains less prominent than in other asset classes.

On 26 January 2016, the ESRB published an occasional paper *Indirect Contagion: the Policy*

Problem, which explores a framework for identifying and managing indirect contagion – the spreading of financial shocks through channels other than the direct contractual relations of financial actors. The paper has identified two classes of mechanisms that are present in indirect contagion: a price channel and an information channel. Prices transmit shocks to otherwise unrelated parties in the financial system when they hold correlated securities. Information, or a lack of accurate information, leads to defensive behaviour by market participants, which amplifies the impact of negative shocks.

The paper observes that, since indirect contagion is the spreading of market failures through the financial system, existing reforms aimed at making both individual actors and the system as a whole stronger will also contribute to containing indirect contagion. In addition, the paper discusses three possible policy innovations which could help authorities to effectively and efficiently contain indirect contagion: the macroprudential use of time-varying and cross-sectional liquidity regulation; restrictions on margins and haircuts; and principles of the effective use of authorities' informational advantage.

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On 29 January 2016, the ESRB announced its approval of two recommendations, addressed to the national and European institutions responsible for implementing macroprudential policies, that expand the European macroprudential policy framework. The first recommendation concerns the mandate given by the CRD to the ESRB in the area of counter-cyclical buffer rates for banks' exposures to jurisdictions outside the EEA (third countries) and is designed to ensure that the same counter-cyclical buffer rate for exposures to a particular third country would typically apply across the EU. The second recommendation deals with cross-border effects of macroprudential measures, setting out the framework for dealing with these cross-border effects and establishing a mechanism for voluntary reciprocity with regard to these measures – it is intended to cover all macroprudential measures, irrespective of which part of the financial system they address.

In addition, the ESRB has published the following documents:

- Decision ESRB/2015/3 on the assessment of the materiality of third countries for the EU's banking system, which sets out a process to identify those third countries to which the EU banking system has material exposures;
- Decision ESRB/2015/4 on extending the mandate of the ESRB Assessment Team for macroprudential policy measures to include consideration of counter-cyclical buffer rates for banks' exposures to third countries and cross-border effects of macroprudential measures; and
- An amended version of Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector.

On 23 February 2016, the ESRB launched a new Working Paper Series dedicated to macroprudential policy, with two applicable papers being published. The first of these papers, *Macro-financial Stability under EMU*, examines the cyclical behaviour of country-level macro-financial variables under EMU. The author finds that Monetary Union strengthened the covariation pattern between the output cycle and the financial cycle, while macro-financial policies at national and area-wide levels were insufficiently counter-cyclical during the 2003-2007 boom period. In the conclusions it is stated that "The failure to implement sufficiently countercyclical macroprudential and fiscal policies during the boom phase was costly, as was the absence of effective area-wide crisis management institutions once the crisis emerged. While there has been considerable progress in remedying these policy and institutional failures, much remains to be done, with the recent Five Presidents' Report outlining the range of reforms required to ensure a more robust Monetary Union. Whether Europe has the political appetite to implement these reforms is a major question for the coming years."

The second paper, *Macroprudential Supervision:From Theory to Policy*, observes that financial supervision focuses on the aggregate (macroprudential) in addition to the individual (microprudential); but that an agreed framework for measuring and addressing financial imbalances is lacking. Going beyond banking, the authors propose a holistic approach for the financial system as a whole. Building on their model of financial amplification, the financial cycle is the key variable for measuring financial imbalances; and the cycle can be curbed by leverage restrictions that might vary across countries. The authors go on to make concrete policy proposals for the design of macroprudential instruments to simplify the current framework and make it more consistent, indicating that constraining the financial cycle is likely to need a leverage ratio set above the current three percent figure and applied on a system-wide basis.

Also on 23 February 2016, EBA published the periodical update to its Risk Dashboard summarising the main risks and vulnerabilities in the banking sector on the basis of the evolution of a set of risk indicators across the EU. Data in this Risk Dashboard shows a further improvement of banks' capital position for the third quarter 2015 and illustrates that there has been further improvement in asset quality – albeit that the NPL ratio remains high and poses a significant concern for supervisors. Overall, the data shows that profitability is still low and the average return on equity (RoE) – not seasonally adjusted – decreased. Subsequently, on 24 February 2016, EBA released the methodology and macroeconomic scenarios for the 2016 EU-wide stress test, which is designed to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks to economic shocks. EBA expects to publish the results of the exercise in early 3Q 2016.

