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EIB's contribution to capital markets

Foreword by Bertrand de Mazières

EIB's membership of ICMA is both a reflection of the importance that my bank affixes to an open dialogue between issuers and markets and the recognition of the value that markets attribute to this synergy.

Cooperation facilitates the convergence of interests and enables a joint response to new market developments via timely innovation. EIB endeavours to combine political sensitivity with technical expertise and can integrate between funding and lending activities to seize market opportunities within a broader policy framework that takes a forward-looking perspective. This often leads to structural improvements and benefits the market at large. A topical example is provided by EIB's initiatives in the fields of Green Bond issuance and Project Bond issuance, which aim to support sustainability and growth with instruments of new conception.

In March 2007, the EU Energy Action Plan set ambitious targets in the areas of renewable energy, energy efficiency, urging strong engagement of the EIB in these areas. On the funding side, the EIB chose to emphasize its commitment via a climate-related capital market exercise, fostering public awareness and reaching out to new investors. In June 2007, the Bank issued the first Green Bond – so-called "Climate Awareness Bond" (CAB) – via a public offering in the whole EU (*inter alia*, a successful test of the passporting mechanism established by the Prospectus Directive).

The transaction pioneered the ring-fencing/earmarking of proceeds to match disbursements in the relevant areas, providing investors with an accountable link between climate funding and lending. The approach has meanwhile been

validated by the market and is recognized as best practice. Transparent reporting permits public monitoring by policy objective, turning the earmarked portfolio into a performance indicator. At the same time, investors' exposure is to the EIB and yields are the same as EIB's standard bonds with comparable cash-flows.

Following small-sized, fragmented issuance throughout the crisis, the Green Bond market gained new traction in 2013 when, in the context of renewed market stability, institutional investors voiced the need for more volume and liquidity in the segment. Supply has grown accordingly, with the EIB as one of the most engaged issuers: to date, CABs have raised almost €6 billion equivalent in 9 currencies. EIB's €2.6 billion CAB 11/2019 is the largest currently outstanding in any currency and EIB aims to build a reference curve over time.

Green Bonds have the potential to contribute substantially to the global transition to a low-carbon, climate-resilient economy over time. An important area in this context is the governance of so-called Green Bond Principles, best-practice guidelines that aim to create the foundations of this new asset class. ICMA has taken a key role and coordinated the creation of a Green Bond Executive Committee for this purpose, of which EIB is an active member.

On a different, but related note, the EIB is also acting as an important catalyst of capital markets investment through the EU-EIB 2020 Project Bond Initiative (PBI). This is a joint initiative with the European Commission, which aims at promoting institutional investment in European infrastructure projects through credit enhancement of bonds issued by the project promoters via subordinated

debt from the EIB. This is a policy response to the reduction in long-term lending capacity by banks because of regulatory and market changes. Through the credit enhancement instrument, the credit rating of projects is improved to solid investment grade which, together with the involvement of EIB, is expected to increase the attractiveness of infrastructure as a long-term asset class for investors.

Since the beginning of the roll-out of the Initiative in 2013, three project bonds have been issued and additional transactions are expected to be concluded this year. The first two issues – for the Castor Gas Storage, Spain and OFTO Greater Gabbard, UK projects – were public bonds while the third project bond – A11 Motorway, Belgium – was a private placement. As a greenfield project, the latter introduced important innovations such as a deferred drawdown, which also showed how investors are responding in a flexible manner to the particular needs of infrastructure financing. EIB's long experience of infrastructure financing has been an important attraction for investors and the intention is to build on this in the future: potentially through new instruments for long-term financing.

In all of these areas, any new contribution is welcomed and EIB is looking forward to putting new ideas on a tangible footing via jointly conceived and implemented transactions. With your support.

Bertrand de Mazières is Director General, Finance, at the European Investment Bank, and member of the ICMA Board



Message from the Chief Executive

by Martin Scheck

Last month over 650 of you attended our AGM and Conference in Berlin, where we were treated to a series of wide-ranging keynote speeches and panels on the capital markets. The main theme was how the capital markets are increasingly contributing to economic growth, and how they need to evolve in order to fulfill this role even more actively. The AGM also provides a good opportunity to update our members on our activities, allowing them to review how we are operating and what progress we have made on our key initiatives. This year there was more engagement on the panels from issuers and investors, and also an interesting panel on developments in China and the renminbi market, in line with our own developments at ICMA over the last few years.

The mood at the gathering was distinctly more upbeat on the state of the markets than at the AGM in Copenhagen in May 2013, but there were a number of widely shared concerns. Of these secondary market liquidity, or rather lack of it, was the most widespread, particularly in light of planned regulatory changes, which are likely to reduce liquidity even further. The growth in primary market issuance since the beginning of the crisis set against the decline in liquidity heightens the risk of volatility and market dislocation when market or credit sentiment changes and market-maker driven secondary liquidity is found wanting.

Lack of profitability in the secondary segment during the first part of the year was also a topic for discussion. Whilst this is partly a product of the low-rate environment, it makes it even less likely that more resources will be deployed to enhance secondary liquidity.

The sheer volume of new regulation and the speed of its implementation remain a concern. There is strong support for smart and cost-effective regulation, but also a plea for a more harmonized (or at least less siloed) approach and for a fuller understanding of the impact the various regulations will have on each other and their combined impact on the workings of the market. A common question was whether the regulatory authorities are sufficiently resourced – and have enough market practice experts – to do this. ICMA's dialogue with the authorities, which is based on the input of the industry experts on our committees and working groups, aims to provide exactly this type of information and we will certainly continue our efforts in this area.

The authorities' shift in focus from the twin regulatory goals of consumer protection and mitigating systemic risk to include a third goal – growth – is very welcome and the growing and more widely based realisation of the importance of capital markets in fostering growth is encouraging.

Many thanks to those of you who attended the meeting, and for all your valuable feedback.

Highlighting a number of developments since the last Quarterly Report. Bertrand de Mazières, Director General, Finance, of the EIB has been elected to the ICMA Board and been kind enough to write the introduction to this edition. Amongst other things he comments on the EIB's work as a pioneer in the "green bond" market. ICMA has been appointed to run the secretariat for the Green Bond Principles launched earlier this year. The Initial Executive Committee has now been expanded to include a

balanced mix of issuers, investors and intermediaries. This is an interesting initiative in a rapidly developing market sector and we are pleased to be involved. There are more details later in this edition.

Another initiative which is gathering momentum is in the area of private placements, where we have put together a cross-association group to engage with the various different national and product initiatives in this fragmented area, as we try to create a pan-European standard.

Finally, I would like to encourage you to contribute to our work on the secondary markets. The huge MiFID II Discussion and Consultation Paper has landed! Its implementation is an enormous task where industry input is essential if we are to retain efficient and robust markets. We have identified the areas of particular concern to us. More details are inside this edition. And it is not simply MiFID: amongst others, the CSDR – and in particular the political agreement at Level 1 to include mandatory buy-ins – has the potential to damage very severely the way in which the markets operate and reduce liquidity even further. Industry input is of the utmost importance and we would particularly ask our members, large and small, buy and sell side, to share your views with us.

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Quarterly Assessment by Paul Richards

The European elections: implications for capital markets

Summary

During the term of the previous European Parliament, the focus of the European Commission, Parliament and Council of Ministers was on new EU legislation in response to the international financial crisis. A number of the resulting regulations still need to be fully implemented; their market impact needs to be assessed; and in particular it will be important to gauge how quickly public trust in the financial system – so heavily damaged by the crisis – is restored. The best approach in the next five years should not be to introduce yet another tier of regulation. Instead, there should be a change of focus in Europe to promoting external competitiveness and restoring economic growth, to which the international capital markets can make a significant contribution.

Introduction

1 The purpose of this Quarterly Assessment is to review the implications of the elections to the European Parliament for international capital markets. The Assessment covers the period until the end of the second quarter of 2014.

European elections

2 The elections to the European Parliament in the 28 EU Member States took place on 22-25 May. 751 MEPs were elected for a five-year term on a 43% turnout (the same as in 2009). There has been more than usual uncertainty about the outcome, for two reasons. One is the very strong showing by anti-EU parties in some Member States (eg the National Front topped the poll in France, and UKIP topped the poll in the UK); and a corresponding reduction in the vote for the parties of the centre right (European People's Party) and centre left (Party of European Socialists and Democrats). It is not yet clear whether the centre left and centre right parties will be willing to cooperate to achieve a working majority.

3 The other is the new process proposed under which the European Parliament nominates its own candidate to be President of the European Commission: this is Jean-Claude Juncker, the candidate for the European People's Party (ie the party with the most seats). On 27 June, for the first

time, the European Council (representing the Heads of Government of the 28 Member States) voted by qualified majority to accept the candidate nominated by the European Parliament rather than nominating its own candidate, despite opposition from the UK and Hungary. To become the President of the Commission, the candidate needs also to secure an absolute majority in the European Parliament. The new European Commission has to be approved both by the European Council (by qualified majority) and by the European Parliament. So the process is not expected to be complete until the autumn. The mandate of the existing European Commission continues to run until the end of October.

Political implications

4 There are likely to be a number of important implications for international capital markets from the elections to the European Parliament for the next five years: some in response to measures taken by the European Parliament; and others during the European Parliament's five-year mandate but not its direct responsibility. In this latter category, the political future of the EU itself as currently constituted is uncertain:

- While the economics of the euro area point to the need for closer euro-area integration, the politics of the European elections point in the opposite direction: towards a reassertion of national sovereignty.
- It is not clear whether the dispute between Russia and the Ukraine will have the effect of bringing the EU closer together – both in its own right and in terms of its alliance with the US – or forcing them apart.
- Turkey has a long-standing application to join the EU. This has yet to be resolved one way or the other.

- Scotland has a referendum in September 2014 on whether to become independent from the rest of the UK. The vote will also be watched closely in other regions of the EU, such as Catalonia. If the vote is in favour of independence, Scotland may have to apply to become a member of the EU, and to make a commitment to join the euro as a condition for doing so.
- Depending on the outcome of the general election in the UK due in 2015, there may be a referendum in the UK in 2017 on whether to stay in the EU or to leave.

5 The EU Member States all have membership of the Single European Market in common. But beyond that:

- There is a widening division between the euro area (ie currently 18 EU Member States before taking account of Lithuania's accession in 2015), all of which participate in Economic and Monetary Union, the Single Supervisory Mechanism (SSM) and the proposed Single Resolution Mechanism (SRM), on the one side, and the rest of the EU (ie the remaining 10 Member States), which do not (though they can opt in to the SSM and SRM if they wish, subject to undertaking an Asset Quality Review first).
- The euro area itself has been divided as a result of the recent international financial crisis between a small number of "creditor" Member States (centred on Germany) and a larger number of "debtor" Member States (mainly on the periphery). While there is full employment in Germany, a high level of unemployment – particularly youth unemployment – persists on the periphery.
- And the non-euro area Member States are themselves not a homogeneous bloc. Most are committed to join the euro area. But the UK, Sweden and Denmark are either committed not to do so, or expected not to join in the foreseeable future.



While the economics of the euro area point to the need for closer euro-area integration, the politics of the European elections point in the opposite direction.



The economic implications centre on the prospects for achieving a sustained economic recovery in Europe from the recent international financial crisis.

6 While a new EU Treaty might present a way of resolving the problems arising from the different degrees of political integration sought within the EU by the “ins” and the “outs” – and the German Government in particular has been promoting the need for a new Treaty – many other governments in the EU are reluctant to agree, remembering the outcome of the referenda in France and the Netherlands in 2005 after a previous revision in the Treaty, and the requirement in Ireland to hold a referendum in the case of each Treaty change. A new settlement to reform the EU without the need for a Treaty change may be possible in theory. But it remains to be seen whether it is possible in practice to maintain a level playing field for competition across the Single European Market, involving both “ins” and “outs”, while allowing closer economic integration among the “ins”, on the one side, and preserving much greater determination of policy at national level among the “outs”, on the other.

Economic implications

7 Apart from the political implications, the economic implications for international capital markets centre on the prospects for achieving a sustained economic recovery in Europe from the recent international financial crisis. While there has been encouraging evidence of economic recovery in the US (despite a weak first quarter) and the UK, and there are some signs of economic recovery in the euro area, the economic outlook for Europe as a whole is still uncertain, and so is the authorities’ response:

(i) Monetary policy

8 Annual inflation in the euro area (0.5% in May) is well below the ECB’s target level of below, but close to, 2%; and inflation is negative in some countries. The ECB responded in June by reducing from 0.25% to 0.15% the interest rate on the Eurosystem’s main refinancing operations; imposing a negative interest rate of 0.10% on banks’ average reserve holdings in excess of minimum reserve requirements and other deposits with the Eurosystem; and introducing Targeted Longer-Term Refinancing Operations (TLTROs) amounting initially to around €400 billion and maturing in September 2018 (though with an option to repay after at least two years) so as to encourage bank lending to the non-financial private sector. TLTROs are somewhat similar to Funding for Lending in the UK, but excluding mortgages.

9 The ECB has also begun a form of quantitative easing, in the sense that it has suspended its weekly fine-tuning operation which has until now sterilised the liquidity injected under the Securities Market Programme. And further forms of quantitative easing are not ruled out. Further work will be undertaken on outright purchases by the Eurosystem of simple and transparent asset-backed securities, and on regulatory changes that the ECB has proposed. But Eurosystem purchases of government securities of the 18 euro-area Member States – even in the secondary market – would be likely to prove controversial, especially in Germany.

10 It appears that the reason why the ECB has decided to use the Eurosystem’s own balance sheet to encourage bank lending at lower interest rates is that the Eurosystem’s monetary transmission mechanism is not working properly. Reductions in the ECB’s own short-term interest rate have not so far led to reductions in the interest rates at which banks are willing to lend to businesses – especially small businesses on the periphery of the euro area. Interest rates for small businesses remain high, both in nominal and in real terms, given very low inflation. There is widely perceived to be a risk of deflation in parts of the euro area unless appropriate action is taken.

(ii) Fiscal policy

11 In anticipation of further monetary easing from the ECB, government bond yields across the euro area have fallen. And there have been encouraging signs of a return of market confidence in the economic

prospects of countries on the periphery of the euro area: eg Ireland and Portugal, which have now exited from their respective bail-outs. The return of confidence has been reflected in reductions in the yield spreads on their government bonds over bunds. But despite continuing debate, the room for fiscal flexibility in the euro area is still limited by the European Commission's 3% ceiling on fiscal deficits, and there are still doubts in the market about the extent to which euro-area Member States are willing in practice to make far-reaching structural changes in fiscal policy, some of which are controversial: eg reductions in welfare spending.

(iii) Bank lending

12 Banks have been deleveraging their balance sheets as well as raising new capital in order to demonstrate to regulators – and to capital markets – that they can meet regulatory capital, liquidity and leverage requirements in advance. And there is additional caution among the banks in providing new lending ahead of the ECB's comprehensive assessment following its Asset Quality Review and the subsequent ECB/EBA stress test, the outcome of which is expected by November this year. But if the outcome is regarded in capital markets as credible, that will help to underpin a return in market confidence.

Regulatory implications

13 Against this political and economic background, what legislative measures affecting international capital markets are likely to be taken forward during the new European Parliament? It is not yet clear what new legislative initiatives will be proposed by the European Commission, nor how the new Parliament

and the Member States will respond. But there are still a significant number of legacy measures, scheduled in response to the international financial crisis in the previous Parliament, which are not yet fully agreed nor implemented. They relate both to prudential and to conduct of business regulation in the EU, and constitute part of the global regulatory response to the crisis.

(i) Prudential regulation

14 On the *prudential* side, outstanding issues include:

- *European Banking Union:* The ECB is due to take over the SSM in November 2014, once work on the Asset Quality Review and accompanying stress test has been completed; and the SSM is due to be supported by the SRM, with a Resolution Fund financed by the banks, and overseen by a Resolution Board. But it is unlikely to be clear whether SRM funding will be sufficiently large and decision-making sufficiently quick until the process is put to the test in practice.
- *Structural reform of the banking system:* Following the European Commission's response earlier this year to the Liikanen report, the key issue to be resolved is to what extent ring-fencing – by erecting a protective boundary around essential retail banking and payments services – will help prevent the need for banks to be resolved (ie wound up) in future, and whether this will make resolution less difficult to implement if it is needed, and how effective it will be.
- *Reducing the likelihood of bank failures:* Measures have already been taken to reduce the likelihood of bank failures by imposing higher capital requirements of better quality on banks in the EU



There are still a significant number of legacy measures which are not yet fully agreed nor implemented.

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(through CRD IV) and higher liquidity requirements (through the Liquidity Coverage Ratio under CRD IV); and corresponding measures are being taken in the insurance sector (through Solvency II). But there are outstanding issues to be resolved relating to the Leverage Ratio (which, unlike capital ratios, does not use risk weights), and the Net Stable Funding Ratio.

- *Managing the impact of bank failures if they still occur:* If a bank failure still occurs, it has been agreed – under the Bank Recovery and Resolution Directive (BRRD) – that 8% of the bank's liabilities must be bailed in before recourse to the Resolution Fund, and only then, if still necessary, to taxpayers. But proposals for the bail-in of creditors across borders (in the event of a threatened insolvency) are not yet fully agreed at global level, including for financial institutions which have been identified as systemically significant. The implication is that systemically important financial institutions are still likely to be treated as "too important to fail" and that it will continue to be difficult for the authorities to distinguish insolvency from illiquidity in a crisis. In addition, the range of institutions identified as systemically important is currently under review and may be widened (eg to include some asset managers).
- *Shadow banking:* Measures to broaden the regulatory perimeter beyond banks to include "shadow banking" and to enhance transparency are being considered. But they need to be implemented in a way that does not hinder market-based financing, which has a significant role to play in supporting the real economy: for example, through encouraging repo and securities lending; and promoting a market for securitisation which functions better.
- *Financial Transaction Tax (FTT):* Following discussions among 11 Member States in the euro area, they have made a declaration under which they propose to agree by the end of 2014 an FTT on equities and some derivatives for implementation on 1 January 2016. This proposal is much narrower in scope than the original Commission proposal, and is regarded as a first step. But it has yet to be worked out in detail. Its impact will depend on precisely how the FTT is defined, and whether it has extra-territorial effect, as originally intended. Although the UK challenge to the FTT was rejected by the European Court of Justice, this was on the procedural grounds that

the proposal for the FTT was not yet clear enough to challenge rather than on its extra-territorial impact as such. So a further challenge if and when the FTT is agreed has not been ruled out.

(ii) Conduct of business regulation

15 On the *conduct of business* side, a substantial range of legislative measures has already been agreed between the European Parliament, the Commission and the Council of Ministers at Level 1. But important details remain to be resolved by ESMA at Level 2 (through provision of advice to the Commission on setting technical standards and implementing measures), though Level 2 work has now been completed in some cases. Outstanding measures at Level 2 affecting international capital markets include:

- *The MiFID II package:* Technical standards and implementing measures from ESMA will be needed, *inter alia*, on market structure, including the calibration of pre- and post-trade transparency for secondary market trading in the fixed income market. ESMA is currently consulting stakeholders on its proposals.
- *The CSD Regulation:* Outstanding issues include the introduction of mandatory buy-in rules for the settlement of failed trades, on which ESMA has also consulted stakeholders, and the implementation of a changeover in the standard settlement period for cash securities trades from trade date plus three business days (T+3) to trade date plus two (T+2).
- *The Market Abuse Regulation:* The key issues to be resolved by ESMA relate to the definition of insider information, stabilisation and market soundings.
- *Benchmarks:* Legislation regulating benchmarks was not agreed in the previous European Parliament, mainly because of differences of view on its scope, and the process is due to start again in the new Parliament.
- *Protection of retail investors:* The need for, and cost of, providing prospectus information for retail investors will be an issue for the industry when the Prospectus Directive next comes up for review by the Commission, which is required to report to the European Parliament and the Council by 1 January 2016.



There are also financial market implications.

16 Leaving aside any completely new measures proposed by the Commission in the new European Parliament, the implementation of the large number of legacy measures still under consideration, or agreed but still in the process of being implemented, will need to be a priority for firms active in the international capital markets. Implementation will involve substantial IT and compliance costs for market firms, and will not be straightforward (as implementation of EMIR has proved). They will also be well aware of the potential consequences (in terms of fines for mis-selling) if they make mistakes.

Market implications

17 In addition to the political, economic and regulatory implications, there are also financial market implications, which are considered in this final section under the following heads: financial stability; financial integration; financial market transparency and liquidity; financial viability; and financing growth.

(i) Financial stability

18 Following the introduction of new capital, liquidity and leverage requirements, the ECB's Asset Quality Review and the ECB/EBA stress test need to be seen in the market as sufficiently robust to lay to rest doubts about the stability of the European banking system post-crisis. If the ECB's comprehensive assessment after the Asset Quality Review and stress test is credible, the SSM should take over a more stable financial system in Europe when it begins operations in November this year. However, there is still a question about how well the new resolution regime for winding up banks and bailing in creditors will work, and whether the SRM will be sufficiently well funded – and its decisions can be taken sufficiently quickly – to preserve the stability of the financial system, given its interconnectedness through financial markets, if one or more banks were to fail. It seems quite possible that a number of systemically important financial institutions will still need to be treated in practice as

too important to fail, despite the regulatory changes that have been made. Similar questions arise with central counterparties (CCPs), which represent a new centre of risk in the system.