The G20 Data Gaps Initiative (DGI), which aimed at addressing the information needs that were revealed by the 2007/2008 global financial crisis, concluded its first phase and started a second phase (DGI-2) with the endorsement of G20 Finance Ministers and Central Bank Governors in September 2015. The DGI-2 recommendations maintain the continuity of DGI-1 but, reflecting the evolving policy needs, focus more on datasets that support the monitoring of risks in the financial sector and the analysis of the inter-linkages across the economic and financial systems. Published on 1 March 2016, G20 *Data Gaps Initiative II: Meeting the Policy Challenge* is an IMF staff working paper which presents the DGI as an overarching initiative, bringing together various statistical frameworks for a complete picture of the economic and financial system to support the work of policy makers.

On 2 March 2016 IOSCO published its *Securities Markets Risk Outlook 2016*, which identifies and examines key trends in global financial markets and the potential risks to financial stability. The Outlook is a forward-looking report focusing specifically on issues relevant to securities markets and on whether these may be, or could become, a threat to the global financial system; and for this edition of the Outlook the scope goes beyond financial stability, to also include IOSCO's two other key objectives: investor protection and market efficiency. The analysis in this Outlook has benefited from the growing availability of data on securities markets, although data gaps still exist: and has drawn on comprehensive inputs from experts in the markets, the academic world and the regulatory community, through interviews, research reports and an IOSCO survey conducted in March/April 2015.

This Outlook first examines key trends in global financial markets and their impact on securities markets. It focuses on:

- the impact on securities markets from interventions of central banks worldwide;
- the impact on securities markets from falling commodity prices and uncertainty over global growth trends;
- general growth trends in corporate bond, equity and securitized product markets;
- recent trends in emerging market securities markets related to leverage, capital flows, and market-based financing;
- the increasing digitalization of financial markets and potential for technological disruptors.

The Outlook also identifies and examines, in depth, four potential risk areas: (1) corporate bond market liquidity; (2) risks associated with the use of collateral in financial transactions; (3) harmful conduct in relation to retail financial products and services: and (4) cyber threats. Furthermore, in light of the current debate over its systemic importance and the regulatory work underway, this Outlook additionally discusses the issues around the asset management industry. To enhance the understanding of the fund industry, there is a need for further work to which IOSCO and its members are actively contributing. The key risks addressed in last year´s Outlook -- search for yield, capital flows to emerging markets, central clearing, use of collateral, and governance and culture of financial firms – remain on IOSCO´s long list of risks, continue to be monitored and are being addressed by IOSCO policy work.

Also on 2 March 2016, the BCBS published the results of its latest Basel III monitoring exercise. Data have been provided for a total of 230 banks, comprising 101 large internationally active banks ("Group 1 banks", defined as internationally active banks that have Tier 1 capital of more than €3 billion) and 129 "Group 2 banks" (ie representative of all other banks). On a fully phased-in basis, data as of 30 June 2015 show that all large internationally active banks meet the Basel III risk-based capital minimum Common Equity Tier 1 (CET1) requirements as well as the target level of 7.0% (plus the surcharges on G-SIBs, as applicable). Under the same assumptions, there is no capital shortfall for Group 2 banks included in the sample for the CET1 minimum of 4.5%; and for a CET1 target level of 7.0%, the shortfall has narrowed from €1.5 billion to €0.2 billion since the previous period.

The monitoring reports also collect bank data on Basel III's liquidity requirements. Of the 160 banks in the LCR sample, 84% reported an LCR that met or exceeded 100%, while all banks reported an LCR at or above the 60% minimum requirement that was in place for 2015 (the BCBS requires LCR to increases to 70% in 2016 and in equal annual steps to reach 100% in 2019). The weighted average NSFR for the Group 1 bank sample was 111.9%, while for Group 2 banks the average NSFR was 114.0%. As of June 2015, 79% of the Group 1 banks and 83% of the Group 2 banks in the NSFR sample reported a ratio that met or exceeded the coming 100% requirement, while 92% of the Group 1 banks and 94% of the Group 2 banks reported an NSFR at or above 90%.

Alongside of this, on 2 March 2016, EBA published its latest report of the CRDIV-CRR / Basel III monitoring exercise on the European banking system, which summarises the results using data as of 30 June 2015. These results show a further improvement of European banks' capital positions, largely fulfilling the future regulatory capital requirements, with only a very small number of banks suffering from potential capital shortfalls. For the first time, the monitoring exercise analyses the leverage ratio, as defined in EU legislation, in conjunction with the risk-based capital ratio analysis. Notably, the analysis indicates that the leverage ratio is indeed a binding regulatory constraint for a significant number of institutions in the sample. Furthermore, the analysis shows that there has been an increase in banks' LCR over time; and that around 75% of participating banks already meet the minimum NSFR requirement of 100%.

Published on 9 March 2016, Literature Review on Integration of Regulatory Capital and Liquidity is a BCBS working paper, which consists of "three essays" on capital, on liquidity and its interaction with capital and on other supervisory requirements. This paper reports that, although there are many studies on the effects of capital requirements, there are relatively few on the effects of liquidity requirements and other supervisory tools. In part, this is because capital requirements have been in place for a considerable time and over more than one business cycle, while liquidity requirements and other supervisory tools, such as buffers, macroprudential policies and stress tests, have only been implemented since the recent financial crisis.

On 11 March 2016, the ESRB published two further working papers linked to macroprudential policy. The first of these papers, *How Excessive is Banks' Maturity Transformation?*, seeks to quantify the gains from regulating banks' maturity transformation in an infinite horizon model of banks which finance long-term assets with non-tradable debt. Banks choose the amount and maturity of their debt trading off investors' preference for short maturities with the risk of systemic crises; but pecuniary externalities make unregulated debt maturities inefficiently short. The assessment made is based on the calibration of the model to euro area banking data for 2006; and finds that lengthening the average maturity of wholesale debt from its level of 2.8 months out to 3.3 months would produce welfare gains with a present value of €105 billion.

The second paper, *Capital Market Financing, Firm Growth, and Firm Size Distribution*, examines how many and which firms issue equity and bonds in domestic and international markets; how do these firms grow relative to non-issuing firms; and how does firm performance vary along the firm size distribution (FSD)? To evaluate these questions, the authors construct a new dataset by matching data on firm-level capital raising activity with balance sheet data for 45,527 listed firms in 51 countries. Three main patterns emerge from the analysis: (1) only a few large firms issue equity or bonds, and among them a small subset has raised a large proportion of the funds raised during the 1990s and 2000s; (2) issuers grow faster than non-issuers in terms of assets, sales, and employment; and (3) the FSD of issuers evolves differently from that of non-issuers, tightening among issuers and widening among non-issuers.

Published on 17 March 2016, ESMA's latest risk report has found that overall market risks for European securities markets remain high with the market risk indicator remaining at very high – the highest level – with a stable outlook, while liquidity and contagion risk remain at high with a stable outlook. The details are outlined in its Trends, Risks and Vulnerabilities Report No. 1 2016 (TRV) on European Union (EU) securities markets, which covers market developments from June to December 2015. This risk assessment has been validated by (i) a 19% drop in EU share prices peak-to-trough, a decline in stocks of EU financials by 27%, as well as marked distortions in commodities and emerging economy markets; and (ii) a 50% drop in fund inflows, €11 billion outflows from bond funds, a 30% decline in average monthly equity fund returns, and a three-year high in fund return volatilities. Overall, key risk sources remain the uncertainty of emerging market developments, in particular China, continued downward pressure on commodity prices, especially oil, and on commodity-export oriented emerging economies, reinforced by potential weaknesses in market functioning.

The topical vulnerabilities report features risk analyses around the following issues:

- MREL/TLAC requirements and implications for investments in bail-in instruments;
- Identifying risks and assessing benefits of financial innovation;
- The central clearing landscape in the EU; and
- Collateral scarcity premium in European repo markets and the drivers of the cost of obtaining high-quality collateral in the EU.

The General Board of the ESRB held its 21st regular meeting, on 17 March 2016. The General Board highlighted persistent weaknesses in banks' balance sheets as key vulnerabilities in the EU banking sector in its exchange of views on risks and vulnerabilities in the financial system; and, in this context, underlined the importance of addressing issues related to asset quality in the EU banking sector. The General Board also continues to discuss macroprudential issues and structural changes related to the low interest rate environment, with a view to identifying areas in which macroprudential policies may be needed. There was a substantial increase in the use of macroprudential measures implemented or planned in 2015, largely reflecting the application of the mandatory measures introduced under the framework of the CRD/CRR. These developments are covered in the second ESRB annual review of macroprudential policy in the EU, which will be published in the second quarter of 2016.

Moreover, the General Board discussed the EU Shadow Banking Monitor, a report prepared jointly by the ESRB Advisory Technical Committee and Advisory Scientific Committee, which provides an assessment of structural changes and an overview of key risks associated with the shadow banking sector's activities and will eventually be developed into an annual publication. The first edition of the EU Shadow Banking Monitor will be published in the coming months. Finally, the General Board approved adverse scenarios prepared by the ESRB for the 2016 EU-wide stress tests of the insurance sector by EIOPA and for the 2016 EU-wide stress test of CCPs by ESMA.