(ii) Financial integration

19 Financial integration goes beyond convergence in prices across borders. It is intended to improve the transmission of monetary policy in the euro area and increase competition across the EU. By contrast, during the crisis, financial markets became heavily fragmented. Over the past two years, since the President of the ECB's statement that the ECB will do "whatever it takes" within its mandate to save the euro, the market's assessment of redenomination (or convertibility) risk has diminished sharply. But while the degree of financial integration across borders in the euro area has improved since the crisis (eg through an increase in cross-border holdings of sovereign debt), it has not yet recovered to the same level as before the crisis began. For example, TARGET imbalances in the Eurosystem are lower than a year ago, but still at an abnormally high level: the Bundesbank's creditor balance has reduced over the past year from €600 billion to €500 billion, but this compares with around €10 billion before the crisis. And the costs of funding are still significantly greater in the periphery of the euro area than the core; and are still abnormally higher for SMEs than for larger corporates.

20 Steps towards European Banking Union should help to reduce market fragmentation in the euro area over the next five years, so long as banks' capital and liquidity is not ring-fenced within national boundaries. Across the EU as a whole, the authorities' goal of creating a Single Rulebook has made progress since the creation of the three European Supervisory Authorities in 2011, but has yet to be fully realised. And the authorities recognise that they need to pay greater attention in future to the importance of supervisory convergence, so that new EU regulations are interpreted, implemented and enforced in the same way in different EU Member States.

(iii) Financial market transparency and liquidity

21 One of the aims of new financial regulations over the past five years has been to improve the transparency of the financial system. More transparency is welcome, but it is not a free

good. In particular, the impact on market liquidity of greater transparency, coupled with increased capital requirements and the promotion of trading on exchange, need to be assessed. The shortage of secondary market liquidity has not been a major problem while demand for primary market issues has been strong and investors have been willing to invest on a "buy and hold" basis. But the problem is likely to become more widely recognised when the market turns and interest rates rise. The important role of market makers is often underestimated. Finally, it is not yet clear how well the authorities will be able to use all the market data that is being collected (eg in a range of different trade repositories).

(iv) Financial viability

22 In response to the regulatory changes in progress, there are several implications for the financial viability of market firms:

- Firms will be assessing the financial viability of sections of their capital market business: eg the provision of liquidity to investors through market making.
- Banks will also need to assess how new regulatory requirements, such as MiFID II, will change the structure of securities markets. If market products are priced in future like commodities, this may affect the degree to which banks are willing to make commitments to provide relationship banking on a continuing basis to key clients. Banking relationships are of particular value to clients in a financial crisis, as the last crisis demonstrated.
- Finally, fines on banks for alleged mis-selling or mis-conduct have become disproportionately so large that the risk of fines has become a factor in assessing banks' capital adequacy by investors,

who have to pay (through the share price) for the mistakes made by bank management in the past.

(v) Financing growth

23 The best approach in the next five years should not be to introduce yet another tier of EU regulation. Instead, there should be a change of focus in Europe to promoting external competitiveness and restoring economic growth, to which the international capital markets can make a significant contribution. There are two sides to restoring growth in the European economy on a sustainable basis:

- On the *demand* side, economic growth depends on the effectiveness of measures taken, not only by the European Parliament, but by the national governments of Member States and also by the ECB; the degree of international competitiveness of the European economy; and the return of market confidence and public trust in the banking system, following the crisis.
- On the *supply* side, there is scope for the international capital market to play a bigger role by providing finance to businesses in place of the deleveraging by the banks. But the provision of capital market finance across borders in the EU – debt as well as equity – also depends on making progress in creating a single EU capital market, eg through: the development of a pan-European private placement market (a market which is currently much further developed in the US than in Europe); longer-term market financing for infrastructure projects; and a revival of the securitisation market, limited to high-quality securitisations.

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Practical initiatives by ICMA

The purpose of the following list is to summarise practical initiatives on which ICMA is currently, or has recently been, engaged with, and on behalf of, members.¹

Short-term markets

- 1 Following the ICMA paper last autumn on *Avoiding Counterproductive Regulation*, ICMA has prepared a new paper: *Collateral is the New Cash: the Systemic Risks of Inhibiting Collateral Fluidity*. The paper was launched at an ICMA Conference on Collateral for regulators, central banks and market experts in Brussels on 3 April. A Roundtable on the same theme was held in London on 16 May and in Paris on 10 June.
- 2 The recent revision by the Basel Committee on Banking Supervision (BCBS) to provide for netting of securities financing transactions in the calculation of leverage ratios is a welcome recognition of the importance of maintaining equilibrium between the demand for, and the availability of, collateral. However, the ICMA ERC Committee has written to the BCBS to ask for clarification of a number of details on the new standard.
- 3 The ICMA ERC and ECP Committees have written to the BCBS in response to its consultation on the Net Stable Funding Ratio (NSFR). The proposed NSFR would have significantly adverse effects, so adjustments to the proposal are sought.
- 4 Following review by ICMA's ERC Committee in the light of changes in the secondary cash markets, ICMA made a statement on 20 May that repo agreements will migrate from a standard of T+2 to T+1 (ie trade date plus one business day) with effect from 6 October 2014, unless specified otherwise.

Primary markets

- 5 ICMA has been appointed as the Secretariat to the Green Bond Principles (GBP) by the GBP Interim Executive Committee. The GBP are intended to encourage transparency, disclosure and integrity in the Green Bond market.
- 6 Anglo-American hosted a meeting on 21 May of the ICMA Corporate Issuer Forum, in which BlackRock and PIMCO participated on behalf of institutional investors in a panel-style Q&A with corporate issuers.
- 7 The Public Sector Issuer Forum met at the UK DMO in London on 23 June to discuss international market practice and regulatory issues.

- 8 ICMA *Pro Forma Final Terms and Retail Cascades Legends* have been approved and circulated to members.
- 9 Good progress continues to be made on revising the ICMA Primary Market Handbook.

Secondary markets

- 10 ICMA is consulting members on its response to the ESMA Discussion and Consultation Papers on MiFID II Level 2, and keeping other trade associations informed, ahead of the ESMA deadline of 1 August.
- 11 ICMA has worked with a small group of leading Swiss members and with ISDA on a response to the proposed Swiss Financial Market Infrastructure Law, which paves the way for the implementation in Switzerland of provisions similar to those in MiFID II.
- 12 Consistent with the CSD Regulation, and following consultation with members, ICMA made a statement on 20 May that it will change the standard settlement cycle set out in the ICMA Secondary Market Rules & Recommendations from T+3 to T+2 (ie trade date plus two business days) unless otherwise agreed, with effect from 6 October 2014, to allow for the orderly trading of all fixed income securities traded under ICMA rules.
- 13 In its response on 22 May to the ESMA consultation on the CSD Regulation, ICMA commented in particular on ESMA's proposals on mandatory buy-ins.
- 14 Following consultations on ICMA's secondary market liquidity survey, the ICMA Secondary Market Practices Committee (SMPC) meeting on 12 May endorsed ICMA's approach of analysing TRAX data rather than seeking to obtain data direct from member firms.

Asset management

- 15 The ICMA Asset Management and Investors Council (AMIC) met in Zurich on 8 April to discuss trends in private banking, asset allocation, and restoring trust in the industry post-crisis.
- 16 The AMIC has responded to the FSB/IOSCO consultation on the assessment methodologies for identifying Non-Bank Non-Insurer G-SIFIs.
- 17 More than 200 delegates attended the annual Covered Bond Investor Council/Covered Bond Report Conference in Frankfurt on 15 May to hear covered bond specialists discuss advances in transparency standards and other regulatory developments affecting covered bonds.

- 18 ICMA has taken the lead in coordinating the work of the Pan-European Private Placement Working Group (PEPP WG), which currently includes among others the Association for Financial Markets in Europe (AFME), the Association of British Insurers (ABI), the European Private Placement Association (EPPA), the French Euro Private Placement (Euro PP) Working Group and the Loan Market Association (LMA).

Other meetings with central banks and regulators

- 19 Martin Scheck continues to participate in the ECB's Bond Market Contact Group, and René Karsenti to participate in the ESMA Securities and Markets Stakeholders Group.
- 20 Following participation in Roundtables with the IOSCO Task Force on Cross-Border Regulation in Hong Kong, London and Washington in April, the industry-led Cross-Border Regulation Forum, chaired by Chris Dickens of HSBC, and of which ICMA is a member, made a submission to the IOSCO Task Force in May. The IOSCO Task Force's recommendations are due to be considered at the G20 Summit in Brisbane in November.
- 21 During the second quarter of 2014, ICMA Capital Market Lectures have been given in London by David Wright, Secretary General of IOSCO, and Charles Roxburgh, Managing Director of Financial Services at HM Treasury, and in Paris by Benoit Coeuré, Executive Director of the ECB.
- 22 ICMA has hosted a number of joint trade association meetings, including with Verena Ross, Executive Director of ESMA, on 14 May, and with Andrea Leadsom, Economic Secretary to HM Treasury, on 21 May.
- 23 ICMA's Regulatory Policy Committee, meeting in Paris on 12 June, held discussions with Verena Ross, Executive Director of ESMA, and with Benoît de Juvigny, Secretary General of the Autorité des Marchés Financiers.
- 24 ICMA has established the ICMA Women's Network, which focuses on networking and career strategy and provides an open forum to discuss issues relevant to professional women. Members can contact ICMAWomensNetwork@icmagroup.org for more information.

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

Regulatory Response to the Crisis



by David Hiscock

G20 financial regulatory reforms

In a letter, dated 4 April 2014, to G20 Finance Ministers and Central Bank Governors, the FSB Chairman, Mark Carney, provided an update on the progress of financial reforms. Previously, in February 2014, Mark Carney reported on the priorities, agreed by G20 Leaders in St. Petersburg, for substantially completing the core of the G20's programme of fundamental reform of the global financial system during the Australian G20 Presidency. This latest letter states that the FSB is on-track to deliver for the November 2014 Brisbane G20 Leaders' Summit, but notes that difficult decisions remain to be taken in three particular areas where the support of Ministers and Governors is essential:

- ending too-big-to-fail;
- transforming shadow banking to transparent and resilient market-based financing; and
- making derivatives markets safer.

Besides providing a summary of the progress to complete the programme of reform for the Brisbane Summit, this letter begins to look ahead to plans for implementation beyond Brisbane, and summarises the initial findings of the FSB review of representation.

Released on 7 April 2014, the BCBS's [updated progress report](#) on implementation of the Basel regulatory framework provides a high-level view of BCBS members' progress in adopting Basel II, Basel 2.5 and Basel III, as of end March 2014. It focuses on the status of domestic rule-making processes to ensure that the BCBS's capital standards are transformed into national law or regulation according to the internationally agreed timeframes. The BCBS believes that disclosure will provide additional incentive for members to comply fully with the international agreements.

In the aftermath of the financial crisis, G20 Leaders and the FSB identified as a priority the need for more intense and effective supervision, particularly of systemically important financial institutions (SIFIs); and increasing supervisory effectiveness remains a core element of the FSB's work to end the too-big-to-fail problem. To take forward this effort, on 7 April 2014, the FSB [published the following documents](#):

- a framework for assessing risk culture, which takes into account public responses received on the consultative document issued on 18 November 2013; and
- a progress report on enhanced supervision, which describes the changes in supervisory practices since the financial crisis and identifies areas where more work is needed.

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IOSCO's Affiliate Member Consultative Committee (AMCC – formerly the SROCC) met in Tokyo to further its work on emerging risks, investment funds data, cyber threats and other initiatives in support of the IOSCO, as [announced in an 11 April press release](#). The AMCC is comprised of IOSCO affiliate members, which include self-regulatory organizations (SROs)– including ICMA, securities exchanges, financial market infrastructures, investor protection funds, and other securities markets regulatory organizations. At the meeting, IOSCO Secretary General, David Wright, IOSCO Research Head, Werner Bijkerk, and representatives from IOSCO's different policy committees discussed their recent work with AMCC members. Participants also discussed IOSCO's research projects and its response to the challenges facing global capital markets, underscoring the growing cooperation between IOSCO and its affiliate members. The AMCC's "Ahead of the Curve Panel" analyzed the monitoring and supervisory tools used by securities exchanges; and also discussed new developments regarding intermediaries' distribution and trading activities, crowdfunding and funding of SMEs.

On 16 April 2014, the BCBS [issued frequently asked questions](#) (FAQs) on Basel III's liquidity coverage ratio (LCR). To promote consistent global implementation of those requirements, the BCBS has agreed periodically to review FAQs and publish answers along with any technical elaboration of the rules text and interpretative guidance that may be necessary. The BCBS has already received a number of interpretation questions related to the January 2013 publication of the LCR standard, which these FAQs address.

As [announced on 6 May 2014](#), at the March 2014 plenary meeting in London, the FSB approved the launch of Phase 2 of its [data gaps initiative](#) to implement a common data template to collect key granular data from global systemically important banks (G-SIBs) about their assets and liabilities to provide the authorities with a strong framework for

assessing the interlinkages among the largest banks and the concentration of these institutions to different sectors and markets. Phase 1 of the project, started in March 2013, focused on the exposures of G-SIBs to their largest counterparties and to major risk dimensions. Phase 2 will fill a substantial data gap by adding information on G-SIBs' Institution-to-Institution liabilities, their largest funding providers (banks and non-banks) and their funding structure (eg use of wholesale funding). For the start of Phase 2, banks will be required to report monthly, with the expectation of a weekly submission as the ultimate goal. The FSB also reviewed a roadmap for Phase 3, when the common template will include granular and comparable Institution-to-Aggregate (I-A) consolidated balance sheet data broken down by country, sector, instrument, currency and maturity. At this juncture, first reporting of the I-A "immediate counterparty" template is planned from 1Q 2016 on a best effort basis, with mandatory reporting from August 2016, with end-June reference date (I-A "ultimate risk" is postponed until later).

IOSCO is undertaking the [IOSCO 2020 Review](#) to develop a strategic plan for the period from 2015 to 2020. The objectives of the review are to:

- define the outcomes IOSCO wants to achieve by 2020;

- develop a strategic plan for IOSCO and the IOSCO Secretariat to achieve those outcomes;
- determine funding and resourcing needs of the IOSCO Secretariat to implement the strategic plan and annual business plans; and
- develop a financing plan to meet the funding and resourcing needs.

IOSCO has sought the views of its members on these issues through an online survey and, as announced on 28 May 2014, is now [approaching key stakeholders](#) for their views through a similar survey – with responses sought by 27 June 2014.

Cross-Border Bank Resolution: Recent Developments is a Board Paper prepared by IMF staff, and completed on 2 June 2014, to brief the IMF Executive Board on 9 June 2014. This paper concludes that recent initiatives in international regulatory reform have made progress toward achieving an effective cross-border resolution framework; however, orderly cross-border resolution is still far from assured. In addition, progress on minimizing residual risks that public funds will be needed to preserve financial stability is necessary to ensure that resolution strategies are credible. Finally, a great deal of work remains to be done, and the Fund will continue to support the international



The FSB is on-track to deliver for the November 2014 Brisbane G20 Leaders' Summit, but notes that difficult decisions remain to be taken.

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reform agenda. At the end of its conclusions, the paper posits a number of questions to the Directors; but in relation to the 9 June meeting it is reported that "the Executive Directors met in an informal session, and no decisions were taken".

The Board of IOSCO, comprising 32 members from both developed and growth and emerging markets, [met in Madrid](#), as reported on 12 June 2014, to drive forward IOSCO's work on market-based finance and discuss progress on a number of key initiatives. On initiatives to support the G20-FSB efforts to restore stability in the global financial system and build economic growth, the Board progressed:

- methodologies for identifying non-bank global systemically important financial institutions or activities in the areas of asset management and market intermediaries;

- the role capital markets and securities regulators can play in supporting long-term finance, including infrastructure investment and SME financing; and
- the implementation of IOSCO Principles on Financial Benchmarks, the IOSCO Principles for Oil Price Reporting Agencies and the IOSCO Principles for the Regulation and Supervision of Commodity Derivatives Markets.

The IOSCO Board discussed audit quality and important initiatives to build confidence in global securities markets and to:

- reduce the reliance of asset managers and market intermediaries on credit ratings; and
- promote effective credible deterrence as a key element in improving investor protection and confidence in markets.

Members discussed the results of the IOSCO Research Department's latest market survey on market trends, which emphasizes the growing leverage in securities markets, the impact of cross-border capital flows on emerging markets, financial risk disclosure, collateral management, and potential counterparty risk in CCPs. The market survey will be published next Monday. Board members also examined policy measures aimed at building capacity in emerging markets and supporting the creation of strong regulatory frameworks for sustaining growth in both emerging and developed markets. The Board also agreed to move forward on an IOSCO Global Certificate Program for Securities Regulators.

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Guidelines for public debt management

IMF and World Bank staffs have prepared and issued to the Executive Boards of both institutions the [Revised Guidelines for Public Debt Management](#) for information on 1 April 2014. Application of these guidelines should strengthen the international financial architecture, promote policies and practices that contribute to financial stability and transparency, and reduce member countries' external vulnerabilities.

The revision of the original 2001 Guidelines and their 2003 Amendments was requested by the G20 Finance Ministers and Central Bank Governors at their meeting in Moscow on 15-16 February 2013. The request was triggered by structural changes in many countries' debt portfolios — in terms of both size and composition — over the last decade, as a result of financial sector and macroeconomic policy developments, especially in response to the recent financial crisis. The 2014 revision of the *Guidelines* was carried out by the IMF and World Bank staffs, supported by a working group of DMOs and central bank authorities which was chaired by Lars Hörngren, Chief Economist at the Swedish National Debt Office.

The revisions to the *Guidelines* mainly concentrate on:

- (i) management objectives and coordination, including clarifying the roles and accountabilities of fiscal authorities and debt managers to the debt sustainability

analysis process;

- (ii) transparency and accountability by enhancing communication with investors, especially during periods of crisis;
- (iii) institutional framework with the use of CACs in bond contracts as necessary for the efficient resolution of sovereign debt restructuring;
- (iv) debt management strategy, including debt portfolio risk mitigation strategies and contingency plans;
- (v) risk management framework, with emphasis on stress testing of the public debt portfolio and the use of derivatives in managing portfolio risk; and
- (vi) development and maintenance of efficient markets for government securities, as an integral part of developing a robust debt management strategy.

The revised *Guidelines* will be used by IMF and World Bank staffs to provide a framework for technical assistance and will serve as background for discussions in the context of IMF surveillance. They may also be used as reference material by third party consultants and experts dealing with public debt management issues.

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Sovereign Bond Consultation Paper Supplement by Leland Goss

ICMA has today published a [Sovereign Bond Consultation Paper Supplement](#) containing proposals to facilitate the orderly restructuring of sovereign debt.

Background

- In December 2013, ICMA consulted its members on two matters related to sovereign bonds (the “Original Consultation Paper”). The Original Consultation Paper proposed new standard form aggregated collective action clauses for inclusion in all government securities (that are not otherwise subject to the mandatory euro-area model collective action clause introduced in January 2013). The Original Consultation Paper also set out plans to publish for the first time a standard *pari passu* provision for inclusion in sovereign debt securities.
- For ease of reference, the Original Consultation Paper can be viewed at <http://www.icmagroup.org/resources/Sovereign-Debt-Information/>. We recommend that this consultation paper supplement (the “Consultation Paper Supplement”) is read alongside the Original Consultation Paper.
- As discussed in our Original Consultation Paper, aggregation allows bondholders across different series of bond issues to vote collectively in response to a proposed modification or action in respect of all their bonds; binding all bondholders if the requisite number of bondholders approve such a modification or action. This mechanism enables a wider range of bondholders to be bound by a single restructuring proposal and should disincentivise creditors looking to dissent from acquiring holdings that might block a restructuring which is otherwise approved by the majority.

Comments received in response to the Original Consultation Paper

- In view of comments received in response to the Original Consultation Paper, as well as ICMA’s participation in a number of informal cross-border discussion groups on the current sovereign debt restructuring architecture and potential ways to enhance it, we have reached the view that it would also be helpful to consult with members as to the addition of a single aggregation voting mechanism (the so-called “single limb” voting approach) in the new proposed ICMA Standard Aggregated Collective Action Clauses (“Standard Aggregated CACs”) for sovereign notes. The single limb voting approach

would aggregate the votes across all affected series of bonds to determine whether the requisite voting threshold had been met and the proposed modification or action approved.

- Under the revised Standard Aggregated CACs scheduled to the Consultation Paper Supplement, the issuer would have the option to put a modification or action proposal to its bondholders pursuant to any one of or a combination of the three collective action mechanisms included in the new Standard Aggregated CACs (see: Modification of this Series of Notes only; Multiple Series Aggregation – Single limb voting; Multiple Series Aggregation – Two limb voting).

Request for comments

Sovereign issuers, investors, as well as other official and private sector participants have an interest in the terms and conditions of sovereign bonds being clear and unambiguous such that the parties’ contractual rights and obligations are understood and easily ascertainable. This is essential to achieving pricing and market efficiency and enabling critical risk judgments to be made, often in the face of distressed market conditions, on the basis of accurate and certain information.

Accordingly, ICMA is publishing and inviting members to respond to its Sovereign Bond Consultation Paper Supplement. ICMA invites views from its Members on the proposals in this Consultation Paper Supplement by 17 July 2014. Comments should be sent by email to sovereignbondconsultation@icmagroup.org identifying the organisation on whose behalf the comments have been sent, indicating if the organisation wishes to keep its name confidential, and giving an email address and phone number of a point of contact. Taking account of the comments received in response to the Original Consultation Paper and this Consultation Paper Supplement, ICMA plans to publish recommendations in respect of a new form of Standard Aggregated CACs for inclusion into the terms and conditions of sovereign notes. The revised Standard Aggregated CACs does not as yet reflect the comments received from members on the Original Consultation Paper. These will be reflected in ICMA’s new proposed Standard Aggregated CACs once responses have been received to this Consultation Paper Supplement.

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MEPs reached final agreement on a significant number of new financial regulatory measures.