The Bank of England's Financial Policy Committee (FPC) met on 23 March 2016. As reported in a subsequently published statement, the FPC judged that the outlook for financial stability in the UK has deteriorated since it last met in November 2015 – with some pre-existing risks having crystallised, other risks stemming from the global environment having increased, and domestic risks having been supplemented by risks around the EU referendum. Amongst other things, the FBC found that in some financial markets underlying liquidity conditions have continued to deteriorate; and judges that continuing developments in financial market liquidity motivate a careful review of the implementation and precise design of internationally agreed post-crisis regulations. The FPC's objective is to determine whether there are opportunities to enhance sustainable liquidity without compromising underlying resilience and it intends to publish its assessment later in 2016.

Also on 23 March 2016, EIOPA published a potential macroprudential approach to the low interest rate environment in the Solvency II context. The aim of this publication is to contribute to the discussion on the possible need to develop a macroprudential framework in the insurance sector to promote financial stability in a Solvency II environment.

On 24 March 2016, the ECB released *Macroprudential Bulletin Issue 1 / 2016*, the first in a planned biannual series of bulletins intended to enhance transparency on macroprudential policy in the euro area. In this first edition, the ECB presents its framework for macroprudential policy and discusses its objectives and governance structure, as well as the policy instruments available.

Also on 24 March 2016, the ESRB published its latest Quarterly Risk Dashboard. This indicated that systemic risk as perceived by markets ticked upward in 2016, with the composite indicator of systemic risk and its sub-indicators having grown steadily since the beginning of the year. Similarly, the global risk aversion indicator turned positive in 2016, signalling increase in investors' risk aversion; and, meanwhile, high-yield corporate bond spreads and interbank interest rate spreads widened.

Contact: David Hiscock
david.hiscock@icmagroup.org

ICMA Capital Market Research

CSDR Mandatory Buy-ins: An Illustration of the Problems arising from the Asymmetric Treatment of the Payment of the Buy-in or Cash Compensation Differential

Published:
4 March 2016

Author:
Andy Hill, ICMA

Perspectives from the Eye of the Storm: The Current State and Future Evolution of the European Repo Market

Published:
18 November 2015

Author:
Andy Hill, ICMA

Impact Study for CSDR Mandatory Buy-ins

Published:
24 February 2015

Author:
Andy Hill, ICMA

The Current State and Future Evolution of the European Investment Grade Corporate Bond Secondary Market: Perspectives from the Market

Published:
25 November 2014

Author:
Andy Hill, ICMA

Continually Working to Develop Efficient and Effective Collateral Markets

ERC Occasional Paper

Published:
4 September 2014

Author:
David Hiscock, ICMA

Covered Bond Pool Transparency: the Next Stage for Investors

Published: 21 August 2014

Author: Prepared for ICMA by Richard Kemmish Consulting Ltd

Collateral is the New Cash: The Systemic Risks of Inhibiting Collateral Fluidity

Published:
3 April 2014

Author:
Andy Hill, ICMA

Avoiding Counterproductive Regulation in Capital Markets: A Reality Check

Published:
29 October 2013

Author:
Timothy Baker,
Senior Adviser to ICMA

Collateral Damage: the Impact of the Financial Transaction Tax on the European Repo Market and its Consequences for the Financial Markets and the Real Economy

Published:
8 April 2013

Author:
Richard Comotto,
ICMA Centre

Economic Importance of the Corporate Bond Markets

Published:
8 April 2013

Author:
Timothy Baker,
Senior Adviser to ICMA

ICMA Events and Education

ICMA Women's Network (IWN): speaking up internationally

The IWN winter event entitled *Speaking Up – Getting Your Voice Heard* generated some of the noisiest audience participation of any IWN event held to date. The evening was generously hosted by Barclays and opened by Michael Nartey, Co-head of Distribution UK at the Investment Bank. Michael spoke passionately about the importance of getting your voice heard and the better decisions that can be made if everyone speaks up, sharing some of his personal experiences along the way.

Spencer Lake, Chairman of ICMA, followed Michael and explained that the ICMA Board is very aware of the challenges faced by member firms in recruiting and retaining women and is therefore hugely supportive of the work of the IWN. Spencer provided some thought-provoking statistics about the economic contribution made by women, highlighting the fact that the power of parity would hugely increase the world economy and referencing the UN's *Equality Means Business* report.

These introductory speeches were followed by a panel discussion on the topic of Speaking Up moderated by Esther Stanhope. The panellists were Diana Chan, CEO, European Central Counterparty N.V., Nanette Hechler-Fayd'herbe, Head of Investment Strategy, Credit Suisse Private Banking & Wealth Management and Spencer Lake, Group General Manager, Global Head of Capital Financing, HSBC Bank.

A key theme quickly emerged from the experiences shared by the panellists, namely the importance of good preparation. If you have checked your facts and done your due diligence, this helps both your confidence and your credibility and facilitates speaking up. However, all the panellists emphasised that you must also be prepared to take risks and be stretched. Interestingly, both Spencer and Michael felt that men still need help on how to work more effectively with women and said they would welcome advice on how to do better.

The panel session was both candid and insightful and set the audience up nicely for the next part of the evening: an interactive presentation by Esther Stanhope, aka The Impact Coach, a former BBC producer who has worked with major stars and "big" personalities. Esther quickly engaged the audience by asking us to rate ourselves out of a possible 10, and after some lively audience participation, shared her top tips for getting heard. Among these were "Stop Apologising" – don't say sorry all the time and "Be Yourself" – don't completely lose your personality. She also introduced us to the power of the POSE – Posture, Oomph, Speech and Eyes & Teeth – in a nutshell, stand tall, have some fizz and energy, increase the volume, and smile.

At the end of the evening, we were invited to rate ourselves once again and the average rating had risen. Esther had clearly had an immediate impact on her audience which, as has been the case at previous IWN events, was not entirely female. It is always a pleasure to welcome men to IWN and we hope to see more at future events.

Congratulations to Jeanette Cruz of Allen & Overy who won a private coaching session with Esther worth £600.

Kate Craven
IWN Steering Committee

Gadhia Review on Women in Finance

Empowering Productivity: Harnessing the Talents of Women in Financial Services, the review undertaken by Jayne-Anne Gadhia, the Chief Executive of Virgin Money, together with the new Government Charter designed to improve gender diversity in senior positions in the sector, was launched in March. ICMA was very pleased to be able to contribute to the review process by hosting a roundtable of members who gave their views on women's situation in the capital markets.

Upcoming IWN events

Building on the experience of IWN events in London and ICMA's global network the IWN has gone international with events in major centres in Europe.

The launch event for the French Committee of ICMA Women's Network will take place on Tuesday 19 April in Paris. *Are Women Not Putting Themselves Forward as Candidates: Myth or Reality?* will give ICMA members in Francean opportunity to share experience and advice with inspirational people on women's self-confidence and career progression.

Save the date for our first Swiss regional event taking place on 7 June in Zurich.

The next IWN event in London will take place at the Barbican Atrium on 15 June. Bouncing Back – Developing Resilience at Work will be jointly hosted by IWN and Lloyds Bank Capital Markets.

Contact: ICMAwomensnetwork@icmagroup.org

ICMA Future Leaders: networking and career progression

ICMA Future Leaders has been set up by ICMA to help the Association to reach out to the 'next generation' of market professionals, to ensure that they benefit from ICMA's services and in time assume their places as the industry leaders who will take ICMA's work forward in the future. The Future Leaders Committee (FLC) of young professionals from member firms in different regions meets regularly to guide this project and has just published a roadmap for improving ICMA's interactions with its youngest members. Future Leaders networking events have already proved popular in London, Amsterdam and Zurich.

At the Future Leaders event in London last month kindly hosted by Standard Chartered, over 100 individuals from all areas of the business, heard Spencer MacLean, Head of Capital Markets, Europe and Americas, Standard Chartered Bank on 'Managing volatility in your career,' illustrated with examples from his own experience. He explained that while having a long term career goal is good, it pays to take risks along the way, switching careers and employers to adapt to changing conditions.

ICMA Future Leaders in Frankfurt, 11 April

All ICMA members are invited to the first ICMA Future Leaders event in Germany, which will be held at Kameha Suite in Frankfurt. The keynote speaker is Oliver Vins, co-founder of vaamo, a financial services start-up company in Germany that helps people to plan, monitor and achieve their financial goals. Oliverwill provide his own insights on 'robo advice', the provision of portfolio management online with minimal human intervention. His presentation will be followed by networking with other capital market professionals and senior level executives from all areas of the ICMA member firms in Germany as well as with ICMA's German regional committee, including Jo Heppe, Deputy Head DCM Bonds & Head Syndicate, Commerzbank.

Contact: FutureLeaders@icmagroup.org

diary

Workshops

ICMA organises over 100 market-related events each year attended by members and non-members.

11-12 APR

Professional Repo and Collateral Management, London, 11-12 April

The ICMA European Repo and Collateral Council presents its 2016 Professional Repo and Collateral Management course starts with a thorough introduction to the repo instrument and market, supplemented by presentations on developments in market conditions, infrastructure and regulation, which are delivered by experienced practitioners and major service-providers.

Register

6 MAY

Understanding the revised ICMA Primary Market Handbook, London, 6 May

The ICMA Primary Market Handbook has provided guidance to the managers of new syndicated issues in the international debt capital markets since 1985. It sets out agreed best practice for the syndication of cross-border bond issues. This half day ICMA workshop will introduce the revised Handbook published in 2015.