European financial regulatory reforms

On 14 April 2014, the European Commission [welcomed formal adoption](#) by the Council of its proposal for a Regulation on market abuse and its proposal for a Directive on criminal sanctions for market abuse. This follows the European Parliament's plenary votes backing the Regulation on 10 September 2013 and the Directive on 4 February 2014. Following signature of the Regulation and the Directive by the Presidents of the European Parliament and the Council and their 12 June 2014 [publication in the Official Journal](#), there will be a 24 month period for the adoption of implementing measures by the Commission concerning the Regulation and for Member States to implement the Directive in national law.

The final plenary session of the outgoing European Parliament was held on 14-17 April 2014. Amongst other things, MEPs reached final agreement on a significant number of new financial regulatory measures. These included:

- [*MiFID/MiFIR*](#): new rules will apply to investment firms, market operators (trading on stock or financial markets) and services providing post-trade transparency information in the EU. They are set out in two pieces of legislation, a directly applicable Regulation dealing *inter alia* with transparency and access to trading venues and a Directive governing authorisation and organisation of trading venues and investor protection.
- [*CSD Regulation*](#): to increase the safety and efficiency of securities settlement and settlement infrastructures (CSDs) in the EU by providing, among others,
- for the following: shorter settlement periods; deterrent settlement discipline measures; strict prudential and conduct of business rules for CSDs; strict access rights to CSD services; and increased prudential and supervisory requirements for CSDs and other institutions providing banking services ancillary to securities settlement.
- [*BRRD*](#): sets new rules for all 28 Member States to put an end to the old paradigm of bank "bail-outs", by enshrining in binding rules the principle of "bail-in" so that shareholders and creditors pay for banks' mistakes, rather than taxpayers. Any additional funds exceptionally required will come from the banking sector itself in the shape of specially set up resolution funds.
- [*SRM*](#): implements the BRRD in the euro area and any other participating Member State. The agreement is based on a strong and efficient Single Resolution Board at its centre, so that the SRM will allow for the timely and effective resolution of cross border and domestic banks, over a weekend if necessary. Within the Banking Union, the resolution funds will be pooled into one Single Resolution Fund.
- [*Deposit Guarantee Scheme Directive*](#): strengthens even further the protection of depositors. With pre-funded guarantee schemes in each Member State, depositors are assured that whatever happens to the bank they deposit money in, their savings up to €100,000 remain fully protected from any loss.
- [*PRIIPs Regulation*](#): agreement on a mandatory key information document (KID) to be supplied to retail consumers who wish to invest their savings. The

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proposed rules require the financial services industry to provide basic information about their investment products, the risk and return that can be expected as well as the overall aggregate cost that will arise in making the investment.

- **UCITS V Directive:** these rules clarify who is liable for mismanagement of funds and tailor fund managers' remuneration rules to encourage them to take reasonable risks and a long-run view.

The European Parliament also approved ECON's position on the [European Long-Term Investment Funds Regulation](#), but this must still be agreed with the Council. Implementation of all these new rules will entail the ESAs drafting hundreds of technical standards, so there is still much work to be done. In addition, debates in respect of a number of other files, including [benchmarks](#), [Money Market Funds](#) and bank structural reform, did not reach conclusion and will therefore have to be taken forward by the incoming European Parliament.

On 25 April 2014, the ECB [published the SSM Framework Regulation](#), which lays the basis for the work of the SSM after the ECB takes over as banking supervisor. The ECB is fully to assume its supervisory tasks on 4 November 2014. The identification of significant banks, which will be subject to direct supervision by the ECB, will take place according to criteria set out in the SSM Council Regulation and further developed in the SSM Framework Regulation. The result of this process is due to be announced in September.

With most financial reform measures now adopted, on 15 May 2014, the European Commission published a [first comprehensive review](#) of the financial regulation agenda as a whole. This economic review sets out how the reforms will deliver a safer and more responsible financial system by enhancing financial stability, deepening the single market for financial services and improving its efficiency whilst improving market integrity and confidence. The published package

includes a Commission Communication, *A Reformed Financial Sector for Europe*, accompanied by a detailed economic review explaining how the reforms reshape the financial sector and the resulting benefits. The Communication recalls the objectives that guided the Commission, presents an overview of the reforms it proposed, and takes stock of the key effects that can already be observed today. Overall, the review states that the evidence suggests that the total expected benefits of the financial regulation agenda will outweigh the expected costs, both on a rule-by-rule basis and when considering the reforms as a whole.

On 21 May 2014, representatives of 26 EU Member States (ie all except Sweden and the UK) [signed an Intergovernmental Agreement](#) (IGA) on the transfer and mutualisation of contributions to a Single Resolution Fund (SRF) that will be established as part of Europe's Banking Union. The agreement will complement a Regulation recently agreed with the European Parliament on the creation of the SRM, which establishes the Fund and also features a central decision-making Board. The SRF will be fully financed by bank contributions. The SRM is aimed at ensuring the orderly resolution of failing banks without recourse to taxpayers' money. This will involve both a systematic recourse to the bail-in of shareholders and creditors, in line with the BRRD, and the possibility of recourse to the SRF. Using an IGA to establish rules on the transfer and mutualisation of contributions is intended to provide maximum legal certainty. The Council decided on this approach in December 2013, given legal and constitutional concerns in certain member states. On 20 June 2014, the European Commission [launched a consultation](#), for comment by 14 July, on key elements for the determination of contributions of institutions to the resolution financing arrangements established by the BRRD, and the SRM Regulation.

On 5 June 2014, ESMA published the text of a [new multilateral memorandum](#)

of understanding (MMoU) between EEA national competent authorities (NCAs), and between NCAs and ESMA, which entered into force on 29 May 2014. It has been signed by 29 authorities (28 EU countries plus Norway) in the securities and markets area. The new MMoU was agreed in view of the increasing internationalisation, harmonisation and interdependence of financial services and markets in the EU. It is designed to facilitate cooperation arrangements and the exchange of information between NCAs, and between NCAs and ESMA, in the application of their responsibilities under EU law relating to the securities and markets area. It also updates and replaces a previous agreement on the Exchange of Information and Surveillance of Securities Activities agreed by the members of the CESR, entered into by those members on 26 January 1999.

On 10 June 2014, euro-area Member States reached a political understanding on the operational [framework of the ESM direct recapitalisation instrument](#). Following the relevant national procedures and the formal adoption by the ESM Board of Governors, the instrument is expected to be added to the toolkit of the ESM by the start of the SSM supervision in November of this year. The instrument may be activated in case a bank fails to attract sufficient capital from private sources and if the ESM Member concerned is unable to recapitalise it, including through the instrument of indirect recapitalisation of the ESM. For a transitional period until 31 December 2015, a bail-in of 8% of all liabilities will be a precondition for using the instrument, as well as the use of the resources available in the ESM Member's national resolution fund. From 1 January 2016, bail-in in line with the rules of the BRRD will be required. With its maximum recapitalisation capacity of €60 billion, this new instrument of the ESM will be another important pillar of the Banking Union, alongside the SSM and the SRM.

CRR/CRD provide for the adoption of a large number of Delegated and Implementing Acts in order to give full

Debt redemption fund and eurobills

In July 2013, the European Commission established an Expert Group on a debt redemption fund and eurobills, to deepen the analysis on the possible merits, risks, requirements and obstacles of partial substitution of national issuance of debt through joint issuance in the form of a redemption fund and eurobills. This decision followed a commitment made by the Commission to the European Parliament as part of the overall agreement on the "Two-Pack" economic governance legislation, in the Declaration of the Commission of 12 March 2013.

A debt redemption fund would mutualise government debt of euro-area Member States above a certain threshold (eg above the 60% Maastricht criterion) to be redeemed together by the participating Member States, under a comprehensive set of legal rules designed to address moral hazard and to ensure that repayments are made. Eurobills would be short-term government securities of up to one or two-year maturity that would be issued jointly by euro-area Member States. Longer-term government securities would continue to be issued nationally.

On 31 March 2014, [the final report](#) of this Expert Group was delivered to President Barroso and Vice-President Rehn, responsible for economic and monetary affairs and the euro. In brief, the report offers the following key conclusions:

- Both a debt redemption fund/pact and eurobills would have merits in stabilising government debt markets, supporting monetary policy transmission and promoting financial stability and integration, although in different ways and with different long-term implications.
- However, these merits would be coupled with economic, financial and moral hazard risks, and the trade-offs would depend on various design options.
- Given the very limited experience with the EU's reformed economic governance, it may be considered prudent to first collect evidence on the efficiency of that governance before any decisions on schemes of joint issuance are taken.
- Without EU Treaty amendments, joint issuance schemes could be established only in a *pro rata* form, and – at least for the debt redemption fund/pact – only through a purely intergovernmental construction, which would raise democratic accountability issues. Treaty amendments would be necessary to set up joint issuance schemes including joint and several liability, certain forms of protection against moral hazard and appropriate attention to democratic legitimacy, the report says.

The report does not formulate policy proposals or recommendations, nor endorse explicitly or implicitly either of the two ideas.

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effect to the Single Banking Rulebook. These supplement the harmonisation achieved by the CRR/CRD by specifying the detail of how competent authorities and institutions shall comply with the obligations laid down in CRR/CRD. Approximately 50 Delegated and Implementing Acts are scheduled for adoption during the course of 2014. Details of those Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) adopted by the European Commission, together with overview reports, [have been published](#).

An [end of legislature state of play](#) report, last updated 11 June 2014, covers 20 open files in which ECON are involved. Five of these, including MMFR, Benchmark Regulation, SFT Regulation and bank structural reform, are reported to be in the early stage of first reading. Five more, including ELTIFs, are reported to have a mandate adopted to start negotiations at committee stage under the old legislature. Three are shown as having a first reading position adopted by plenary without agreement and six more, including SRM, PRIPs, UCITs and CSDR, as having first reading agreement with the Council adopted in plenary. Finally, one, regarding investor compensation schemes, is classified as blocked/obsolete.

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Progress toward the removal of references to CRA ratings from standards, laws and regulation has been uneven across jurisdictions and the financial sectors.

Credit Rating Agencies

On 28 April 2014, the European Commission [adopted five implementing decisions](#) which confirm that the rules in place on Credit Rating Agencies (CRAs) in Argentina, Brazil, Hong Kong, Mexico and Singapore are equivalent to the EU rules on CRAs. The adoption of these implementing decisions follows the positive technical assessment of the regulatory environments in these jurisdictions by the ESMA, the EU supervisor for CRAs. The equivalence decisions allow smaller CRAs in these countries to apply for certification in the EU, with the result that their ratings can then be used by EU financial institutions for regulatory purposes. These [Implementing Decisions](#) were subsequently published in the *Official Journal* on 3 May 2014 (at pages 69-82).

On 5 May 2014, the European Commission [adopted a report](#), addressed to the European Parliament and the Council, on the feasibility of a network of smaller CRAs in the EU. This report assesses how the establishment of such a network could contribute to the strengthening of smaller CRAs, facilitating their growth to become more competitive market players. It proposes the establishment of a regulatory dialogue with smaller CRAs; and it also recommends that a full assessment of the feasibility to establish a more integrated network of smaller CRAs be carried out within the medium to long term, when the overall impact of the recently enacted

legislation can be effectively analysed.

With effect from 7 May 2014, ESMA [approved the registration](#) of EuroRating Sp. z o.o., based in Poland, as a CRA under Article 16 of the CRA Regulation – meaning that EuroRating's credit ratings can now be used for regulatory purposes under EU legislation. There are now 23 registered and two certified CRAs in the EU; and amongst the 23 registered CRAs, three operate under a group structure, totalling 16 legal entities in the EU, which means that the total number of CRA entities registered in the EU is now 36.

On 12 May 2014, the FSB published its [final peer review report](#) on national authorities' implementation of the FSB Principles for Reducing Reliance on CRA Ratings. The report is complemented by the publication of the [action plans for each FSB jurisdiction](#). This review found that progress toward the removal of references to CRA ratings from standards, laws and regulation has been uneven across jurisdictions and the financial sectors. The key challenge lies in developing alternative standards of creditworthiness and processes so that CRA ratings are not the sole input to credit risk assessment. In the light of these findings and in support of the review's conclusion that more could be done to address gaps in individual action plans, the peer review set out several recommendations. In particular, national authorities should:

- implement their action plans and refine them as lessons of experience are gained.

- engage market participants to encourage: adoption of alternative approaches such as strengthening of internal credit assessment processes; and reviewing reliance on CRA ratings in private contracts, such as ratings triggers, which also represent mechanistic reliance on CRA ratings.
- not replace mechanistic reliance on CRA ratings with mechanistic reliance on a very limited number of alternative measures, as this might lead to substituted procyclicality and herd behaviour.

On 2 June 2014, ESMA published a [second set of Q&As](#) on the CRA Regulation (CRA III). The updated Q&A provides clarifications regarding the publication of sovereign ratings and conflict of interests concerning investments in CRAs.

On 4 June 2014, IOSCO published a consultation report, for comment by 5 September 2014, on [Good Practices on Reducing Reliance on CRAs in Asset Management](#). Although approaches may differ across jurisdictions, investment managers often use the services of CRAs to form an opinion on the creditworthiness of a particular issuer before purchasing securities, selecting counterparties, or choosing the best collateral to secure transactions. On their part, investors often refer to CRA ratings before buying shares of a fund, or when guiding investment managers on the basis of a tailored investment mandate. The good practices that result from this consultation will be addressed to national regulators, investment managers, and investors, where applicable. IOSCO also has launched a separate project to identify the good practices of intermediaries with regard to the use of alternatives to credit ratings to assess creditworthiness.

On 24 June 2014, ESMA [published its final report](#) on draft Regulatory Technical Standards (RTS) required under the CRA III Regulation. The draft RTS, which complement the existing regulatory framework for credit rating agencies (CRAs), cover:

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BCBS sought to simplify the underlying policy framework and to complement relevant initiatives undertaken by other supervisory bodies.

- disclosure requirements on structured finance instruments (SFIs) – these focus on the information that the issuer, originator and sponsor of an SFI must publish. The draft RTS incorporates, where possible, existing disclosure and reporting requirements adopted by the ECB and BoE to avoid duplication and overlap. The disclosure obligations also provide for standardised investor reporting and disclosure of transaction documents. ESMA will develop reporting obligations concerning private and bilateral structured finance instruments as soon as possible;
- the European Rating Platform (ERP) – this defines the content and presentation of rating information, including structure, format, method and timing of reporting that credit rating agencies should submit to ESMA for credit ratings that are not exclusively produced for and disclosed to investors for a fee. The ERP website will be set up and run by ESMA and is scheduled to come into service by 1 January 2017; and
- the periodic reporting on fees charged by CRAs – this defines the content and the format of periodic reporting on fees charged by CRAs for the purpose of ongoing supervision by ESMA.

These draft RTS have been submitted to the European Commission for its approval and it now has three months to decide whether to endorse them.

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OTC (derivatives) regulatory developments

On 1 April 2014, ESMA published a summary of its 2014 [supervisory work plan](#) in relation to [trade repositories](#) (TRs), with the aim of enhancing the transparency of its actions regarding TRs in the EU. Under Titles VI and VII of EMIR, the direct supervision of TRs has been entrusted to ESMA, which has started to supervise the six [registered TRs](#).

Following on from the 19 March 2014 announcement that [Nasdaq OMX Clearing AB](#) had become the first CCP to be listed by ESMA as authorised under EMIR, on 3 April 2014, ESMA announced that it had [added EuroCCP](#) to its [list of authorised CCPs](#) under EMIR. ESMA's list of authorised CCPs also details the classes of financial instruments covered by each CCP's authorisation. Subsequent additions made by ESMA to the list were [KDPW_CCP](#), announced on 9 April; [Eurex Clearing AG](#), announced on 11 April; [CC&G](#) and [LCH.Clearnet SA](#), announced on 23 May; and [European Commodity Clearing \(Germany\)](#) and [LCH.Clearnet Ltd \(UK\)](#), announced on 12 June. ESMA has also published a list of [CCPs established in non-EEA countries](#) which have applied for recognition under Article 25 of EMIR and which expressly agreed to have their name mentioned publicly. This list, last updated on 10 June 2014, is not necessarily exhaustive and it remains subject to further updates. The list is provided for information purposes only and it is without prejudice to any future ESMA decision of the recognition of the applicant CCPs.

On 8 April 2014, the FSB published its [seventh semi-annual progress report](#) on implementation of OTC derivatives

market reforms. This report finds that substantial progress has been made toward meeting the G20 commitments, through international policy development, jurisdictions' adoption of legislation and regulation, and expansion in the use of market infrastructure. The report also discusses areas where further work is needed to complete the reforms and achieve the G20 objectives, including for authorities to:

- put in place their remaining legislation and regulation promptly and in a form flexible enough to respond to issues of cross-border consistency and other issues that may arise;
- provide clarity on their processes for making equivalency or comparability decisions (including whether additional authority may be needed to defer to other jurisdictions' regimes, where appropriate): the FSB will report to the G20 by September 2014 on jurisdictions' frameworks in this regard; and
- continue to closely coordinate and cooperate as needed to promptly seek to resolve cross-border regulatory issues when they are identified.

On 10 April 2014, the BCBS [published its final standard](#) for calculating regulatory capital for banks' exposures to CCPs. This final standard will replace the [interim capital requirements](#) that were published in July 2012. When developing the final standard – in close cooperation with the CPSS and IOSCO – the BCBS sought to simplify the underlying policy framework and to complement relevant initiatives undertaken by other supervisory bodies, including the CPSS-IOSCO [Principles for FMs](#). The BCBS also aimed to support broader policy efforts advanced by the G20 leaders and the FSB, particularly those relating to central clearing of standardised OTC derivative contracts. The final standard will take effect on 1 January 2017, with the interim requirements continuing to apply until then. Although retaining many of the interim requirements, the final standard differs from them by:

- including a single approach for calculating capital requirements for a bank's exposure that arises from its

REGULATORY RESPONSE TO THE CRISIS

- contributions to the mutualised default fund of a qualifying CCP (QCCP);
- employing the standardised approach for counterparty credit risk (as opposed to the Current Exposure Method) to measure the hypothetical capital requirement of a CCP;
 - including an explicit cap on the capital charges applicable to a bank's exposures to a QCCP;
 - specifying the treatment of multi-level client structures whereby an institution clears its trades through intermediaries linked to a CCP; and
 - incorporating responses to frequently asked questions posed to the Basel Committee in the course of its work on the final standard.

On 11 April 2014, the European Commission published a consultation, for comment by 9 May 2014, on the treatment of [FX financial instruments](#). Concerns have been raised about the lack of harmonisation between the EU Member States on where the boundary lies between an FX financial instrument and a spot FX contract. This consultation therefore seeks stakeholders input on where they consider this boundary should be set.

On 14 April 2014, the ESAs [launched a joint consultation](#), for comment by 14 July 2014, on draft Regulatory Technical Standards (RTS) outlining the framework of the EMIR. These RTS cover the risk management procedures for counterparties in non-centrally cleared OTC derivatives, the criteria concerning intragroup exemptions and the definitions of practical and legal impediments. For those OTC derivative transactions that will not be subject to central clearing, these draft RTS prescribe that counterparties apply robust risk mitigation techniques to their bilateral relationships, which will include mandatory exchange of initial and variation margins.

On 8 May 2014, ESMA [sent a letter](#) to the European Commission advancing its intention to ease certain frontloading requirement under the EMIR. Frontloading is a term that refers to the clearing obligation under EMIR, which will oblige

counterparties to centrally clear certain derivative trades through CCPs. ESMA believes that the frontloading procedure creates uncertainties for derivatives end-users while the exact terms of the clearing obligation has not been defined which could have adverse impacts on risk hedging and financial stability. Therefore, ESMA informs the European Commission that it intends to establish the frontloading requirement in a manner that will minimise uncertainty.

With respect to the continuing implementation of EMIR, ESMA's most recently updated [Questions and Answers](#) document was published on 23 June 2014. ESMA's [information page on EMIR](#) exists to provide access to the key documents and information about the Regulation.

On 27 June 2014, Commissioner Barnier [issued a statement](#) on global derivatives regulation. He observed that global derivatives markets need worldwide standards and national rules that work together seamlessly; and that following remarkable progress over the past five years in adopting international principles a final push is now required by regulators, under the auspices of the G20/FSB, to agree how "deference" to each other's rules will work in practice. He went on to announce that the European Commission would shortly adopt "equivalence" decisions that will allow CCPs from five countries outside the EU – Japan, Singapore, Australia, Hong Kong and India – to clear EU derivatives trades; with this being done in full deference to the rules and supervisory systems of those countries. Furthermore, decisions for other countries should follow shortly afterwards and the Commissioner stated his confidence that this will also include the USA, whose CCPs are truly global market infrastructures. In support of this he highlighted that technical talks with the CFTC are progressing well, giving him confidence that agreement would be reached on outcomes-based assessments of the rules and on aligning key aspects of margin requirements to avoid arbitrage opportunities. So long as the CFTC also gives effective equivalence to third country

CCPs, deferring to strong and rigorous rules in jurisdictions such as the EU, the adoption of applicable equivalence decisions should come very soon.

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Financial Transaction Tax

In Issue No. 30 of ICMA Quarterly Report (at page 18) we discussed the fact that the UK had challenged the legality of the decision of 22 January 2013 of the Council to authorise enhanced cooperation on a common framework of FTT and the scope and objectives of the initial Commission proposal. On 30 April 2014, the European Court of Justice [dismissed this UK challenge](#). It is evident from the judgement, however, that this ruling is made on the basis that, with the details of the FTT yet to be determined, it is too soon to decide what effects the FTT will, or will not have; and that the UK's action is therefore, in effect, premature. Accordingly, once agreement is reached actually to proceed with a specific form of FTT under enhanced cooperation amongst the 11 participating Member States, it now remains open to the UK for it to bring a renewed action; which will then be decided on the basis of that agreed and specific form of FTT.

The [press release](#) in respect of the ECOFIN meeting, held in Brussels on 6 May 2014, reports that: "The Council discussed the situation concerning the introduction of FTT in 11 Member States through the "enhanced cooperation" procedure. The Presidency reported on work carried out so far. The Presidency took note of a joint statement by ministers of participating countries and confirmed that all relevant issues will continue to be examined by national experts. It noted the intention of participating countries to work on a progressive implementation of the FTT, focusing initially on the taxation of shares and some derivatives. The first steps would be implemented at the latest on 1 January 2016."

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Short-Term Markets



by David Hiscock
 and Andy Hill

ECP market

On behalf of its ECP Committee, on 11 April 2014, ICMA submitted a feedback letter concerning certain specific aspects of the BCBS's 12 January 2014 consultative document, *Basel III: The Net Stable Funding Ratio*. This letter notes that there is much in this consultative document with which the ICMA ECP Committee agrees, including that it is helpful to establish an internationally agreed standard.

Nevertheless, the ICMA ECP Committee believes that CP should not have to be financed with term liquidity, as holdings of CP are likely to be allowed to mature and not be replaced. Hence a risk horizon of twelve months is inappropriate; and the proposed haircuts are therefore penal and intellectually inconsistent. The ICMA ECP Committee believes that an approach which calls for a matched funding requirement for assets with short term maturity dates would provide the basis for a suitably sound liquidity regime and respectfully requests the BCBS to recognise this in its finalised NSFR proposals.

Furthermore, the ICMA ECP Committee draws attention to the fact that ECP is the largest and most liquid CP market in Europe. ECP plays an important role in providing much needed funding to the benefit of issuers and investors; and as efforts continue to stimulate economic growth, the case for an efficient and effective CP market is more evident than ever. Sound regulation should not impede this.

Separately, on 11 April 2014, a joint Bank of England/ECB paper, *The Impaired EU Securitisation Market: Causes, Roadblocks and How To Deal With Them*, prepared for the G20/IMF Spring meetings, was published. To set the scene, this paper starts by describing the aims and benefits of securitisation and the current situation of the EU securitisation market. It then outlines what measures and initiatives were proposed and implemented so far to address earlier misalignments, before going on to discuss what are the remaining roadblocks and then coming to some concluding remarks and the way forward.

A longer, more substantive joint Discussion Paper, *The Case for a Better Functioning Securitisation Market in the European Union*, was then issued on 30 May 2014. This DP explains how a well-functioning securitisation market can deliver a variety of benefits to issuers and investors, whilst also supporting the provision of credit through indirect channels. Securitisation can support greater funding diversification, free up capital to allow banks to extend new credit to the real economy, and provide non-bank investors, such as insurance companies and pension funds, with access to a broader pool of assets.

The DP notes that, despite these benefits, present levels of activity in securitisation markets in the EU are low. This may reflect a range of impediments considered by the DP, including:

- stigma attached to the market following the prominent role complicated securitisation structures and poorly underwritten loans played in contributing to the financial crisis;
- regulatory treatment that can be perceived as conservative relative to other assets and as contributing to uncertainty;
- lack of standardisation across the EU; and
- lack of data on which to assess the performance of some asset-backed securities.

In order to remove these impediments and realise the benefits of securitisation, the DP goes on to consider a range of options that authorities could support to revitalise the securitisation market. These include developing high-level principles for "qualifying securitisations" and harmonising securitisation standards across the EU. Reform of the market relies on a number of steps:

- The product needs to be simple and transparent to investors.
- Banks need to have incentives to encourage them to originate and monitor the loans that they make prudently.
- Investors need to have access to a sufficient history of data to understand how the loans that underlie a securitisation will perform across a wide variety of circumstances.

On 9 June 2014, AFME followed up on these encouraging signals that the official sector recognises the desirability of rehabilitating the securitisation market, by issuing its own report, *High Quality Securitisation for Europe: The Market at a Crossroads*. In this report, AFME proposes five practical steps to revive securitisation:

- Recalibrate the rules for risk-weighted assets for bank investors in securitisation set out in the December 2013 Basel Committee re-proposal.
- Lower the capital charges for insurance companies seeking to invest in securitisation set out in the December 2013 EIOPA report.
- Include a wider range of high quality securitisations as HQLA under the LCR.
- Acknowledge the progress already made in improving transparency and disclosure, build on this work, and avoid new and intrusive regulations that are not aligned with existing practice and which create duplication and confusion in a market which already has very high standards of transparency.
- Ensure better coordination between regulators and internationally to prevent the "layering" effect of overlapping regulations and promote mutual recognition of equivalent standards.

It can be seen that there is a consensus that a revitalised

European securitisation market will help to spur economic growth and is supported by the European securitisation market's good performance. Nevertheless, there are challenges to be met and steps to take to ensure a market involving robust and sustainable high-quality securitisations.

This is all very encouraging, but there is one element which currently appears to be missing in the debate. The focus of the discussions involves longer-term financing through securitisation involving securities backed by assets such as residential mortgages and commercial loans. This is good for so far as it goes. Yet it is a fallacy to consider that a thriving economy only needs longer-term financing. There are many reasons why businesses of all sorts need to be able to also secure a healthy flow of shorter-term financing, including managing varying cash flow requirements, so that liabilities can, when needed, be settled ahead of the receipt of cash earnings from sales.

In the context of securitisation, ABCP offers a practical basis for satisfying a range of shorter term financing requirements – well suited to asset classes such as trade receivables, credit card receivables and auto loans. Transactions can be relatively modest in scale, with the financing amounts and deal maturities scaled to suitably match issuer and investor preferences.

The ABCP conduits which suffered during the financial crisis were those which contained securities and which had a lot of inherent market risk. On the contrary, those ABCP conduits which provided genuine financing to the real economy, by and large, continued to perform through the crisis.

The prime reason why today there are not more of these valuable ABCP structures in the CP markets, providing financing to the European economy is that changes in regulation have driven banks away from this activity.

As such, whilst acknowledging that there were ABCP structures which the financial crisis showed to be inappropriate, ICMA believes it is important that the relative strengths and benefits which short-term funding markets can offer European securitisation markets should not be overlooked. Accordingly, as further reflection continues to be given to how best to ensure that markets can fulfil the funding needs of the economy, ICMA calls upon the official sector to ensure that this area of the markets is appropriately considered.

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Repo market: collateral

In April 2014, the ICMA European Repo Committee published the paper *Collateral is the New Cash: the Systemic Risks of Inhibiting Collateral Fluidity*. The paper seeks to advance the discourse around the potential risks of collateral scarcity in the post-crisis world, where the use of collateral to underpin the stability and efficiency of capital markets is becoming ever more important. Rather than focus on aggregate supply and demand imbalances, the paper suggests that the most important factor is collateral fluidity: that is, the ability for collateral to move through the system smoothly and effectively. This requires efficient and connected settlement systems (the “plumbing”), as well as functional bank funding desks that can source, price, manage, and allocate collateral (the “pump”). The paper highlights potential systemic risks stemming from regulatory initiatives that could inhibit collateral fluidity, not least through restricting the ability for the “pump” to function effectively.

The paper was launched at a special conference in Brussels co-hosted with the European Banking Federation. The event, targeted primarily at the regulators and policy makers, featured keynote speakers Daniela Russo (Director General, Payments & Market Infrastructure, European Central Bank) and Manmohan Singh (Senior Economist, International Monetary Fund). Panel discussions focused on the impact of regulation and collateral fluidity from the perspective of market practitioners, operational experts, and central banks and policy makers. Panellists included a broad range of industry and policy experts, including Sharon Bowles (Chair, European Parliament Committee on Economic and Monetary Affairs), Jennifer Robertson (Deputy Head of Unit, Financial Markets Infrastructure, DG Internal Market, European Commission), Klaus Löber (Head of CPSS Secretariat, Bank of International Settlements), and Rodrigo Buenaventura (Head of Markets Division, European Securities and Markets Authority).

In May 2014, the paper formed the centrepiece of a seminar held in London, hosted by Godfried De Vidts, Chair of the European Repo Council, and with a panel featuring Sarah Breeden (Head of Market Sectors and Interlinkages Division, Bank of England). A similar event was held in Paris in June, again hosted by Godfried De Vidts, and with a panel that included Alexandre Gautier (Director of Market Operations Department, Banque de France).

ICMA plans to host further events related to the paper in other European venues later in the year, and will keep members informed as these are scheduled.

It is also important to note that *Financial Plumbing and Monetary Policy*, published on 20 June 2014, is an IMF staff working paper which focuses on how changes in financial plumbing of the markets may impact the monetary policy options as central banks contemplate lift off from zero lower

bound (ZLB). Under the proposed regulations, banks will face leverage ratio constraints; yet, as a result of quantitative easing (QE), banks want balance sheet “space” for financial intermediation/non-depository activities, whilst, at the same time, regulatory changes are boosting demand for high quality liquid assets. The paper also discusses the role of repo markets and the importance of collateral velocity and the need to avoid wedges between repo and monetary policy rates when leaving ZLB.

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Repo market: Net Stable Funding Ratio

As discussed in the last Quarterly Report, the ICMA ERC prepared and submitted a response to the BCBS *Consultation Paper on the Net Stable Funding Ratio* (NSFR). ERC members expressed concern at the proposed asymmetric treatment for loans to non-bank financial institutions, which would include SFTs to borrow securities in order to facilitate market-making and hedging. A snap survey of ERC members intended to estimate the impact of the NSFR on European repo markets, and to support the ERC response, suggests that the asymmetry could have serious implications for secondary bond market liquidity, not least for government securities. The market expects the final NSFR framework, including any amendments following the consultation, to be published by the BCBS later this year.

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Repo market: mandatory buy-ins

In March 2014, ESMA published a *Discussion Paper on the Draft Technical Standards for the Regulation on Improving Securities Settlement in the European Union and on Central Securities Depositories*, inviting comments on matters relating to the technical standards of the Regulation. Of particular concern to the ICMA ERC were questions in the paper related to settlement discipline, in particular those related to the provisions for introducing mandatory buy-ins to the European bond and repo markets. The issues and concerns arising out of the proposed framework, including a “two-tiered” treatment for SFTs, are discussed in the Secondary Markets section of this Quarterly Report.

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by Lalitha Colaco-Henry

Repo market: major shareholding notifications

ESMA issued a [Consultation Paper](#) on major shareholding notifications on 20 March 2014. While the main focus of the consultation was on the proposed draft Regulatory Technical Standards (RTSs) on major shareholding notifications under the Transparency Directive (TD), ESMA also sought input on the content of an indicative list of financial instruments referenced to shares and with economic effect similar to holding shares and entitlements to acquire shares. ESMA is required to submit the draft RTSs to the European Commission by 27 November 2014.

The major shareholding regime under the TD was originally introduced because of a number of high-profile cases where cash-settled derivative instruments were used surreptitiously to gain economic exposure to listed companies and circumvent the relevant takeover rules. As a result, considerable effort has been spent over many years trying to close down the remaining loopholes.

In this Consultation Paper, ESMA has drawn up an indicative list of financial instruments (FIs) that are subject to notification requirements according to Article 13(1) of the TD. ESMA stresses that the list is not intended to be exhaustive and that the FIs on the list should not necessarily be disclosed mechanically. Only when an instrument fulfils the conditions of Article 13(1)(a) or (b) would it be subject to disclosure requirements.

ESMA has included repos on the indicative list and has stated that they should be considered to fall within the scope of Article 13(1)(a) or (b) depending on the specific contractual terms agreed between the parties.

The GMRA contemplates the use of equity securities as the underlying collateral for repos and there is an Equities Annex

for this purpose. However, it is our understanding that the vast majority of the repo market uses fixed income securities as the underlying collateral rather than equities. Because of this, [the ERC responded](#) to the ESMA consultation to the effect that, in order to avoid any confusion or misunderstanding about the nature of most repo transactions and for the avoidance of doubt, the list should make clear that it is limited to repurchase agreements where the underlying collateral consists of equity securities to which voting rights attach.

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Repo market: TARGET2 Securities

As has been reported in previous editions of the Quarterly Report, the TARGET2 Securities (T2S) project is scheduled to go live in a series of waves beginning in June 2015. T2S is one of the largest infrastructure projects launched by the Eurosystem to date. It is a securities settlement system that will offer centralised Delivery Versus Payment (DVP) settlement in central bank money. T2S will be a service offered to Central Securities Depositories (CSDs) that sign the T2S Framework Agreement and is the infrastructure which will perform settlement and corporate actions functions. T2S will impose a single set of rules, standards and tariffs to all transactions in Europe, thus reducing the complexity of the current market infrastructure. It will have a huge impact on both cash bond markets and repo markets.

The ICMA ERC has commissioned Rule Financial to work jointly with the ERC Operations Group to carry out a body of work comprising a market survey, a target industry operating model, a seminar and a final presentation at the ERC general meeting. The electronic market survey asks market participants to assess market preparedness for, and industry attitudes towards T2S. It is hoped that the survey results will shed light on industry participants' understanding of T2S and its possible consequences for individual firms in terms of costs, resources and opportunities. If you would like to complete the survey it can be accessed from www.rulefinancial.com/icma-t2s-survey. The deadline for completing the survey is 1 August.

An interactive seminar will be held on 30 September which will present the results of the survey and also detail the target industry operating model: ie what market participants will need to know about T2S and what they will need to do in order to interact with T2S. The conclusions of the work will then be presented at the ERC General Meeting, which is being held on 19 November in London.

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by Ruari Ewing
and Charlotte
Bellamy

Primary Markets

Prospectus Directive

ICMA has begun consulting with members on the direction it should take in relation to the next review of the Prospectus Directive (PD III) by the European Commission, which is due by 1 January 2016. Current consensus seems to be that, while there is a long-term desire for a structural overhaul of the PD regime focusing on the interaction between the PD, TD, MiFID and other primary market regimes such as PRIIPs, at this point in time there is an overriding short-term need for regulatory stability in the primary market.

As reported in [previous editions](#) of this Quarterly Report, the implementation of PD II caused significant uncertainty and disruption for issuers in accessing the international debt capital markets, which has been compounded by competent authorities taking inconsistent approaches to various aspects of PD II such as issue-specific summaries, final terms and supplements. In many cases, the implementation of PD II meant that issuers needed to restructure their debt issuance programmes at great expense in order to continue to access the funding they required and provide a range of investment options to investors. International capital market participants are of course also adapting to changes to a large number of other pieces of key regulation affecting their business in recent

years, including the MiFID review, MAD review, AIFMD and PRIIPs to name a few. With this backdrop, it has been suggested that the primary market requires a period of regulatory stability in order to continue to function efficiently and support the vital functions in the real economy that the bond markets (both domestic and international) perform. ICMA will continue to engage with members in the coming months on this topic. In addition, ICMA understands that PDIII (along with other PD topics) will be discussed at the [Euromoney Prospectus Rules Conference 2014](#) taking place in London on 24 and 25 September.

Separately, there continue to be developments in relation to the current Prospectus Directive regime.

Following a referral by an Austrian court, the European Court of Justice (ECJ) gave a ruling on, among other things, prospectus publication under the Prospectus Directive and Regulation 809/2004 (the "Prospectus Regulation") in the [Michael Timmel v Aviso Zeta AG \(C-359/12\)](#) case (the "Timmel case") in May 2014. In relation to prospectus publication, the ECJ ruled that the requirement under Article 29 of the Prospectus Regulation that a prospectus be easily accessible on the website on which it is made available to the public is not fulfilled where there is an obligation to register on that website, entailing

acceptance of a disclaimer and the obligation to provide an email address, where a charge is made for that electronic access or where consultation of parts of the prospectus free of charge is restricted to two documents per month. This point was the most contentious point of the case, but most issuers should be able to comply (and already do comply) with the ECJ's ruling. However, those issuers that do not have their own websites on which to publish prospectuses might face difficulties if their other options for electronic publication include the barriers to access described in the ruling. The Luxembourg Stock Exchange announced that all published prospectuses (including supplements, final terms and documents incorporated by reference) on its website will be accessible to potential investors without any access restrictions from 13 June 2014.

Finally, *Omnibus II* was published in the *Official Journal* on 22 May 2014, with the provisions amending the PD being substantially in the form reported in the *Second Quarter 2014 edition* of this Quarterly Report. Member States have to publish laws, regulations and administrative provisions required by *Omnibus II* and relating to the PD by 31 March 2015, and apply those measures from 1 January 2016.

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PRIIPs and vanilla bonds

Following reports of initial political agreement on 1 April (see the *Second Quarter 2014 edition* of this ICMA Quarterly Report), the European Council published on 3 April a *final compromise text* for a Regulation on Packaged Retail and Insurance-based Investment Products (PRIIPs). This was followed by European Parliament plenary *adoption* of the dossier on 15 April, accompanied by a European Commission

press statement and memo of frequently asked questions. One of the main aspects of the Regulation is the requirement for key information documents (KIDs) for retail investors that are a maximum of 3 sides of A4 paper. Anticipated next steps are formal publication of the Regulation in the *Official Journal* (following jurist linguist review) and industry consultation on implementing subsidiary Level 2 measures (potentially an ESMA discussion paper later in 2014 followed by a consultation paper in 2015). While the final compromise includes notable improvements on prior drafts, several concerns remain particularly salient, beyond those outlined in prior editions of this ICMA Quarterly Report.

Scope: It would seem that the scope of the Regulation does not extend to vanilla bonds, as these do not involve an amount "repayable" being subject to fluctuations in underlying reference values or asset performance. This would also be consistent with the explicit confirmation of the exclusion of deposits solely exposed to interest rates and assets that would be held directly, such as corporate shares or sovereign bonds. That said, (i) the Commission seems to believe that hybrid securities may be somehow covered within this scope (citing the example of 12 year subordinated notes) and in any case (ii) national governments may extend the scope domestically. The scope is due to be reviewed four years down the line. Hopefully, vanilla bonds will continue to be excluded, as the Commission considers that, in contrast to simple products where investors generally only consider different interest rates, (i) packaging raises costs and complexity and makes instruments more difficult to compare and (ii) this warrants stronger investor protection and transparency measures. (This incidentally would also seem to illustrate why the focus of KID content should be on "packaging" information rather than on, say, corporate information about an issuer.) KIDs will also be required when dealing with discretionary asset managers, which seems strange



While the final compromise includes notable improvements on prior drafts, several concerns remain particularly salient.

since they are professionals whose fiduciary obligations would require them to review the fuller disclosure documentation, notably under the Prospectus Directive (PD).

KID purpose: It seems the purpose of KIDs will be to "enable" or (more realistically) to "help" investors to understand and compare products (both forms of wording confusingly appear in the text). Interestingly, the Commission has said KIDs should provide "basic" information on products, which might seem to be conceptually more intuitive than the "key" information terminology that has been actually been used in the legislative text.

Liability: There should be no civil liability unless the KID is misleading, inaccurate or inconsistent with certain documents or with specific disclosure requirements – which seems muddled compared to the clear status of the summary under the PD. More significantly however, this does not exclude further civil liability claims in accordance with national law – so there will be no pan-European consistency as in the PD. It is also not entirely clear to what extent compliance with all the specific disclosure requirements will be possible. For example, the Regulation envisages the use of synthetic risk indicators, though none have been put forward as not being likely to mislead; it may be impossible to set out, within the KID length cap, a narrative explanation of things that are not adequately captured by the indicator.

Who prepares KIDs and when: Retail intermediaries must provide KIDs to retail investors in good time before investors are bound, whilst issuers must prepare KIDs before products are made available to retail investors. One hopes there will be no potential for an intermediary to try to sell institutional products to retail investors without an issuer's knowledge or consent and so cause the issuer to be in breach of the regime (that would seem inconsistent with natural justice). Issuers will have to review KIDs "regularly" (and not just during offering periods), potentially until maturity.

Regulators: Regulatory jurisdiction seems unclear, which may result in overlapping (and potentially inconsistent) regulatory interpretations.

Legislative process: It seems the Regulation will start applying about two years following *Official Journal* publication, but the Commission's deadline for implementing subsidiary Level 2 measures seems to be about three years following *Official Journal* publication. So the regime could conceivably start applying without the detailed provisions being in place. Additionally, there does not seem to be any grandfathering for existing securities. The Commission is required to review the legislation about four years following *Official Journal* publication, so potentially on the basis of just 12 months actual experience of the regime working in practice.

The success (or failure) of the forthcoming PRIIPs regime would now seem to depend on what implementing Level 2 measures are ultimately adopted, with much more debate still needed.

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MiFID II Level 2: underwriting and placing

On 22 May, ESMA published *inter alia* a 311 page [Consultation Paper](#) (with a 1 August response deadline) on implementing subsidiary Level 2 measures under the MiFID review. Much of the consultation relates to secondary markets (see the next section of this ICMA Quarterly Report), but section 2.10 (12 pages) relates to conflicts of interest and provision of information to clients in the context of underwriting and placing that are relevant to the primary bond markets.

The consultation is not always clear as to its application between the debt and equity markets, but otherwise seems to mainly suggest that underwriters be required to have appropriate policies in place, which would be generally consistent with the points made in paragraphs 45-63 of [ICMA's February 2011 response to the Commission 2010 MiFID consultation](#) (see the [First](#) and [Second](#) Quarter 2011 editions of this ICMA Quarterly Report) and most notably with the Commission's subsequent 390 page [impact statement](#) (sections 3.8, 5/9.4, 6.9/9.4, Annex 3/13.9 and Annex 4/9.4).

However there are various points of granular detail that do not seem workable from a practical perspective, such as recording individual allocation rationales when allocating a book with 500 accounts within a couple of hours. It is also worth noting that many of the conflict risks highlighted by ESMA seem to be of a mainly theoretical nature. ICMA will be responding to these points by the 1 August deadline.

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There are various points of granular detail that do not seem workable from a practical perspective.