Register

8-10 JUN

Repo and securities lending under the GMRA and GMSLA, London, 8-10 June

The workshop analyses how repo and securities lending transactions operate within the framework provided by the Global Master Repurchase Agreement (GMRA) and the Global Master Securities Lending Agreement (GMSLA), and highlights the issues that need to be addressed by users.

Register

14 JUN

Bond syndication practices for compliance professionals and other non-bankers, London, 14 June

This workshop aims to give compliance professionals an in-depth and thorough understanding of the current practices that are involved in launching a deal in the international debt capital market.

Register

16 JUN

Ethics and the Capital Markets, Frankfurt, 16 June

Are we in danger of relying too much on a compliance-driven culture to protect the financial markets, rather than re-establishing a clear ethical culture – both at the individual and the corporate level? This new ICMA Workshop seeks to redress the balance and raise awareness of ethics and bringing ethical values to bear in the financial markets.

Register

Seminars & Conferences

15 APR

ICMA seminar: Practical perspectives on the current state and future evolution of the European repo market, Dublin, 15 April

Policy and market experts from ICMA and the local market will explore how the market is evolving and the opportunities offered by increasing automation and infrastructure development. There will also be an overview of legal developments relating to the Global Master Repurchase Agreement and an update on the current status of regulations affecting repo.

Register

26 APR

Shanghai Free Trade Zone Bond Seminar, London, 26 April

Shanghai Clearing House, the Bank of China London Branch, Euroclear Bank and ICMA jointly present this one-day conference on developments in the SFTZ bond market, featuring expert panels of regulators of China's OTC bond market, banks and investors familiar with RMB investments.

Register

27 APR

ICMA Conference: Electronic Trading, MiFID II and Liquidity: The evolving market structure for European cash bonds, Vienna, 27 April

Bond trading is going through a period of unprecedented transformation as the traditional model, mostly reliant on market makers and voice broking, is gradually being eroded.The half day conference will take an in depth look at how the market is changing and where the future opportunities lie for market participants and trading venues.

Register

8-9 JUN

The ICMA CBIC & The Covered Bond Report Conference 2016

With covered bonds again an attractive investment option in 2016, the ICMA Covered Bond Investor Council (CBIC) and The Covered Bond Report's established annual conference will look at the topical issues from the buy-side perspective.

Register

Green Bond Principles: 2nd Annual General Meeting & Conference

The AGM which is open to Green Bond Principles members and observers only is followed by an afternoon conference on green bonds open to all ICMA members and market participants.

Register

For full details see icmagroup.org

ICMA Annual General Meeting and Conference

Dublin May 18 to 20, 2016

Wednesday 18 May

19.30 - 24.00 **Welcome Reception Museum of Modern Art (Royal Hospital Kilmainham)**

Thursday 19 May

The ICMA Annual General Meeting & Conference

09.00: **Annual General Meeting (ICMA members only)**

13.00: **Opening Remarks Spencer Lake, Chairman of the Board, ICMA**

13.05: **Opening Keynote address Representative of the Government of Ireland – to be announced**

13.20: **Keynote address Representative of the Ministry of Finance, Ireland – to be announced**

13.35: **Panel 1: Developments in global capital markets. How have markets adapted to the economic and geopolitical volatility of the past year? Are they resilient enough to deal with future shocks and sufficiently developed to play their role in financing economic growth?**

Introductory presentation on global capital markets followed by panel discussion: **Arunma Oteh,** Treasurer, The World Bank

Moderator:
Spencer Lake, Chairman of the Board, ICMA and Vice Chairman, Global Banking and Markets, HSBC Bank plc

Panellists:

- **Dr. Frank Engels,** Managing Director, CIO Fixed Income, Union Investment Privatfonds GmbH
- **Arunma Oteh,** Treasurer, The World Bank
- **Jean-Michel Six,** Chief Economist, EMEA, Standard & Poor's Ratings Services
- **Yu Sun,** General Manager, Bank of China
- **Marc Tempelman,** Co-Head of Corporate Banking & Debt Capital Markets (EMEA), Bank of America Merrill Lynch

14.35: **Coffee break**

15.05: **Conversation**

- **Robert Gray,** Former Chair, Regulatory & Policy Committee, ICMA
- **Steven Maijoor,** Chairman, European Securities and Markets Authority
- **Martin Merlin,** Director of FISMA C, European Commission

15.35: **Panel 2: The role of debt and its legacy. High levels of debt may be our legacy to future generations but what is the alternative?**

Introductory presentation followed by panel discussion: Nariman Behravesh, Chief Economist, IHS

Moderator:
Keith Mullin, Editor-at-Large, International Financing Review (IFR)

Panellists:

- **Nariman Behravesh,** Chief Economist, IHS
- **Brian Coulton,** Chief Economist, Fitch Ratings
- **Donal Galvin,** Head of Treasury, Allied Irish Banks
- **Charles Goodhart,** Emeritus Professor of Banking & Finance, London School of Economics

16.35: **Keynote address Neil Sorahan, Chief Financial Officer, Ryanair**

16.50: **Closing remarks Martin Scheck, Chief Executive, ICMA**

16.55: **Close**

19.45 - 01.00: **Gala Reception Guinness Storehouse**

Friday 20 May

09.00: **Opening Remarks Martin Scheck, Chief Executive, ICMA**

09.05: **Keynote address: Professor Philip Lane, Governor, Central Bank of Ireland**

09.20: **Panel 3: Global trends in the asset management industry. What are the challenges and where should the industry look for opportunities?**

Moderator:
Robert Parker, Senior Advisor - Investment, Strategy and Research, Credit Suisse

Panellists:

- **Elizabeth Corley,** Vice Chair, Allianz Global Investors
- **Nannette Hechler-Fayd'Herbe,** Head of investment Strategy, Credit Suisse Asset Management
- **Isabelle Mateos y Lago,** Senior Advisor, BlackRock
- **Hans Stoter,** Chief Investment Officer, NN Investment Partners

10.20: **Coffee break**

10.50: **Keynote Address Professor Myles Allen, Geosystem Science, Oxford University**

11.05: Panel 4: Sustainable finance: can markets help to save the planet?

Moderator:
Suzanne Buchta, Managing Director, Global Head of Green Bonds, Bank of America Merrill Lynch

Panellists:

- **Bertrand de Mazières,** Director General, Finance, European Investment Bank
- **Manuel Lewin,** Head of Responsible Investment, Zurich Insurance Group
- **Philippe Zaouati,** Chief Executive Officer, Mirova

12.05: Panel 5: How are fixed income markets evolving? Will developments such as increasing electronification result in a more liquid and effective capital market to better service the needs of the economy?

Moderator:
Sonali Das Theisen, Global Credit Trading, Head of Market Structure & Data Science, Citigroup

Panellists:

- **Nicholas Bean,** Head of Product, Fixed Income Trading, Bloomberg LP
- **Yann Couellan,** Head of Trade Execution, Fixed Income, AXA Investment Managers
- **Pauli Mortensen,** Global Head of Trading, Norges Bank
- **Deirdre Somers,** Chief Executive, The Irish Stock Exchange

13.05: Closing keynote speech Lucy Kellaway, The Financial Times

13.20: Closing remarks Martin Scheck, Chief Executive, ICMA

13.30: Lunch and close of event

This agenda may be subject to change

The ICMA Conference is open to all interested financial market participants. ICMA members are entitled to a number of free delegate passes. Check icmagroup.org for more details and to register.

ICMA Executive Education Courses in 2016

Level I: Introductory Programmes

Financial Markets Foundation Course (FMFC)
London: 4-6 May 2016
Luxembourg: 8-10 June 2016

Financial Markets Foundation Course (FMFC) Online Programme
Next start date: 1 May (register by 26 April 2016)

Introduction to Fixed Income (IFI)
London: 19-21 October 2016

Introduction to Primary Markets (IPM)
London: 24-26 October 2016

Securities Operations Foundation Course (SOFC)
London: 28-30 September 2016

Securities Operations Foundation Course (SOFC) Online Programme
Next start date: 1 May (register by 26 April 2016)

Level II: Intermediate Programmes

Fixed Income Certificate (FIC)
Barcelona: 24-30 April 2016
London: 20-24 June 2016

Fixed Income Certificate (FIC) Online Programme
Next start date: 1 July 2016 (register by 27 June 2016)

Operations Certificate Programme (OCP)
Brussels: 17-23 April 2016

Primary Market Certificate (PMC)
London: 9-13 May 2016

Level III: Specialist Programmes

ICMA Guide to Best Practice in the European Repo Market
London: 31 October 2016

Collateral Management
London: 28-29 April 2016

Securities Lending & Borrowing – Operational Challenges
London: 2-3 May 2016

Corporate Actions - An Introduction
London: 10-11 May 2016

Corporate Actions - Operational Challenges
London: 12-13 May 2016

Inflation-linked Bonds & Structures
London: 16-17 May 2016

Credit Default Swaps – Pricing, Application & Features
London: 1-2 June 2016

Credit Default Swaps – Operations
London: 3 June 2016

Fixed Income Portfolio Management
London: 16-17 June 2016

Trading & Hedging Short-term Interest Rate Risk
London: 27-28 June 2016

Trading the Yield Curve with Interest Rate Derivatives
London: 29-30 June 2016

For more information contact: education@icmagroup.org or visit www.icmagroup.org/education