Ratings post-BRRD

by Katie Kelly

The Bank Recovery and Resolution Directive (BRRD), which was adopted by ECOFIN on 6 May 2014 and will come into effect on 1 January 2015, was a key milestone in cementing the bail-in power. Although national legislation remains to be put in place in several Member States, the implementation date for the bail-in aspect of the BRRD is 1 January 2016. The intention of bail-in is to avoid taxpayer bail-outs of banks by enabling the resolution authorities to transfer losses onto shareholders, senior unsecured creditors and other creditors, rather than the taxpayer. This is intended also to avoid the cost and value destruction of liquidation and, hopefully, increase the prospect of salvaging the viable part of an institution.

However, a consequence of this change in bail-in model from taxpayer to senior unsecured creditor is a diminution of extraordinary government support for banks, meaning a shift in the balance of risk to the downside for banks' senior unsecured creditors. Although it is expected that in the near-term, while resolution frameworks take shape, governments will remain supportive of banks' senior unsecured creditors, this support is likely to diminish within a

two-year rating horizon. The response among the rating agencies has varied. Some are taking a more "wait and see" approach with respect to the effect of BRRD implementation, while others are downgrading those banks who they feel may suffer from the reduction of government support. The rating agencies are attempting to adapt to a world of diminishing support and will continue to assess the implications of the BRRD package for systemic support as further clarity develops as to how bail-in might be applied in practice.

As reported in the [Fourth Quarter 2013 edition](#) of this Quarterly Report, ICMA has constituted a working group with a remit to continue the exchange of views and examine the wider concerns and issues surrounding the BRRD and, in particular, the bail-in regime, between the buy side, issuers and regulators.

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ICMA Corporate Issuer Forum

The ICMA Corporate Issuer Forum (CIF) invited representatives of BlackRock and PIMCO to take part in an interactive question and answer session at a recent CIF meeting, which gave the investors the opportunity to share their perspectives on non-deal specific issues such as the drivers for investment decisions, efficiencies in new issues processes and syndication matters, investor relations and secondary market liquidity. This very engaging session elicited full participation of all those present in an open and frank two-way discussion, from which both the CIF members and the investors benefitted hugely. As well as opening the direct channels of communication in a meaningful way between the sell-side and the buy-side, it also gave the CIF members and the investors an invaluable insight into, and opportunity to exchange views on, their respective issuance/investment processes and preferences.

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Green Bond Principles

by Nicholas Pfaff

As anticipated in the previous edition of the Quarterly, ICMA was nominated on 14 April 2014 to provide the Secretariat for the Green Bond Principles. On the same day, the GBP Governance arrangements on which ICMA provided extensive prior advice were also published. In a further key development, the GBP Executive Committee was formed after a month long application period on 4 June 2014 with 18 organizations comprising a balanced distribution between investors, issuers and underwriters.

At the time of ICMA's nomination to the Secretariat, 25 banks announced their support of the Principles including the four founding banks that served as a drafting committee for the Principles: Bank of America Merrill Lynch, Citi, Crédit Agricole CIB, and JPMorgan Chase & Co. At the time of publication, approximately 50 institutions representing all participants in the GB market have now joined the GBP with a further 12 having requested the status of observer. Membership is open to institutions that have issued, underwritten or placed, or invested in a Green Bond; while observer status is designed to welcome organizations that are not yet in the market and/or are active in the field of green finance such as but not limited to NGOs, universities, auditors, and service providers (all applications should be sent to greenbonds@icmagroup.org).

ICMA is actively providing support to the GBP through the Secretariat, amongst others in the form of a dedicated section of its website (www.icmagroup.org/greenbonds) and by responding to membership and other queries with resources mainly from its Paris office. The Secretariat's duties also generally include facilitating information exchange with issuers, investors, underwriters and other stakeholders; as well as gathering input going forward for the annual update of the GBP, and generally advising on GBP governance and other matters.

Following the closure of the application process at the end of May 2014, a total of 29 applicants for the Executive Committee came forward. The composition of the resulting Committee membership is based on the extent of the organization's historic activity in the Green Bond market; and criteria such as transaction volume, diversity of type and geographic balance. The following organizations are now members of the Executive Committee:

GBP Executive Committee as of June 2014

Investors	Issuers	Underwriters
- Blackrock, Inc.	- EDF S.A.	- Bank of America Merrill Lynch
- California State Teacher's Retirement System (CalSTRS)	- European Investment Bank (EIB)	- Citi
- Natixis Asset Management / Mirova	- GDF SUEZ	- Credit Agricole CIB
- Standish Mellon Asset Management Company LLC	- International Finance Corporation (IFC)	- HSBC
- TIAA-CREF	- Unilever	- JPMorgan Chase & Co.
- Zurich Insurance Group	- World Bank	- Skandinaviska Enskilda Banken AB (SEB)

The composition of the Executive Committee confirms the broad support that the Principles enjoy and provides a solid basis for their governance. The Committee met for the first time in London on 23 June and will remain in place until the end of 2014. Its key priority will be to oversee the update of the GBP that will be presented at the GBP AGM scheduled to take place in early November 2014 in London. The Secretariat will organise beforehand on behalf of the Executive Committee a wide related consultation of GBP members and observers.

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Corporate bond market research

by David Hiscock

On 15 April 2014, IOSCO's research department published a paper (the views expressed in this are solely those of the authors and do not necessarily reflect the views of IOSCO or its members) entitled *Corporate Bond Markets: A Global Perspective*, which presents findings from an in-depth study, based on data aggregated from a sample of 91 emerging and developed countries, on the development and functioning of corporate bond markets globally. The report's findings underscore the importance of corporate bond markets to economic growth, financial stability and economic recovery.

The aims of the report are to provide an overview of corporate bond markets since 2000; identify issues regarding market development, investor protection and systemic risk for further research; and highlight data gaps with a view to improving future data collection efforts. The following key messages summarize the report's main findings:

1. Corporate bond markets are growing in terms of size and importance to the real economy, and are extending their global nature.
2. Since the onset of the crisis, corporate bond markets are beginning to fill a gap left by bank and long-term/infrastructure financing, and are showing potential for servicing small and medium enterprises (SMEs).
3. These trends are in part fuelled by

a search for yield. A changing interest rate environment may modify bond risks and raise new investor protection issues, especially from a retail investor perspective.

4. Meanwhile, secondary markets are evolving to accommodate a new economic and regulatory environment. Understanding this change is key to identifying both potential systemic risks and opportunities to develop these markets.

Considering developments, risks and opportunities in corporate bond markets, the report finds that corporate bond markets have almost tripled in size, to almost \$3.2 trillion in 2013, since 2000 – with non-financial firms tapping the corporate bond markets in growing numbers, suggesting a move away from bank lending in some developed markets; and during this period 27 new economies have recorded corporate bond issuances, most of these emerging markets, which accounted for 30% of recorded issuance volume in 2013 vs just 5% in 2000. Meanwhile, a search for yield is driving investment in high yielding corporate bond markets – high yield issuances have increased from \$72 billion in 2000 to \$550 billion in 2013; Payment-in-Kind bonds reached \$18 billion in 2013, higher than pre-crisis levels; and contingent capital bonds reached \$15 billion in 2013.

In seeking an understanding of liquidity and transformation in the secondary

market, the report examines illiquidity in the secondary markets in the context of a changing regulatory environment – noting that before the crisis, corporate bond markets were awash with "phantom liquidity" that has since decreased, creating higher liquidity risk for investors. This "phantom liquidity" refers to liquidity provided to the market on the back of potentially systemically risky practices – eg before the crisis dealers could bundle illiquid bonds into structured debt products such as Collateralised Debt Obligations , a move that helped amplify the financial crisis (ie phantom liquidity was offered to the secondary market, but at the expense of financial stability).

In the wake of the crisis, new regulation and internal bank controls have made dealer banks step back from their market-making role. Eventually, greater liquidity risk will be reflected in higher yields and push up the cost of bond borrowing – although electronic trading platforms could offer a channel for reducing liquidity risk. Ultimately, the report posits that changes in the secondary markets may transform the primary corporate bond markets – issuances may be standardized to facilitate electronic trading and/or, as today, tailored to meet specific financing needs.

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Secondary Markets



by John Serocold
and Andy Hill

MiFID II Level 2: commentary on secondary markets

Previous articles in the Quarterly Reports for the [First Quarter](#) and [Second Quarter](#) of 2014 discussed the broad contours and the full importance of this wide, deep and detailed intervention in financial markets as well as ICMA's priority issues and the timetable as it then appeared. This article provides a brief update on ICMA's priority issues, outlines some important concerns, and looks at the expected timetable between now and the dates when the legislation is expected to come into force. We recognise that views are not yet definitive at this stage and may be modified in the light of further discussions.

The MiFID II legislative package, comprising a [Directive](#) (MiFID) and a [Regulation](#) (MiFIR), was published in the *Official Journal (OJ)* on 12 June 2014. This completes the Level 1 process and sets the start date for the timetable outlined at the end of this article. In addition to technical standards, there are a number of areas where the European Commission is empowered to make "Delegated Acts". Further details of this process are given in our discussion of the timetable.

On 22 May 2014, the Level 2 process began when ESMA published a [Consultation Paper](#) and a [Discussion Paper](#), which are the first of a series of consultative documents in which ESMA sets out its proposals and its current thinking. The latest date for responses to these papers is 1 August 2014. The Consultation Paper contains draft Technical Advice, the final version of which is to be submitted to the European Commission in December 2014 and the Discussion Paper will provide the basis for a further Consultation Paper on the draft technical standards which is expected to be issued in late 2014 or early in 2015.

There is considerable overlap between the two documents and in developing our responses we are taking care to continue to cooperate with like-minded associations where possible, as well as taking into account the views of our members and other stakeholders.

ESMA Consultation Paper

The Consultation Paper is particularly important because there will be only one opportunity to provide ESMA with the market's views.

The principal areas of interest in the Consultation Paper

relate to the definition of “systematic internaliser” (SI) and the pre-trade transparency obligations for SIs, as well as the definition of “liquid market” and the categorisation of “money market instruments”.

Definition of “systematic internaliser”

At Level 1, a SI is defined as “an investment firm which, on an organised, frequent systematic and substantial basis, deals on own account when executing client orders outside a regulated market, an MTF or an OTF without operating a multilateral system”. The Level 1 text further notes that:

“The frequent and systematic basis shall be measured by the number of OTC trades in the financial instrument carried out by the investment firm on own account when executing client orders. The substantial basis shall be measured either by the size of the OTC trading carried out by the investment firm in relation to the total trading of the investment firm in a specific financial instrument or by the size of the OTC trading carried out by the investment firm in relation to the total trading in the Union in a specific financial instrument. The definition of a systematic internaliser shall apply only where the pre-set limits for a frequent and systematic basis and for a substantial basis are both crossed or where an investment firm chooses to opt-in under the systematic internaliser regime.”

The SI requirements are new to fixed income markets. SIs, as defined, in instruments where there is a liquid market (as defined) must publish quotes they provide to clients, and make those quotes available, subject to stated criteria and limits, to other clients. They must enter into transactions under the published conditions where the quote is below the “size specific to the instrument” used for pre-trade transparency waivers (see below).

It will be important to apply the SI rules to fixed income markets in a way that recognises the limited liquidity in many instruments. As well as taking account of the exclusion for illiquid instruments, it will be important to give full weight to the specified ability of systematic internalisers to update and withdraw quotes; to decide objectively which clients are to have trading access to them; to refuse transactions on commercial considerations; to set limits on the number of transactions entered into in relation to a particular quote; and to improve on the quote.

ESMA is asked to set thresholds in relation to both

“frequent and systematic basis” and “a substantial basis”. ESMA proposes that the “frequent and systematic” threshold for determining the definition of SI should be specified by reference to the bond asset class as a whole and that they should be different for “liquid instruments” and “instruments for which there is not a liquid market”. “Substantial” SI activity is to be tested at the ISIN code level. ESMA also proposes a quarterly reassessment of a firm’s SI activity.

ESMA’s general approach is welcome, recognising the importance of liquidity and seeking to set thresholds on a sufficiently broad basis. It is questionable whether there is merit in seeking to specify the instrument level as the appropriate context for testing the “substantial” criterion, as firms’ market share may vary.

We turn now to the pre-trade transparency requirement for SIs to make quotes available, subject to stated criteria and limits, to other clients and to deal under the published conditions where the quote is below the “size specific to the instrument”. ESMA is asked to give advice on the “size specific to the instrument”. This term has an important role in a number of other contexts. ESMA therefore places its main discussion of the topic in the Discussion Paper. Although the specified criteria here are the same as those for the waivers from pre-trade transparency obligations set out in MiFIR Article 9(5), the threshold itself need not necessarily be the same, since the obligations are different. It might be desirable for the threshold to adapt dynamically to market conditions; this would have the advantage of allowing firms to maintain a continuous quote if they wished to do so. We discuss this issue further in the section on the Discussion Paper below.

“Liquid market”

The term “liquidity” occurs over 50 times in the Level 1 texts; this demonstrates the importance which policy makers attach to the need for financial markets to be and remain liquid and for the obligations to be placed on market participants to be suitably adjusted to market conditions. Further, the term “liquid market” is defined twice in MiFIR. This is to allow the transparency regime to differentiate between bonds, structured finance products, emission allowances and derivatives on the one hand and equities and other similar instruments on the other. The definition of “liquid market” in MiFID follows the “bonds” definition in MiFIR, so as to allow Member States to permit an investment firm or market operator operating an OTF to engage in dealing on own

account (other than matched principal trading) only with regard to sovereign debt instruments for which there is not a “liquid market”. The discussion of “liquid market” in section 3.6 of the Discussion Paper is highly relevant to the specifics of the SI regime as well as to the application of pre- and post-trade transparency requirements generally.

The “bonds” definition is to be found in MiFID and MiFIR as follows:

“a market for a financial instrument or a class of financial instruments, where there are ready and willing buyers and sellers on a continuous basis, assessed in accordance with the following criteria, taking into consideration the specific market structures of the particular financial instrument or of the particular class of financial instruments:

- (a) the average frequency and size of transactions over a range of market conditions, having regard to the nature and life cycle of products within the class of financial instrument;
- (b) the number and type of market participants, including the ratio of market participants to traded instruments in a particular product;
- (c) the average size of spreads, where available;”

In relation to investment grade corporate bonds, our research to date indicates that few of these are likely to be traded in a wholesale market which meets the definition of a “liquid market” above.

Our research also seems to support the intuition that investment grade corporate bonds tend to be traded at the beginning of their lives and, to a lesser extent, towards the end; anecdotal evidence suggests that the market is increasingly dominated by “buy and hold” investors.

“Money market instruments”

The European Commission mandate empowered ESMA to define money markets and delineate them from bonds as follows: “ESMA is invited to provide technical advice to further specify the definition of money market instruments in order to set a clear delineation between bonds and structured finance products and money market instruments.”

ESMA proposes that money market instruments , which will therefore be outside the scope of the non-equity transparency regime of MiFIR, should be “limited to

those instruments expressly stated to be treasury bills, certificates of deposit, commercial paper and other instruments with equivalent features and have the following characteristics:

- they have a maturity at issuance of 397 days or less; and
- their value can be determined at any time on either an amortised cost basis or in reference to the short term yield curve for the currency of the instrument.”

Firms participating in the market will need to consider carefully whether “asset-backed commercial paper should be classified as a structured finance product for the purposes of MiFIR”, as ESMA’s draft technical advice proposes.

ESMA Discussion Paper

The Discussion Paper covers a wide range of issues in the areas of investor protection and the structure, transparency and regulation of financial markets.

The main proposals in the *Financial Markets Structure, Transparency and Regulation* area cover the following issues:

- *enhanced transparency and trading obligations:* increasing pre- and post-trade transparency for many categories of instruments, eg shares, ETFs, certificates, bonds and derivatives, limitations to trade shares OTC and new obligations to trade derivatives on trading venues;
- *micro-structural issues:* refining the definition of high-frequency trading and direct electronic access and specifying the requirements for operating in the market using algorithmic techniques;
- *data publication and access:* issues related to the development of the consolidated tape including requirements for tape providers, approved publication arrangements and reporting mechanisms, and the definition of a reasonable commercial basis for data sales; and the access to CCPs, trading venues and benchmarks;
- *other organisational requirements for trading venues;* and
- *commodity derivatives:* new regulatory tools, including position limits.

Of these, ICMA’s main concerns relate to enhanced transparency and trading obligations – increasing pre-



The most important assessment to be undertaken at Level 2 is the determination of whether an instrument has a liquid market.

and post-trade transparency in bond markets, referred to as “non-equity financial instruments” in the jargon. We discuss these below; the headings follow those of sections 3.5 to 3.10 of the Discussion Paper.

Scope

We agree with ESMA’s assessment that the most important assessment to be undertaken at Level 2 is the determination of whether an instrument has a liquid market. For these purposes, it is important not to “mirror the equity regime” exactly, since even within ESMA’s proposed broad class of bonds, there is more heterogeneity than among equities.

We consider it important not to group all bonds into a single undifferentiated “bond” class. Government bonds, investment grade corporate bonds, high yield bonds, and other categories have different liquidity characteristics, so it will be important to ensure that the transparency regime differentiates appropriately between them, so that in any particular case the transparency obligations are applied in a liquidity-sensitive way to a homogeneous group of instruments. A simple distinction between the proposed limited definition of sovereign debt and corporate bonds would not suffice.

We agree that depository receipts for bonds should be treated as non-equities, and convertible bonds should be treated as bonds.

“Liquid market” definition

We agree that ESMA’s technical standard on liquidity thresholds should be relevant for transparency purposes in MiFIR only.

We agree with ESMA’s identification of the importance of avoiding exacting transparency requirements which would further adversely affect the liquidity of illiquid instruments.

In assessing the liquidity of bonds and methods of assessment, it is important to take into account that

their liquidity varies over time.

The following cycles may be relevant:

- *The economic cycle:* liquidity in the secondary market has declined post-2008.
- *The life of the instrument:* bonds tend to be most liquid shortly after issue and shortly before redemption.
- *Annual cycle:* bonds tend to be more liquid at particular times of the year because of the funding cycles of both issuers seeking funds, and of investment managers seeking to invest.
- *Daily cycle:* bonds’ liquidity varies over the day in line with the demands of participants in what is an international market.

Pre-trade transparency requirements

The MiFIR text in Articles 8-11 imposes an entirely new transparency regime for a wide range of non-equity instruments. ESMA is required to develop the majority of the implementing measures for this regime via Regulatory Technical Standards (RTS) and the Discussion Paper explains ESMA’s initial thinking on how to put the non-equity transparency regime into practice.

The non-equity regime mirrors the equity regime in the sense that the general principle is to have real-time transparency for secondary market trading of non-equity instruments. This general principle is then qualified by the provision of a range of waivers from the pre-trade requirements (and deferred publication of post-trade information) if certain requirements are met; the use of the waivers (and options for deferred publication) are subject to prior authorisation by the relevant competent authority.

ESMA recognises that the first and most important assessment to be undertaken on Level 2 is to determine whether an instrument has a liquid market. Trading in liquid instruments is subject to real-time transparency

whereas illiquid instruments are eligible to be granted a waiver for pre-trade transparency and for deferred publication post-trade. Trading in liquid instruments can nonetheless be allowed without pre-trade transparency (and post-trade transparency can be deferred) if the individual trade is either in excess of a size specific to the instrument or above a size considered to be large-in-scale compared to normal market size.

Article 8(2) of MiFIR requires that the precise content of the transparency requirements is calibrated by reference to the trading system or protocol used by the trading venue in order to bring together multiple third-party buying and selling trading interest in a financial instrument.

ESMA notes that, in non-equities trading, which is often characterised by low and episodic trading activity, a variety of trading systems or protocols are commonly used and therefore also need to be defined.

ESMA proposes broad definitions of "request for quote" and "voice trading system". ESMA says that, in calibrating the requirements for different trading systems, the definitions of request-for-quote systems and voice trading systems, are key in determining the minimum amount of pre-trade information they must offer. The definition of these systems is also relevant for determining when pre-trade transparency obligations can be waived for transactions above a size specific to the instrument. National Competent Authorities (NCAs) can authorise waivers from pre-trade transparency requirements for actionable indications of interest in request-for-quote and voice trading systems that are above a size specific to the instrument.

The requirement for trading venue operators to make public continuous bid and offer prices and actionable indications of interest, and depth of trading interest at prices which are advertised through their systems, is new to fixed income markets. Given the range of

types of system used in these markets, in particular quote-driven, hybrid, and voice trading, the specified calibration of the requirement to different types of trading system will be vital to the market's ability to service client need.

Proper treatment of hybrid systems will be particularly important in view of the mixture of voice and electronic systems that characterises international fixed income markets. Regulation will need to continue to adapt as new forms of market organisation emerge. The requirement to publish at least indicative bid and offer prices may not fit with how some of these types of system operate. The publication of advertised prices needs to be distinguished from the trading access that membership of the trading venue confers, and which venue operators must be able to control. Further consideration may be needed of what "advertised through the system" means in international fixed income markets where, unlike the dedicated server and network of many trading venues, market participants draw data from a range of sources into their own systems for onward distribution to clients. As in other markets, there is a need to recognise that the last executed trade is a valuable input to trading decisions, alongside pre-trade information.

NCAs are able to waive the pre-trade transparency requirements for large in scale orders; for orders above a "size specific to the instrument" (see above) to protect liquidity providers from undue risk, and for instruments for which there is not a liquid market. It will be particularly important for NCAs to waive pre-trade transparency requirements as permitted from time to time in order to protect the market's ability to service customer needs. At a time when the authorities are concerned about secondary market conditions, it remains important to set the criteria for waiver at a level which suits trading in fixed income instruments. In particular, the size thresholds for "large in scale" and



Calibration of the requirement to different types of trading system will be vital to the market's ability to service client need.



It is clear that the development of technical standards relating to the pre-trade transparency rules and waivers will be crucial to protect the efficient operation of fixed income markets.

"size for risk exposure of liquidity providers" will need to be objectively and conservatively calibrated on a dynamic basis to take account of actual conditions in the market.

Similarly, the provision for NCAs to be able to suspend pre-trade transparency obligations when liquidity falls will provide vital flexibility, since the liquidity of a given fixed income instrument typically declines substantially quite soon after issue. It is desirable for the authorities to recognise that there is a need for them to have a ready ability to move from suspension to recalibration of transparency obligations where it becomes evident that a decline in liquidity is not localised but market-wide.

NCAs will need to manage the procedures for granting waivers, and for granting and maintaining suspensions, adaptively and responsively, to ensure that the six-month approval regime for the former, and the three-monthly renewal regime for the latter, do not give rise to unnecessary obstacles to trading in illiquid instruments. Furthermore, it will be necessary to devise arrangements to cater efficiently for the multinational nature of international fixed income markets, in which participants will typically use multiple platforms, without there being a simple one to one relationship with NCAs.

It is clear that the development of technical standards relating to the pre-trade transparency rules and waivers will be crucial to protect the efficient operation of fixed income markets. These technical standards will specify: parameters and methods for calculating liquidity thresholds below which the obligations do not apply; the range of bid and offer prices and depth of trading interest, or indicative prices close to them, which trading venues must make public, taking account of calibration for different types of systems; the size of large in scale orders for which transparency may be waived for different classes of instrument; the size specific to an instrument for which disclosure may be waived, taking account of whether liquidity providers are able to hedge their risk and the average value of transactions by retail

investors; and the instruments or classes of instruments for which there is not a liquid market. It will be vital to specify thresholds and methodologies correctly and in line with the needs of market users. The authorities recognise that recent developments have reduced the capacity of the usual liquidity providers to make markets. The starting point for work in this area should therefore be a recognition that the provision of liquidity is often low, and regulation should take great care not to stifle it further. Liquidity in these markets depends on sellers who want to liquidate their position, and buyers who are prepared to take the position on at a price. For many buyers, the availability of finance for their positions is crucial.

Post-trade transparency requirements

Given this need for finance, it is clearly desirable that securities financing transactions should be exempted from the post-trade transparency regime. That is not to say that information on these markets should not be available to regulators and other interested parties.

ESMA proposes that the set of details to be made public should be the same as for shares under the new MiFIR transparency regime, with one addition: information on the quantity notation. The list of items is as follows: trading day; trading time; the identifier of the financial instrument; the price at which the transaction was concluded; trading venue identification or: (i) if the transaction was executed via a systematic internaliser the code "SI"; (ii) otherwise the code "OTC"; price notation; quantity notation; quantity. The content of each item is further described in the MiFID Implementing Regulation, which is in the course of being updated in order to be compliant with the new MiFIR provisions on transaction reporting.

The requirement for trading venue operators and firms to make public price, volume, and time of transactions is new to fixed income markets. The application of the requirement to publish information as close to real time

as technically possible will need to take account of the fact that, unlike equity markets, fixed income markets are not highly automated, and that typically large orders will need to be worked over a period of time before the transaction can be completed. The avoidance of duplicate reporting of transactions can be partially achieved with a convention that the seller reports, but there are a number of scenarios involving chains of transactions that will need further thought.

As in the case of pre-trade transparency waivers, NCAs' authorisation of deferred publication will be crucial to the markets' ability to maintain liquidity and continue to serve client needs effectively, since premature disclosure will move the price adversely and harm liquidity provision. All of the specified circumstances are relevant: transactions which are relatively large in scale (though it needs to be recognised that in bond markets large trades, though not common, may be typical and not exceptional); instruments for which there is not a liquid market; and sizes which would expose liquidity providers to undue risk. Since bonds are typically traded internationally, it will be essential to specify clearly which NCA has the authority to authorise deferred publication in relation to which instruments, and to avoid a complex web of different deferral regimes in different countries.

A particular concern is that although a requirement to publish business done at the end of the trading day is administratively tidy, it may reduce the willingness of liquidity providers to operate late in the day. This is another example of a structural difference between equities and fixed income; the equity trading day typically finishes with a "closing auction" at which the maximum amount of trading interest is matched in a given security; this provides a liquidity point which is not available to the same extent in fixed income markets.

Similarly, and as for pre-trade transparency rules, the provision for NCAs to be able to suspend the publication obligations when liquidity falls will provide vital flexibility, since the liquidity of fixed income instruments typically declines substantially shortly after issue. Again, a coordinated regime for suspension across different countries will be vital for internationally traded fixed income markets. The same considerations apply to NCAs' ability to allow limited transaction details, or publication of aggregated transactions, or volume omission. NCAs will need to manage the procedures for approving deferral or suspension of publication rules, so that delays do not cause obstacles by inhibiting trading in illiquid instruments. And it is desirable that

the authorities should have a ready ability to move from suspension to recalibration of trade publication obligations where it becomes evident that a decline in liquidity is not localised but market-wide.

The development of the technical standards and delegated acts relating to the post-trade publication rules and waivers will be crucial to protect the efficient operation of fixed income markets. Technical standards will cover the details to be published, and the time limit for publication of trades executed outside ordinary trading hours: the former should specify that it is the "clean" price (ie without accrued interest) that is to be published, to provide a consistent valuation basis; the latter will need to take account of the international nature of fixed income markets – both across the time zones of the EU, and across global markets. Technical standards will also specify the treatment of transactions involving the use of instruments for collateral or lending, or where the price is determined by other factors than the current market valuation, so that the price formation function of completed transactions is not distorted. Delegated acts will cover the conditions for authorising deferred publication and the criteria for determining the size or type of transaction for which limited details in aggregated form may be published, or volume omitted, with particular reference to allowing extended deferral depending on the liquidity of instruments. All of these aspects will need to be straightforward and principled, without over-specification, and consistently applied across the EU.

The transparency regime for non-equity large-in-scale orders and transactions

ESMA's assessment of the options for determining "large scale" in relation to waivers from pre-trade and deferrals of post-trade transparency offers two broad options: calibration within asset classes according to low / medium / high liquidity bands and a single size for each asset class, regardless of instrument liquidity. ESMA expresses a preference for a single size for each asset class.

ESMA also expresses a preference for using average daily turnover, rather than average value of transactions, in order to calibrate the thresholds for large scale transactions. ESMA suggests different options for calculating the large in scale threshold, either based on a statistical distribution (eg the mean size), or calculated so as to encompass a specified percentage of transactions subject to full transparency obligations.

ESMA asks for views on whether the threshold for large in scale orders (pre-trade waiver) and large in scale transactions (post-trade publication) should be the same or different. ESMA proposes that large in scale calculations should be based only on on-venue transaction data.

It will be for discussion whether the large-in-scale provisions should apply only to client orders and transactions.

ESMA proposes that review of the “large-in-scale” thresholds should occur not more frequently than every two years.

“Size specific to the financial instrument”

This term affects three aspects of the transparency regime. First, the threshold above which SIs in non-equities are exempt from the SI pre-trade transparency rules (see the discussion of SI obligations above); second, determining when a RFQ or voice system has the benefit of the waivers from the pre-trade transparency obligations, discussed above; and finally, determining the circumstances in which a trading venue, SI or OTC trade is subject to the deferred publication regime.

ESMA is proposing to apply the “specific size” and the “large-in-scale” provisions as follows: (i) the “large-in-scale” thresholds for pre-trade and post-trade transparency should be higher than the “specific size” thresholds; (ii) for the pre-trade size the “specific size” applies to trading in request-for-quote and voice trading systems only and “large-in-scale” applies to trading under all other trading models; (iii) post-trade, the scope of application of “specific size” and “large-in-scale” is universal so that the practical difference will be that the “specific size” (ie the lower of the two thresholds) will render trades eligible for a shorter period of deferral than the “large-in-scale”.

It is not immediately obvious that an arithmetical relationship with the “large in scale” thresholds for bonds is the right way to proceed; a more nuanced approach may be desirable.

Process and timetable

The following aspects of the implementation process relating to Level 2 measures are noteworthy. Level 2 measures comprise Delegated Acts (drafted by the Commission with advice from ESMA) and Technical Standards (prepared by ESMA and adopted by

the Commission) which supplement the Level 1 framework legislation. MiFID II/MiFIR contains over 100 requirements for ESMA to provide Technical Advice to the European Commission to allow it to adopt delegated acts, and to draft Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS).

ESMA consultation process

ESMA is required to analyse the potential costs and benefits related to technical standards, unless such a consultation and analysis would be disproportionate. ESMA will also request the opinion of the [Securities and Markets Stakeholder Group](#), which is composed of 30 members, representing financial market participants operating in the EU, their employees’ representatives as well as consumers, users of financial services and representatives of SMEs.

Delegated Acts process

The European Parliament or Council may object to Delegated Acts within three months of adoption by the Commission. This period may be extended by a further three months. If neither the Parliament nor the Council objects to a Delegated Act, it will be published in the *Official Journal* and will enter into force on the stated date.

RTS process

After ESMA submits draft RTS to the Commission, the Commission will decide within three months whether to endorse it. If the Commission decides not to endorse the RTS, or to endorse it in part only or with amendments, it will return the RTS to ESMA with an explanation for its decision. ESMA then has six weeks to amend the draft RTS and resubmit it in the form of a formal opinion. If ESMA does not respond within six weeks, or does not amend the RTS as proposed by the Commission, the Commission may reject the RTS or adopt an amended version. The RTS will usually be adopted by means of a Regulation. The Parliament or Council may object to an RTS within three months of adoption by the Commission. This period may be extended by a further three months. If the Commission adopts the draft RTS submitted by ESMA with no changes, the no-objection period will be one month and may be extended by a further one month. If neither the Parliament nor the Council objects to the RTS, it will be published in the *Official Journal* and will enter into force on the date stated therein.

ITS process

After ESMA submits draft ITS to the Commission, the Commission will decide within three months whether to endorse it. This period may be extended by a further one month. If the Commission decides not to endorse the ITS, or to endorse it in part only or with amendments, it will return the ITS to ESMA with an explanation for its decision. ESMA then has six weeks to amend the draft ITS and resubmit it in the form of a formal opinion. If ESMA does not respond within six weeks, or does not amend the ITS as proposed by the Commission, the Commission may reject the ITS or adopt an amended version. The ITS will be usually be adopted by means of a regulation. It will be published in the Official Journal and will enter into force on the date stated therein. The Parliament and Council do not have a right to object to an ITS adopted by the Commission.

Timetable

The Level 1 texts set dates by reference to the date when they come into force. Based on that, it seems that the key dates to bear in mind are as follows:

- 14 June 2014: Publication in the *Official Journal*;
- 3 July 2014: MiFID II and MiFIR enter into force (20 days after publication in the *Official Journal*)
- Until 1 August 2014: ESMA consults on its advice and issues Discussion Paper on RTS and ITS;
- Late 2014 /early 2015: ESMA consults on the draft technical standards (RTS/ITS); the consultation period will be at least two months;
- December 2014: ESMA delivers its technical advice on Delegated and Implementing Acts to the Commission;
- July 2015: ESMA submits draft Regulatory Technical Standards (RTS) to Commission (one year after entry into force);
- January 2016: ESMA submits draft Implementing Technical Standards (ITS) to the Commission (18 months after MiFID II/ MiFIR enter into force);
- January 2016: Commission publishes final Delegated Acts (no later than 18 months after MiFID II/ MiFIR enter into force);
- June 2016: deadline for national transposition of MiFID and the Delegated Acts;
- 3 January 2017: new rules begin to apply.

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CSD Regulation: T+2 changeover

On 20 May 2014, we [announced](#) that, in response to the CSD Regulation and the provision to migrate the standard settlement cycle for cash trading from T+3 to T+2, ICMA will change the standard settlement cycle for cash transactions set out in the ICMA Rules and Recommendations from T+3 to T+2 unless otherwise agreed to allow for the orderly trading of all fixed income securities traded under ICMA rules, and from T+2 to T+1 for repo transactions. These changes will take effect from 6 October 2014, the date on which the majority of European markets are to make the migration.

On 7 March 2012, the Commission adopted a proposal for a Regulation on improving securities settlement in the European Union and on central securities depositories (CSDs). The CSD Regulation introduces an obligation of dematerialisation for most securities, harmonised settlement periods for most transactions in such securities, settlement discipline measures and common rules for CSDs.

The settlement period will be harmonised and set at a maximum of two days after the trading day for the securities traded on stock exchanges or other regulated markets (currently two to three days are necessary for most securities transactions in Europe).

It is expected that markets within the scope of the CSDR text, will migrate from T+3 to T+2 with effect from Monday 6 October 2014.

The T2S Harmonisation Steering Group has [published a statement of proposals](#) to the competent authorities for possible further action.

OTC transactions

The CSD Regulation states, in Article 5(2), that the migration should not apply to transactions that are privately negotiated and executed on a trading venue, or transactions that are executed bilaterally but are reported to a trading venue.

The "ICMA market" refers to transactions in international securities, intended to be traded on an international cross-border basis through an International central securities depository, which are often negotiated bilaterally and may be neither executed nor reported to a trading venue; it follows that these transactions will be out of scope for the CSD Regulation.

To allow for orderly trading of all fixed income securities

traded under ICMA rules, ICMA will also change the standard settlement cycle set out in the ICMA Rules and Recommendations from T+3 to T+2 unless otherwise agreed; it is expected that agreement to a different settlement cycle will be recorded in writing at the time of trade.

Security financing transactions

Security financing transactions such as repurchase agreements will also migrate from the standard trade date of two business days (T+2) to standard trade day plus one day (T+1), unless specified otherwise.

The practical effect of the migration to T+2 for cash transactions for international securities and to T+1 for repo transactions is [illustrated](#).

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CSD Regulation: mandatory buy-ins

ESMA Discussion Paper on CSD Regulation

In March 2014, ESMA published a Discussion Paper on the *Draft Technical Standards for the Regulation on Improving Securities Settlement in the European Union and on Central Securities Depositories*, inviting comments on matters relating to the technical standards of the regulation. A number of questions related to the framework for settlement discipline. Of particular interest from a fixed income market perspective were questions related to the provisions for introducing mandatory buy-ins to the European bond and repo markets, and the practicalities related to appropriate buy-in timelines, the circumstances under which a buy-in may not be possible, and the circumstances in which a buy-in could be deemed ineffective. Given the complexity of these issues, ESMA agreed that responses could be submitted after the original response deadline of 22 May 2014. This has resulted in industry-wide discussions around these issues, including amongst ICMA SMPC and ERC members and other industry representative bodies.

What is a buy-in?

A “buy-in” is a contractual remedy that can be exercised in the event that a counterparty selling a security fails to deliver that security to the purchasing counterparty on due settlement date. After giving the seller due notice of their intention, and if the purchase

is still failing, the disappointed counterparty can instruct a third-party buy-in agent to buy the securities on their behalf. These securities are then delivered to the disappointed counterparty, while any difference between the buy-in price and the original trade price is settled directly between the failing seller (who is said to be “bought in”) and the disappointed buyer. In this way, both parties are returned to the position they would have been in had the transaction settled on the original settlement date.

ICMA has buy-in rules to govern certain trades in international securities between ICMA members, while various central securities depositories (CSDs) and central counterparties (CCPs) may have their own rules and procedures. The Global Master Repurchase Agreement (GMRA) provides for remedies in the event of a failing repo. In most cases, buy-ins are exercised on a discretionary basis, and are relatively infrequent in the European fixed income markets.

CSD Regulation framework for mandatory buy-ins

Article 7 of CSD Regulation states that any participant in a securities settlement system that does not deliver the financial instruments to the receiving participant “shall be subject to a mandatory buy-in procedure that will apply to all transactions in such instruments which are admitted to trading on regulated markets or MTFs, traded on a trading venue or cleared by a CCP”. The Regulation specifies a time period between failing on due settlement date and initiating a buy-in (the “extension period”) of four days, with the possibility of extending up to seven days, depending on the liquidity of the underlying security. Furthermore, the Regulation suggests that buy-in procedures can be managed by a CSD, a trading venue, or a CCP.

Treatment of SFTs

Article 7(14)(e) outlines the treatment of securities financing transactions (SFTs) under a mandatory buy-in regime, from the perspective that “operations composed of several transactions including securities repurchase and lending agreements, the buy-in ... shall not apply where the timeframe of these operations is sufficiently short and renders the buy-in ineffective”. This would suggest that the start-leg of short-dated SFTs would be exempt, but not the start-leg of term SFTs. It is unclear as to how the end-legs of all SFTs would be treated, but it is widely assumed that these would also be subject to mandatory buy-ins.



ICMA ERC and SMPC concerns

- The ICMA ERC and SMPC are concerned that introducing mandatory buy-ins to the European fixed income markets at this time could be counterproductive to the intent of the Regulation. It is considered that, for successful implementation, first a number of other initiatives will need to be implemented and several related issues resolved.
- The currently fragmented and largely disconnected European settlement systems do not provide the stable architecture required to operate a mandatory buy-in framework. Where trades are potentially being executed across multiple trading venues (as well as OTC), using different CSDs and CCPs, there is not the level of visibility required to identify the correct transaction or counterparty in order to optimize any buy-in process, particularly where a sequence of fails is being caused by a single insufficient trade. Accordingly, there is a risk that a single fail could result in multiple buy-ins, causing market instability. Furthermore, CSDs are currently unable to distinguish between outright sales and SFTs, let alone the term of a SFT, or the difference between a start and end-leg. Initiatives such as T2S, and other parallel projects to improve settlement system efficiency and interoperability, will go some way resolving these problems, while also improving overall settlement efficiency, so reducing the need for buy-ins.
- The buy-in framework for SFTs runs the risk of creating a two-tier market for “exempt SFTs” and “non-exempt SFTs”. This presents issues for both market makers who may need to short-sell securities, as well as for lenders of securities, with both being disincentivised from doing either. This could have negative implications for secondary market liquidity, not only for less liquid corporate bonds, but also for Europe’s sovereign debt markets.
- A CSD Regulation provision for cash penalties for settlement fails is likely to have a positive impact on settlement efficiency and be less disruptive than mandatory buy-ins. Allowing time to implement and assess the impact of cash penalties could be more effective than implementing mandatory buy-ins first.

• This could have negative implications for secondary market liquidity, not only for less liquid corporate bonds, but also for Europe’s sovereign debt markets.

Questions related to appropriate extension periods, or potential exemptions, for certain securities based on their liquidity would seem to be better aligned with any liquidity calibration models coming out of MiFID II, rather than trying to pre-empt this.

- Work needs to be done to better align and calibrate the various contractual buy-in remedies that currently exist across the market.

Next steps

The ICMA ERC is currently engaged in discussions with its members, SMPC and the ERC Operations Group, as well as other industry representative bodies, in order to highlight the potential issues and risks related to mandatory buy-ins, and to recommend technical standards that best support the intent of the Regulation.

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Asset Management

by Dr. Nathalie Aubry-Stacey

Covered bond transparency

The ICMA Covered Bond Investor Council (CBIC) has, since its inception, focussed on strengthening the covered bond product, through *inter alia* better transparency. The CBIC mission statement makes a specific reference to its intention to promote “the high quality, simplicity and transparency of the product”.

The CBIC European transparency standard project is part of a process to achieve high transparency standards throughout Europe in the long run, but it is not intended to be an “all or nothing” list in the short-term – or a loan-by-loan requirement. The template comprises the qualitative and quantitative information required to fulfil investors’ transparency and information needs. This information has been agreed by investors independently from the data requested by rating agencies and used in their own analytical models.

Another aim of the project is to provide easier access to information for all investors, large and small. By standardising information requests from investors through the CBIC template,

issuers are provided with clarity when designing their IT and systems specifications. Therefore only issuers using the CBIC template will be allowed to post on the dedicated CBIC webpage – to ensure standardisation and comparability of the data received.

Since the CBIC European transparency standards template was first proposed, there have been significant developments in the field of data transparency. The most obvious of these has been the introduction of a new paragraph in the definition of covered bonds which qualify for preferential risk treatment for investors. The new wording of Article 129 of the Capital Requirements Regulation (CRR) puts the onus on investors to undertake due diligence on covered bond pools, in particular specifying some key data fields which must be reported on a timely basis.

Another relevant development is the introduction of the covered bond label, which specifies minimum pool disclosure standards on a country-by-country basis (the National Transparency Templates). Many covered bond investors, in particular those with experience of the securitisation market, have a growing appetite for data about cover pools. Whereas the

needs of covered bond and securitisation investors differ significantly, it is clear that organisations such as the European Data Warehouse in the securitisation market have “raised the bar” on pool transparency. If the covered bond market is to protect its excellent reputation, it is clear that we must continue to make progress towards higher standards of disclosure than the bare minimum.

The CBIC noted that the Covered Bond Label Convention requires compliance with Article 129 of the CRR and UCITS 52(4), a positive and credible step in the current regulatory context and discussions regarding liquidity ratios. However, the current Label Convention requirements still do not provide extensive quality information about the labelled covered bonds to investors, even though it ensures that the demarcation between covered bonds and ABS/ABS-like products, and “covered bonds” backed by other types of assets is clear. A label of “quality” as understood by investors has to rest on the reporting of *quality and comprehensive* information, in a *standardised* manner.

At the most recent annual CBIC/Covered Bond Report Conference held in May 2014, the CBIC Chairman, Andreas



The CBIC is currently working to review the template initiative to make it relevant to the regulatory changes and build on the work of the National Transparency Templates.