GLOSSARY

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
ASEAN	Association of Southeast Asian Nations
ASF	Available Stable Funding
AuM	Assets under management
BBA	British Bankers' Association
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBIC	ICMA Covered Bond Investor Council
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDS	Credit default swap
CFTC	US Commodity Futures Trading Commission
CGFS	Committee on the Global Financial System
CICF	Collateral Initiatives Coordination Forum
CIF	ICMA Corporate Issuer Forum
CMU	Capital Markets Union
CNAV	Constant net asset value
CoCo	Contingent convertible
COGESI	Contact Group on Euro Securities Infrastructures
COP21	Paris Climate Conference
COREPER	Committee of Permanent Representatives (in the EU)
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payments and Settlement Systems
CRA	Credit Rating Agency
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
DMO	Debt Management Office
D-SIBs	Domestic systemically important banks
DVP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council (of the EU)
ECON	Economic and Monetary Affairs Committee of the European Parliament
ECP	Euro Commercial Paper
ECPC	ICMA Euro Commercial Paper Committee
EDGAR	US Electronic Data Gathering, Analysis and Retrieval
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFC	Economic and Financial Committee (of the EU)
EFSF	European Financial Stability Facility
EFSI	European Fund for Strategic Investment
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMDE	Emerging market and developing economies
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
ESA	European Supervisory Authority
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
ETP	Electronic trading platform
EURIBOR	Euro Interbank Offered Rate
Eurosystem	ECB and participating national central banks in the euro area
FAQ	Frequently Asked Question
FASB	Financial Accounting Standards Board
FATCA	US Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FCA	UK Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FICC	Fixed income, currency and commodity markets
FIIF	ICMA Financial Institution Issuer Forum
FMI	Financial market infrastructure
FMSB	FICC Market Standards Board
FPC	UK Financial Policy Committee
FRN	Floating-rate note
FSB	Financial Stability Board
FSC	Financial Services Committee (of the EU)
FSOC	Financial Stability Oversight Council (of the US)
FTT	Financial Transaction Tax
G20	Group of Twenty
GBP	Green Bond Principles
GDP	Gross Domestic Product
GMRA	Global Master Repurchase Agreement
G-SIBs	Global systemically important banks
G-SIFIs	Global systemically important financial institutions
G-SIIs	Global systemically important insurers
HFT	High frequency trading
HMRC	HM Revenue and Customs
HMT	HM Treasury
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositaries
IFRS	International Financial Reporting Standards
IIF	Institute of International Finance
IMMFA	International Money Market Funds Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
ITS	Implementing Technical Standards
KfW	Kreditanstalt fűr Wiederaufbau
KID	Key information document
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio (or Requirement)
L&DC	ICMA Legal & Documentation Committee
LEI	Legal entity identifier
LIBOR	London Interbank Offered Rate
LTRO	Longer-Term Refinancing Operation
MAD	Market Abuse Directive
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
MMCG	ECB Money Market Contact Group
MMF	Money market fund
MOU	Memorandum of Understanding
MREL	Minimum requirement for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NAFMII	National Association of Financial Market Institutional Investors
NAV	Net asset value
NCA	National Competent Authority
NCB	National Central Bank
NSFR	Net Stable Funding Ratio (or Requirement)
OAM	Officially Appointed Mechanism
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
ORB	London Stock Exchange Order book for Retail Bonds
OTC	Over-the-counter
OTF	Organised Trading Facility
PCS	Prime Collateralised Securities
PD	Prospectus Directive
PD II	Amended Prospectus Directive
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSE	Public Sector Entities
PSI	Private Sector Involvement
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RM	Regulated Market
RMB	Chinese renminbi
ROC	Regulatory Oversight Committee of the Global Legal Entity Identifier System
RPC	ICMA Regulatory Policy Committee
RSF	Required Stable Funding
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted assets
SEC	US Securities and Exchange Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SLL	Securities Law Legislation
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SPV	Special purpose vehicle
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
T+2	Trade date plus two business days
T2S	TARGET2-Securities
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TRs	Trade repositories
UKLA	UK Listing Authority
VNAV	Variable net asset value

ICMA welcomes feedback and comments on the issues raised in the Quarterly Report. Please e-mail: regulatorypolicynews@icmagroup.org or alternatively the ICMA contact whose e-mail address is given at the end of the relevant article.

 Published by: Corporate Communications, International Capital Market Association Limited, 23 College Hill, London EC4R 2RP
Phone: + 44 207 213 0310 info@icmagroup.org

ICMA

International Capital Market Association

International Capital Market Association (ICMA)
Dreikönigstrasse 8, CH-8002 Zurich, Switzerland
Telephone +41 44 363 4222 Fax +41 44 363 7772
www.icmagroup.org