Denger shared some disappointment regarding the progress that has been made in meeting investors' wishes in line with the CBIC European Transparency Standards Template. The Chairman also reflected on some of the issues linked to the CBIC European Transparency Standards Template such as issuers possibly not perceiving its "real tangible benefits" (eg preferential regulatory treatment). He also highlighted some potential risks in delaying the template's adoption, such as damaging the long-standing good reputation of covered bonds and being forced externally to improve transparency levels.

With this in mind, the CBIC is currently working to review the template initiative to make it relevant to the regulatory changes and build on the work of the National Transparency Templates. Although this is work in progress, it is safe to say that its objectives will include better cross-border comparability of data, voluntary disclosure of relevant information over and above what is required by the National Templates and potentially the ability to perform simple portfolio analytics on cover pools.

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Principles of best practice in EU covered bonds

On 10 June 2014, the European Banking Authority (EBA) laid out a roadmap for harmonisation in European covered bonds at a public hearing identifying best practices towards which national frameworks should converge.

The principles of best practice are the outcome of research going back to a December 2012 mandate from the European Systemic Risk Board (ESRB), which the EBA linked to another mandate, this time from the European Commission, to look into the preferential prudential treatment of covered bonds under the CRR.

The EBA has brought its findings together in a report, *EU Covered Bond Frameworks and Capital Treatment*, which has first been approved by the EBA Board of Directors and then submitted to the European Commission.

EBA officials spoke of the need and scope for more convergence in the European covered bond market to safeguard and further promote a crucial funding tool for banks with a reputation as a high quality and safe instrument. A comparison of national legal/regulatory frameworks in the EU reveals a high degree of heterogeneity; and, although covered bonds benefit from preferential regulatory treatment, there is no harmonised EU framework, with only the UCITS Directive providing some commonality.

The CBIC supports a smooth transition recognising national market and legal specificities rather than the imposition of a single European covered bond regulation. Although the CBIC has encouraged further harmonisation of the covered bond market, in terms of definition and transparency (as part of the CBIC European Transparency standards), CBIC members do not believe that there

is anything fundamentally wrong or broken in the market. Consequently, they are not calling for a unified framework, given the positive track record of the asset class.

At the same time that the EBA is considering best practices to promote convergence in the covered bond market, the CBIC understands that the draft LCR Delegated Act, due to be published shortly, includes new issuer rating eligibility criteria for covered bonds that, if implemented, could result in some double-A issues not being Level 1 eligible, and some single-A issues being excluded entirely. CBIC members believe that such a requirement could increase fragmentation in the covered bond market and put eligibility at the mercy of rating agencies. And this, after rating agencies recently modified their covered bond rating approaches to reflect the fact that covered bonds are excluded from bail-in. It would be detrimental to the level playing field and cause further market segmentation between covered bonds from national champions and covered bonds from peripherals and/or those issued by smaller institutions.

The EBA report as presented during the public hearing is only a preliminary version, and also the recommendations made are not legal requirements. Under the CRR, the Commission has to report to the European Parliament on the issue of risk weights by the end of 2014, and the EBA is due to follow up on its interim report on best practices with another report for the ESRB by the end of June 2016.

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Private banking in the regulatory framework

The ICMA Private Banking Working Group is focussing on cross-border issues affecting the industry. It has prepared and promoted the [Private Wealth Management Charter of Quality](#) across Europe, thanks to its network of national associations involved in the Working Group.

Working Group members have also recently discussed the current worrying tendency to classify international private banking services *per se* as high-risk business. According to Annex III of the latest proposal for a [Directive of the European Parliament and of the Council on the Prevention of the use of the Financial System for the Purpose of Money Laundering and Terrorist Financing](#), “private banking” is deemed to be a factor that evidences a potentially higher risk situation as referred to in Article 16(3) of the draft proposal.

Moreover, international standard setting bodies, such as the FATF or the Basel Committee on Banking Supervision, have given guidance in relation to customer due diligence and risk assessment measures by indicating the types of transactions, business models and customers that present higher money laundering and terrorist financing risks: eg offshore trusts, significant cross-border activity, private banking accounts.

Already in the [FATF Guidelines on the Risk-Based Approach to Combating Money Laundering and Terrorist Financing](#) of June 2007, chapter 3.7, it was explicitly stated that an overall risk assessment should also include determining the potential risks presented by products and services offered by a financial institution (eg bank). Determining the risks of products and services should also involve a consideration of such factors that have been identified by competent authorities or other credible sources as being potentially higher risk, which might

also include international private banking services.

The Working Group on Cross-Border Banking of the Basel Committee on Banking Supervision has issued a risk matrix (see Annex 2 of the aforementioned FATF Guidelines) which says that a higher risk is associated with the activities of a bank if the bank offers significant domestic and international private banking or trust and asset management products or services.

If standard-setting bodies continue to classify private banking products and services as *per se* high risk business it will have a serious impact on the existing banking business models of many jurisdictions worldwide and will change the private banking landscape. In particular, the Working Group fears that an undifferentiated risk-based approach in this area could lead to discrimination between internationally oriented banks and local banks which are only operating in a domestic market. In addition, to some extent such a strict classification also conflicts with the concept of free movement of capital and services stipulated by the EU Treaty and will have negative effects on the functioning of the European Single Market.

In principle, members support and acknowledge the concept of a risk-based approach in the context of due diligence measures to be conducted by banks for combating money laundering and terrorist financing. However, the aforementioned perception and classification of private banking does not take into account the existing consumer protection measures within Europe and in particular the MiFID regulatory package which requires banks to conduct comprehensive suitability tests in relation to investment services. A possible reason for this might be that there is no clear definition or common understanding of the terms “private banking” and “cross-border activities of financial institutions”.

Members of the Working Group will continue to focus on this issue, and meet relevant regulators, and would welcome the involvement of any ICMA member who may also have an interest in these issues.

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Shadow banking and asset management

Since the [FSB/IOSCO consultation on Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions](#) (NBNI G-SIFIs), shadow banking has been at the top of AMIC members’ list of regulatory issues. It is essential to understand the risks that asset managers may face if classified as “shadow activity”.

AMIC members understand that the question of systemic risk in the asset management industry is a genuine one and should not be dismissed lightly. [The speech of Steven Maijor, Chairman of ESMA, in Paris early in June](#) reminded the market of the regulators’ views on this.

At the most recent AMIC Executive Committee meeting held in May, it was agreed that a roundtable should be organised to discuss a possible working group on shadow banking. AMIC members consider that it is important to engage in a constructive dialogue with regulators on shadow banking and investigate: what would be the consequences of being classified as NBNI G-SIFIs; which areas of their activities might be systemic; what would be the appropriate criteria to assess this; and at what level (fund or management company) this should be considered.

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Pan-European Private Placement Market

By Nicholas Pfaff

For many years, mid-sized European companies have accessed the US Private Placement (USPP) market, making up a significant proportion of its nearly \$50 billion of annual issuance. In 2013, European companies raised \$15.3 billion in this US market. In Europe itself, the popularity of private placements has accelerated since the onset of the financial crisis, with French and German domestic private placement markets (ie respectively the Euro PP and Schuldschein) providing approximately €15 billion of debt in 2013.

These markets provide financing known as private placements defined as medium to long term senior debt obligations (in bond or loan format), typically at fixed rate, issued privately by companies to a small group of investors. Private placements particularly benefit medium-sized and unrated companies by providing long-term debt finance which may not otherwise be available to them from the loan or bond markets. This should not to be confused with forms of public debt market financing that have other characteristics and/or target issuers, but that may also be "privately placed" to individual or small groups of institutional investors as in the case for example of reverse enquiry EMTN transactions.

However, until now, there has been no Pan-European Private Placement Market. Following on its early efforts in this direction as reported in the Quarterly, ICMA has now taken the lead in coordinating the work of the Pan-European Private Placement Working Group (PEPP WG) that currently includes the Association for Financial Markets in Europe (AFME), the Association of British Insurers (ABI), the European Private Placement Association (EU PPA), the French Euro Private Placement (Euro PP) Working Group and the Loan Market Association (LMA).

The Working Group also brings together representatives from major institutional investors (of which Delta Lloyd, Federis Gestion d'Actifs, KBC Group, LGIM, M&G Investments, Natixis Asset Management) and observers from the official sector (including the Banque de France and HM Treasury). It also benefits from the participation of major

law firms, including Allen & Overy, Herbert Smith, Kramer Levin, Linklaters, Simmons & Simmons, Slaughter & May and White & Case.

Within the PEPP WG, these leading trade bodies, key investors, and market participants are working together to develop a pan-European Private Placement market initially by establishing a European guide to best practice and facilitating the emergence of common market practices, principles and standardised documentation. The objective is to publish the first edition of this guide by end 2014. The PEPP WG will also aim to identify barriers to entry for new issuers and investors into this market.

The guide will build on the recently released Charter for Euro Private Placements previously described in this publication. The Charter was developed by the Euro PP Working Group, a French financial industry initiative bringing together representatives of corporate issuers, investors, underwriters and endorsed by all relevant French financial industry associations. The Euro PP Working Group has been operating over the past 18 months in close coordination with the Banque de France and the French Treasury.

The demand for private placements is set to increase as the EU's approximately 200,000 mid-sized companies look to diversify their sources of funding, in the context of widespread bank deleveraging. S&P research also indicates there is up to €2.7 trillion of debt that will need to be refinanced by mid-sized companies between now and 2018. A real Pan-European Private Placement market could not on its own meet such levels of demand. It would, however, raise substantial amounts of medium to long term financing addressing part of the problem while also providing the missing piece in the funding plan of many growing medium-sized companies, and thereby unblocking other sources of complementary finance.

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Market Infrastructure

by David Hiscock

ECB: Contact Group on Euro Securities Infrastructures (COGESI)

A meeting of COGESI was held in Frankfurt on 17 June 2014. The agenda included:

- follow-up to reports on collateral availability, improvements to the repo market and settlement in commercial bank money (all as prepared by the ad hoc group of COGESI on collateral);
- implications of regulatory requirements; and
- Eurosystem developments on securities and collateral management services – including removal of the repatriation requirement (May 2014) and the introduction of cross-border triparty collateral management services (September 2014).

Members of the ICMA ERC continue to provide input to relevant aspects of this work.

ECB: Money Market Contact Group (MMCG)

A regular quarterly meeting of the MMCG was held in Frankfurt on 16 June 2014. The agenda included: (1) Review of the latest market developments and

other topics of relevance; (2) Internal organisation of liquidity management between Treasury and repo desks in banks – MMCG survey; (3) Market participants' view on the EU regulation proposal on reporting and transparency of secured financing transactions; (4) Update on money market reference rates and on the on-going reform process; and (5) Feedback from the MMCG and BMCG survey on the draft EU Regulation on banks structural measures. The next regular quarterly meeting is scheduled for 9 September 2014.

ECB: Bond Market Contact Group (BMCG)

The BMCG's sixth meeting took place in Frankfurt on 8 April 2014, with the agenda including: (1) Bond market outlook and other topics of relevance; (2) Central banks' asset purchase programmes; (3) Role of trading and liquidity in bond markets; and (4) SME funding. The seventh BMCG meeting then took place on 1 July 2014. The agenda for this meeting included: (1) Bond market outlook and other topics of relevance; (2) Market making and trading; (3) Investor base in euro-area government bonds; and (4) Comprehensive assessment and SSM in November 2014. The full agendas, together with summaries of the

discussions and the supporting meeting papers are published on the BMCG's website pages. The next regular quarterly meeting is scheduled for 21 October 2014.

ECB: TARGET2-Securities (T2S)

The publication of a new issue of T2S OnLine was announced on 4 April 2014. In his editorial, Jean-Michel Godeffroy, Chairman of the T2S Board, focuses on how the T2S governance structure has shown its effectiveness in resolving difficult matters in a swift and efficient manner. Also in this issue, Marc Bayle, T2S Programme Manager, provides a comprehensive update on the project; and there are reports on discussions with Mehdi Manaa about the Eurosystem Acceptance Testing (EAT) and Philippe Leblanc, the new 4CB Project Manager for T2S. Additionally, following the publication of the Fourth T2S Harmonisation Progress Report by the T2S Advisory Group (AG), Anna Nuzzolo offers more insight into the report and its key messages.

Published on 4 April 2014, the T2S User Detailed Specifications v2.0 (UDFS v2.0) are part of the T2S Scope Defining Set of Documents listed in the T2S Framework Agreement. As for the previous version,

the UDFS v 2.0 is structured along three chapters:

- *General Features* of T2S, providing information on the configuration of parties, securities and accounts, the access to T2S, the T2S settlement day, the T2S application processes and the possible actions of the T2S Operator;
- *Dialogue* between T2S and T2S Actors, providing a formalised description of the application-to-application communication by depicting the behaviour of T2S regarding the interactions with T2S Actors, i.e. when sending/receiving messages to/from the latter; and
- *Catalogue of Messages*, describing in detail the set of ISO messages – customised to the specific needs of T2S – which are available to T2S Actors, in order to allow finding the information related to messaging which is necessary for establishing a functioning application-to-application communication with T2S.

The UDFS v2.0 is foreseen to be reviewed by the market participants until 2 May 2014, following which comments on the UDFS will be taken into account for the final version – which was subsequently published on 13 June.

Every year the ECB publishes a report on *Financial Integration in Europe*. The 2014

[edition](#), released on 28 April, includes a Special Feature on *The Eurosystem Contribution to Financial Integration in the Areas of Securities and Collateral*. The article points to some possible ways of measuring the contribution that T2S will make to integrated financial markets in Europe. In addition, an account of developments in the T2S project over the last year is presented in the ECB's [Annual Report 2013](#), published on 7 April 2014.

As also discussed elsewhere in this Quarterly Report, on 6 October 2014, many European markets will migrate to the settlement cycle T+2. In order to ensure a consistent and coordinated migration, the T2S [Harmonisation Steering Group](#) (HSG) has endorsed a number of proposals for T2S market participants and public authorities to consider as best practices for moving to T+2. The proposals, dated 2 May 2014, are non-mandatory best practices which complement those provided in the CSD Regulation, and have been shared with ESMA, the European Commission and the T2S [National User Groups](#) (NUGs).

T2S [Eurosystem Acceptance Testing](#) (EAT) was initiated as planned on 31 March 2014. This marked the beginning of six months of testing by the T2S team at the ECB to confirm that the Eurosystem can accept the T2S platform. Following the first month of testing, on 7 May, Marc

Bayle provided a short progress update, in which he commented that the expectation for the EAT is that it will not be an easy journey and that the upcoming months will remain challenging. Nevertheless, so far, no plan-altering defects or instability of the test environment have been detected; and constructive cooperation is taking place between the developer – the 4CB – and the ECB's testing team, with updates to the software being made every other week to solve defects and to ensure rapid progress. In his June update, he notes that, overall, the testing process is going according to plan; and reiterates that the purpose of this testing phase is to detect defects and repair them prior to the user testing scheduled to begin in October.

On 16 May 2014, the [final User Handbook](#) (UHB) v2.0 was published on the T2S website. The document describes the way in which T2S users can utilise a number of T2S software functions that are available in a user-to-application (screen-based) mode.

On 25 June 2014, a [technical session](#) took place at the ECB in Frankfurt, focusing on T2S user testing and migration. Representatives from the ECB, the network service providers, the national central banks and the CSDs shared their preparation experiences and gave an update on their status.

The ECB is providing a [knowledge-based](#)



So far, no plan-altering defects or instability of the test environment have been detected.

[repository](#) of presentations, which aims to give insight on key technical issues related to T2S – with the presentations being based on a set of questions. (Note that the purpose of the information contained in this repository is merely to present and illustrate T2S – it is not, nor should it be misconstrued as, amending, complementing or prevailing over the T2S Scope defining Set of Documents, the T2S Framework Agreement, its Schedules and its Annexes). Presentations added to the repository during April 2014 cover “T2S Auto-collateralisation - Static Data Set-up and Messages”; “Insights on Conditional Securities Delivery (COSD) in T2S”; and “T2S Auto-collateralisation - Static Data Set-up and Messages”. In May 2014 a presentation on “Insights on connecting to T2S” was added; and in June 2014 “billing and invoicing” and “configuration of restriction types”.

The [Harmonisation Steering Group \(HSG\)](#) met on 3-4 June 2014 in Frankfurt, with the agenda including the CSD Regulation and an update on T2S harmonisation progress. The HSG will next meet on 5-6 November 2014. The T2S Cross-border Market Practice sub-group ([X-MAP](#)) met on 13 May 2014 and 16 June; and will meet again on 9 July. These X-MAP meetings include discussions relating to “CSD Restriction Rules”, on which XMAP’s interim report was delivered to the HSG for its June meeting.

The [T2S Advisory Group \(AG\)](#) met in Frankfurt on 17-18 June 2014. Following some introductory points, the chairman of the HSG provided an overview of the activities of the HSG, including points regarding (1) CSDR; (2) settlement finality; (3) the mid-year harmonisation progress update; (4) HSG T+2 proposals to competent authorities; (5) an XMAP update; (6) non-compliance cases; and (7) a request regarding harmonization of procedures for the management of insolvency. The T2S Programme Office then presented a governance proposal;

the T2S Board Chairman reported on the recent decisions taken by Governing Council and the main topics discussed during the latest T2S Board meeting; and the [CSD Steering Group \(CSG\)](#) Chairman reported on the outcome of a recent CSG meeting. Next, discussions regarding T2S programme status considered (1) progress of EAT testing; (2) client readiness monitoring; (3) directly connected parties (DCPs); and (4) readiness of CSD/NCB clients. Finally, technical matters covered were (1) report of the [Change Review Group \(CRG\)](#); (2) report of the [Operations Managers Group \(OMG\)](#); (3) information securities issues (non-repudiation); and (4) recent activities on the “volumetric assumptions and EoD/SoD” workshop.

A [T2S Info Session](#) was held in Amsterdam on 27 June 2014. In addition to the status update of the T2S project, the key topic of this Info Session was the implementation of the CSD Regulation, with a panel of market stakeholders presenting and discussing the main impacts of this EU legislation. Furthermore, Euroclear ESES and KELER presented their T2S service offers.

[Global Legal Entity Identifier System \(GLEIS\)](#)

Issue no. 32 of ICMA Quarterly Report reported on a 3 November 2013 ROC letter to business registries seeking confirmation of the absence of various data impediments. An updated ROC issued [list of 26 May 2014](#) shows those business registries which have consequently provided written clarification/confirmation that there are no such impediments.

As reported in [Issue no. 31 of ICMA Quarterly Report](#), a note published by the [LEI ROC](#), dated 27 July 2013, establishes the principles that should be observed by the Local Operating Units (LOUs) participating in the Interim GLEIS as pre-LOUs. Adding to earlier cases,

ROC notes of 21 May and 6 June 2014 announced the endorsement of further pre-LOUs in accordance with the process described in Annex 1 of the principles. This brings the number of ROC endorsed GLEIS pre-LOUs up to 16 (operational); and, there is a broader [list of four digit prefixes](#) allocated to sponsored pre- LOUs (which currently includes 12 unendorsed pre-LOUs).

On 19 June 2014, the LEIROC [published a note](#) in relation to a common data file format for pre-LOUs. As the [GLEIS High Level Principles](#) stipulate, the GLEIS should uniquely and unambiguously identify participants to financial transactions. The ISO 17442 standard defines a set of attributes that are the most essential elements of identification, but this structure alone is necessarily coupled with greater specificity given the federated model for the GLEIS. The [common date file format](#), as endorsed by the ROC Plenary, provides a detailed technical description of the structure of each data element and the associated code lists and attributes; and external standards have been included, where appropriate, to promote data quality. The document also provides both an XML schema as the formal representation of the underlying information and a description of how change of the common data file format should be managed from a technical perspective. After a transitional period of two months, endorsed pre-LOUs must adopt the format for publication of their LEI information; and the format also applies to prospective pre-LOUs seeking endorsement to join the interim system – pre-LOUs will be expected to commit to publishing the common data file by the deadline of 19 August 2014.

On 30 June 2014, the [FSB announced](#) that the FSB Plenary, in its capacity as Founder of the Global Legal Entity Identifier Foundation (GLEIF), had approved the necessary documents to



There are already almost 300,000 LEIs in issuance.

around the world of uniform operational standards and protocols set by the ROC and support the maintenance of a “logically” centralised database of identifiers and corresponding reference data.

- The third tier is provided by the federated LOUs which supply registration and other services, and act as the primary interface for registrants for LEIs. There are already almost 300,000 LEIs in issuance, and the LEI has been mandated by the U.S. CFTC, the ESMA and the EBA, and is being considered for use by multiple other financial regulators around the world.

CPSS/IOSCO: Principles for financial market infrastructures (PFMIs)

On 28 May 2014, the CPSS and IOSCO [published the first update](#) to the Level 1 assessments of implementation monitoring for the PFMIs. Level 1 assessments are based on self-assessments by individual jurisdictions on how they have adopted the 24 PFMIs and four of the five responsibilities for authorities within the regulatory and oversight framework that applies to FMIs. The update report shows that significant progress has been made by the 28 participating jurisdictions since the initial Level 1 report in August 2013; but also reveals that progress in implementing the PFMIs continues to vary according to the type of FMI. Overall there is encouraging progress across all FMI types, with implementation well advanced for CCPs, TRs and payment systems but less advanced for CSDs and securities settlement systems.

In parallel with the Level 1 assessments, CPSS and IOSCO are moving to the second level of the implementation monitoring for the PFMIs (Level 2 assessments). In the initial round of the Level 2 assessments, CPSS and IOSCO will conduct a detailed evaluation and

a peer-review assessment regarding whether the adopted measures are complete and consistent with the principles for CCPs and TRs in the EU, Japan and the US. Other jurisdictions and other categories of FMI will be covered in subsequent rounds. Results from the first round of Level 2 assessments are expected to be published in the fourth quarter of 2014.

ESMA: Market Data Reporting Working Group (MDRWG)

The MDRWG contributes to ESMA's work on issues relating to reporting of transactions, positions, record-keeping of orders and instrument reference data. The objectives of this group are to enhance the quality of the market data reported to EU National Authorities and TRs and to foster supervisory convergence among the national authorities in its area of competence. On 16 May 2014, ESMA [announced the creation](#) of the consultative working group for the MDRWG.

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create the GLEIF and is filing the papers with the Swiss authorities to establish the GLEIF as a Swiss not for profit Foundation. The Plenary also endorsed the appointment of the inaugural Board of Directors of the GLEIF and the appointment of Gerard Hartsink as the initial Chair of the GLEIF. As a key element in the process of the [formal establishment of the GLEIF](#), the Board of Directors [held its inaugural meeting](#) in Zurich on 26 June 2014. Establishment of the GLEIF marks the completion of the establishment of the three-tier structure for the GLEIS as endorsed by the FSB and the G20 in June 2012:

- The first tier, the ROC, was established in January 2013 with responsibility for the governance and oversight of the GLEIS in the public interest.
- The GLEIF forms the second tier and will act as the operational arm of the system. Under the supervision of the ROC, the GLEIF, responsible for the Central Operating Unit, will constitute the contracting and operational body of the GLEIS. It will support the application

Macroprudential Risk

by David Hiscock

On 2 April 2014, the Joint Committee of the ESAs published its [third bi-annual report](#) on risks and vulnerabilities in the EU's financial system. The report identified a number of potential vulnerabilities and cross-sectoral risks to the stability of the European financial system including: weak and uneven economic recovery; uncertain outlook in a number of global emerging economies; asset price imbalances and risks of a sharp adjustment; increased search for yield in a protracted low interest rate environment; conduct of business risks; and IT-related operational risks.

Published by the ECB on 3 April 2014, [*Rollover Risk, Liquidity, and Macroprudential Regulation*](#) is a working paper which reports on a study of rollover risk in the wholesale funding market, when intermediaries can hold liquidity ex-ante and are subject to fire sales ex-post. The author demonstrates that precautionary liquidity restores multiple equilibria in a global rollover game. An intermediate liquidity level supports both the usual run equilibrium and an efficient equilibrium. The author provides a uniqueness refinement to characterize the privately optimal liquidity choice. Because of fire sales, liquidity holdings are strategic substitutes. Intermediaries free-ride on the liquidity of other intermediaries, causing excessive liquidation. A macro-prudential authority internalizes the systemic nature of liquidity and restores constrained efficiency by imposing a macro-prudential liquidity buffer.

In the wake of the global financial crisis, the G20 has become the most important forum of global governance and cooperation, largely replacing the once powerful G7. In [*The Effect of G20 Summits on Global Financial Markets*](#), a working paper published by the ECB on 4 April 2014, the authors report on the running of an event study to test whether G20 meetings at ministerial and Leaders level have had an impact on global financial markets. The authors focus on the period from 2007 to 2013, looking at equity returns, bond yields and measures of market risk such as implied volatility, skewness and kurtosis. Their main finding is that G20 summits have not had a strong, consistent and durable

effect on any of the markets they consider, suggesting that the information and decision content of G20 summits is of limited relevance for market participants.

The ESRB has [set up a webpage](#) to publish information about macro-prudential measures notified to the ESRB and relevant opinions and recommendations issued by the ESRB. This includes new notifications from the Croatian National Bank, 16 April 2014; the Slovenian Central Bank, 22 April; the Dutch Central Bank, 29 April; the Belgian authorities, 8 May; the Estonian authorities, 21 May; the Danish authorities, 25 June; and the Bank of England, 26 June.

According to Article 513 CRR the European Commission shall report by 31 December 2014 to the European Parliament and the Council on the review of macro-prudential provisions in the EU capital requirements framework – CRR/CRD. In the context of this review, the ESRB received a [call for advice](#) from the Commission on the sufficiency of these provisions to mitigate systemic risks in the EU sectors, regions and Member States. The ESRB's [advice in response](#) was published on 30 April 2014, having been prepared in line with the ESRB's macro-prudential mandate. The ESRB's advice is based on a conceptual, rather than empirical analysis; and is underpinned by the analysis it has carried out to assist the operationalisation of the new macro-prudential instruments. The ESRB advises a number of specific recommendations and also suggests a number of areas in which the current rules can be clarified and made more coherent. In summary, the CRR/CRD package contains many of the components needed for a sound EU macro-prudential framework; but, based on the ESRB's analysis, a small number of revisions will increase the effectiveness of the toolkit as a whole.

The EU regulations establishing the EBA and the EIOPA require them, in cooperation with the ESRB, to initiate and coordinate EU-wide assessments of the resilience of financial institutions to adverse market developments, including through stress testing. On 30 April 2014, the

ESRB published [the adverse scenarios](#) for the EU-wide stress tests for banks and insurance to be carried out by the EBA and the EIOPA in 2014. These scenarios, which have been approved by the General Board of the ESRB, highlight adverse conditions that are specific and relevant to each sector.

On 7 May 2014, the US Financial Stability Oversight Council (FSOC) unanimously approved its [2014 annual report](#). In this fourth annual FSOC report, the FSOC's findings are organized around nine themes which recur throughout the report. These include:

- the vulnerability to runs in wholesale funding markets, including tri-party repo and money market mutual funds, that can lead to destabilizing fire sales;
- developments in financial products, new business practices, and the migration of certain financial activities outside of the regulatory perimeter;
- the reliance on reference rates that may be susceptible to manipulation, such as LIBOR and foreign exchange rate benchmarks;
- the need for financial institutions and market participants to remain vigilant in relation to potential interest rate volatility; and
- cyberthreats and the increase of trading-related operational outages and incidents that could cause disruptions to markets and the financial system.

On 16 May 2014, ESMA published its [Risk Dashboard No. 2, 2014](#), which is the latest in its quarterly series (the next semi-annual ESMA report on *Trends, Risks and Vulnerabilities* will be published alongside next quarter's risk dashboard) and provides a snapshot of risk issues in the first quarter of 2014. This latest dashboard starts with the statement that "systemic stress indicators rose from a position of relative calm in EU financial markets, mirroring a re-emergence of heightened uncertainty at both global and EU levels." As well as further describing the latest overall assessment of systemic risk this report includes more detailed assessments of liquidity, market, contagion and credit risks; and offers a few observations on risks to market functioning, concerning benchmarks, market infrastructure and shadow banking.

On 21 May 2014 the ECB's Governing Council authorised the publication of the [Financial Stability Review – May 2014](#), which reviews the main sources of risk and vulnerabilities in terms of financial stability within the euro area financial system and provides a

comprehensive analysis of the capacity of the euro-area financial system to absorb adverse disturbances.

[Bank Size and Systemic Risk](#) is an IMF staff discussion note, published in May 2014, which contributes to the debate on the optimal size and scope of banks. In conclusion, it shows that large banks, on average, create more individual and systemic risk than smaller banks; and that the risks of large banks are especially high when they have insufficient capital, unstable funding, engage more in market-based activities, or are organizationally complex. This suggests that today's large banks might be too large from a social welfare perspective, but there is some case for the economies of scale in large banks. Hence, "optimal" bank size is highly uncertain, and regulations that restrict outright bank size may be imprecise and difficult to implement. Optimal regulation of large banks should combine micro- and macro-prudential perspectives, and its tools may include capital surcharges on large banks (as in Basel III) and measures to reduce banks' involvement in market-based activities and organizational complexity.

On 2 June 2014, the ESRB published report No. 4 of the [Advisory Scientific Committee](#), entitled: *Is Europe Overbanked?* The report finds that over the past 20 years (and particularly since 2000) in Europe the banking system has grown much more than elsewhere. European banks have also become considerably more concentrated, and have expanded into activities beyond traditional relationship lending. The report notes that recently, there have been several important innovations in EU financial policy, particularly CRR/CRD; SSM; BRRD and SRD, which over time should improve the status quo. Nevertheless, the report goes on to argue that more needs to be done and outlines policies which could be tried:

- A. Policies to reduce excessive private credit creation by banks and mitigate its risks:
 - (i) To curb excessive debt accumulation, EU member states could remove the preferential fiscal treatment of debt.
 - (ii) To control the size of large banks, the EU could implement more aggressive antitrust policy.
 - (iii) To increase banks' resilience, competent authorities in the EU could increase minimum capital requirements.
- B. Policies to re-balance the EU's financial structure away from banks:

- (iv) To develop non-bank credit supply, the EU could encourage intermediation by nonbanks.
- C. Policies to mitigate the risks from banks' "non-bank" activities:
- (v) To reduce risks posed by banks carrying out "non-bank" activities, policy options include aggressive structural reform.
- (vi) Competent authorities could increase the risk weights applied to intra-financial system exposures, or reduce large exposure limits among financials.

On 17 June 2014, [IOSCO published A Survey of Securities Markets Risk Trends 2014: Methodology and Detailed Results](#), which provides a detailed analysis of responses to its third securities markets' survey (views expressed in this paper are solely those of the IOSCO Research Department and do not necessarily reflect the views of IOSCO or its members). The survey is an annual exercise formulated to collect the views of financial market regulators and experts globally on emerging trends that are or could be of concern. This edition of the survey was conducted in March 2014 and is based on some 200 responses. Amongst the main areas identified are:

- Issues considered "macroprudential" in nature are high among the concerns of respondents, especially in the areas of banking vulnerabilities and capital flows.
- More micro-prudential risks clustered around the areas of corporate governance, financial risk disclosure, shadow-banking activities and, especially, regulatory uncertainty.
- Responses differ by the type of respondent: regulators see risk emanating from illegal conduct, corporate governance, financial risk disclosure and benchmarking issues, while market participants are more concerned with risk arising from the search for yield, resolution and resolvability plans, CCPs and market fragmentation.
- Respondents saw very few "risks" sourced within securities markets – the role of securities markets with regard to risk was more likely to transmit and/or amplify shocks from outside than to originate risk.
- Over time some risk areas have attracted more attention while others have lost prominence; however, respondents have repeatedly and consistently cited three trends as major concerns in all three annual

surveys: regulatory uncertainty; banking vulnerabilities; and volatile capital flows.

The [concluding conference](#) of the ESCB's [Macroprudential Research Network](#) (MaRs), was hosted by the ECB, in Frankfurt on 23-24 June 2014. Vítor Constâncio, Vice President, ECB delivered the opening keynote, following which Philipp Hartmann, ECB and Chair of MaRs, discussed the [Results of the ESCB MaRS](#). The conference plenary included sessions on:

1. Tools for Assessing Macro-prudential Regulatory Instruments
2. Systemic Financial Instability Versus Financial Business Cycles in Empirical Macroeconomics;
3. Contagion and Interbank Networks;
4. Regulatory Policy Instruments
5. Early Warning Models;
6. Interaction of Macro-prudential and Monetary Policies;
7. International Spillovers and Capital Flows; and
8. Measuring Systemic Risk.

Various associated papers have been published, including *Does a Leverage Ratio Requirement Increase Bank Stability?* and *Measuring Bilateral Spillover and Testing Contagion on Sovereign Bond Markets in Europe*.

Published on 24 June 2014, [On the Use of Monetary and Macroprudential Policies for Small Open Economies](#) is an IMF staff working paper. The authors explore optimal monetary and macroprudential policy rules for a small open economy. They conclude that delegating "lean against the wind" squarely to macroprudential policy provides a more robust policy mix to shock uncertainty, since (i) if macroprudential measures exist, there are no significant welfare gains from monetary policy reacting to credit growth under a financial shock; and (ii) monetary responses to financial markets could generate bigger welfare losses than macroprudential responses under different shocks. The source of outstanding liabilities also plays a role in the choice of policy instrument, with macroprudential policies being particularly effective for emerging markets where foreign borrowing is sizeable.

On 25 June 2014, the [ESRB issued a report](#) which provides an assessment of the implementation of its Recommendation on the macro-prudential mandate

of national authorities by each Member State. The report presents: (1) the objective of this ESRB Recommendation; (2) the methodology used by the assessment team; (3) a colour shade table showing individual country results; (4) another colour shade table ranking countries according to the degree of compliance with the key recommendations; (5) the status of legislation; (6) the main areas of discrepancy in terms of substance; (7) the results obtained for each sub-recommendation vis-à-vis countries where the legislation is already in force; and (8) the results obtained for each sub-recommendation vis-à-vis countries where the legislation is not yet in force or in force by means of secondary law.

When publishing its [Risk Dashboard, issue 8](#), on 25 June 2014, the ESRB observed that the macroeconomic environment is slowly improving, despite large cross-country divergences. Amongst other summary points it is also noted that:

- countries' levels of indebtedness are likely to weigh on the recovery for some time to come;
- banks' credit supply conditions have further stabilised;
- financial conditions continue to improve across the board – with Sovereign debt markets continuing to stabilise, including for stressed countries; and CDS premia having declined further over the first quarter of 2014;
- market perception of systemic risk is back to low level after a brief increase earlier this year;
- the share of central bank funding is progressively being reduced across Europe, except in Cyprus and Hungary; and
- some progress has also been made in terms of banks' resilience.

Also on 25 June 2014, the EBA published its [fifth semi-annual report](#) on risks and vulnerabilities of the EU banking sector. The report shows improvements in market sentiment and confidence which has allowed banks to increase their capital levels ahead of the 2014 EU-wide stress test and to continue the repair of their balance sheets. However, the report cautions about ongoing uncertainties on asset valuations and future profitability in an environment where the signs of recovery remain modest and

fragile. The report also draws attention to looming redress costs related to conduct issues as well as to geo-political concerns in emerging markets, which could lead to risk aversion and to an impact on capital flows.

On 26 June 2014, IOSCO issued a report on [*Risk Identification and Assessment Methodologies for Securities Regulators*](#), which provides a practical overview of the methods, approaches and tools that IOSCO and securities regulators have developed to identify and assess emerging and potential systemic risks. The IOSCO Committee on Emerging Risks prepared the report as part of the organization's ongoing effort to identify, analyse, and monitor systemic risk. The paper acknowledges that there is no one-size-fits all method for identifying trends, vulnerabilities and risks in these markets. The paper is organized around four themes, which are (1) definition of risk; (2) IOSCO risk identification methods; (3) risk identification methods used by securities regulators; and (4) an analytical framework for assessing systemic risks. The paper shows that securities regulators increasingly are pairing qualitative risk analysis with quantitative tools. This tendency includes risk dashboards that systematically track quantitative risk indicators, as well as data analytics, econometrics and research that is focused on risk analysis of products, firms and markets, as well as incentives and investor behaviour.

On 30 June 2014, the ESRB [published a Recommendation](#) on guidance to EU Member States for setting countercyclical buffer rates, which was approved at the 18 June meeting of the ESRB General Board. This Recommendation was required under EU legislation and serves the purpose of establishing a common approach to setting the countercyclical capital buffer across Europe. Alongside, describing analysis that has informed this Recommendation, the ESRB also published an [Occasional Paper](#) entitled *Operationalising the Countercyclical Capital Buffer: Indicator Selection, Threshold Identification and Calibration Options*.

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ICMA in Asia-Pacific

by **Mushtaq Kapasi**

Asian debt primary markets

The Asian cross-border debt capital markets are growing and evolving rapidly. They feature a wide range of issuers, many of which are active in their local currency markets, and involve both established global banks and new regional entrants in the underwriting space. Asian cross-border markets draw upon practices and documentation not only from European and American markets, but also from the local jurisdictions in Asia. The dynamism and complexity of the Asian markets can increase risk in transactions. However, the conditions of the market also provide an opportunity to formulate standard practices relevant not only to underwriters and bookrunners, but also to issuers, investors, and regulators.

Over the last nine months, ICMA has held three Asia debt syndicate meetings, attended by leading Asian underwriters from global and regional banks. ICMA has also held a first meeting of Asian legal, documentation, and transaction managers – which may complement the work of the syndicate meetings with an emphasis on regulations, compliance, and documentation practices around contracts and disclosure.

Discussions have echoed to some extent many of the discussions in the [ICMA Primary Market Practices Committee](#) and the [ICMA Legal and Documentation Committee](#), but have also shed a light on some areas where Asian perspectives and dynamics differ.

One important area of discussion in Asia relates to investor meetings, roadshows and

communication of potential transactions. As global regulatory change brings renewed attention to insider trading regimes, Asian underwriters are increasingly careful to manage information flow to potential investors. As is true globally, underwriters experience the practical tension between the need to target the transaction effectively by sounding out investors, and the requirements of fair disclosure to the market.

During the allocation process itself, disclosure of the status of the order book is a complex issue with considerations relating to client confidentiality, data protection, banking secrecy and conduct of business rules. Investors and issuers in Asia often have different expectations of the types and level of detail of information they should receive during the book-building process.

Stabilisation is an area where detailed regulatory regimes have not yet developed in Asia, and underwriters rely in large part on coordinated judgment and existing global practices. In Asian-syndicated transactions, European market abuse regulations are generally applied, partly as settlement is often executed and booked in European legal entities.

Overall, the ongoing revisions to the ICMA Primary Market Handbook (PMH) are being closely watched by Asian market professionals. The PMH covers internationally syndicated primary debt capital markets offerings, generally excluding high-yield and equity-linked transactions. Although the PMH often does not apply to US dollar-denominated transactions, in Asia the distinctions among G3 issuances are more fluid, and many of the principles and standard provisions

of the PMH are followed in cross-border transactions denominated not only in euro, but also in Japanese yen and US dollars. In addition, many of the long-standing principles and standard clauses of the PMH have been borrowed and adapted to local Asian capital markets.

One particular aspect of Asian market documentation that is different from Europe is that international bond offerings usually feature several underwriting rather than joint-and-several underwriting. The practical effect is that, unlike transactions in other regions, each underwriter in an Asian transaction would only be liable for its own allocated portion of the transaction and not for the liabilities of co-underwriters. However, several liability (as opposed to joint liability) is not absolute in the context of transactions involving ICSDs, because the lead manager may be liable for the entire value of the transaction if an investor defaults after funds have been transferred to the issuer. This issue is currently being addressed in the revisions to the standard Agreement Among Managers that would apply to relevant Asian transactions.

ICMA intends to continue its standard-setting work in the Asian primary markets not only through the existing groups drawn from underwriting banks, but also through increased dialogue and education for issuers, investors, and regulators. In particular, over the next several months ICMA will offer its [Primary Markets Certificate](#) and related courses in Asia.

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diary

ICMA Women's Network

Networking, Progression, Support

- Opens up a geographically broad women's network grounded firmly within the existing ICMA structure.
- Fosters the pipeline into management by focusing on career strategy
- Provides an impartial and open forum to discuss issues relevant to professional women.

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ICMA FAQs

FAQs on ICMA's rules and recommendations on the secondary market

FAQs on the repo market

FAQs on the GMRA

24-26 SEP

Global Master Agreements for Repo and Securities Lending Workshop, London

ICMA and the International Securities Lending Association (ISLA) will run this workshop on the Global Master Repurchase Agreement (GMRA) and the Global Master Securities Lending Agreement (GMSLA). These two separate master agreements are the essential legal underpinnings for repo and securities lending markets respectively.

Register

13 OCT

European Regulation: An Introduction for Capital Market Practitioners, London

This one day fast track course on European regulation for capital market practitioners is aimed at sales people, traders, originators, syndicate personnel, and middle and back office staff who would benefit from a better understanding of the current regulatory landscape in the cross-border bond markets. It is specifically not aimed at lawyers or compliance staff. The focus of the programme is the cross-border capital markets and the bias is towards practitioners working largely with institutional rather than retail clients. The course provides updates on the major regulatory developments relevant to the market and will consider recent case studies in the regulatory crackdown.

Register

11 NOV

Bond syndication practices for compliance professionals and other non-bankers - an ICMA Workshop, London

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

12 NOV

The 8th ICMA Primary Market Forum, London

Now in its 8th year, the ICMA Primary Market Forum is a half day conference designed to bring together borrowers, syndicate banks, investors and law firms to discuss the business issues and regulatory developments affecting the issuance of international debt securities. Among the continuing themes in the market this year are market practices relating to prospectus disclosure, pre-sounding, bookbuilding and stabilisation and developing primary market legislation on key information documents, market abuse and conduct of business. The panel discussions will also review current legal and documentation issues and the outlook for the primary markets, including consideration of various funding options and associated challenges.

Register

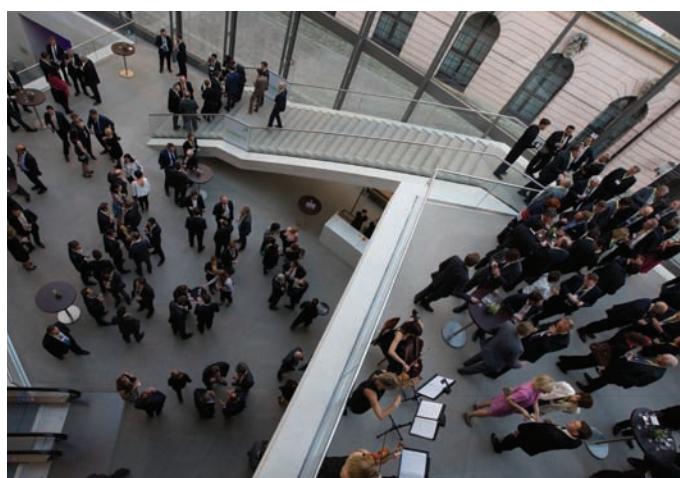
19 NOV

ICMA European Repo Council (ERC) General Meeting, London, 19 November

Hosted by MTS. **Save the date**

ICMA AGM and Conference 2014 and 2015

The 46th ICMA AGM and Conference took place in Berlin from 4 to 6 Jun. More than 650 senior capital market participants and observers attended the conference at the InterContinental Hotel Berlin and the networking events at the New National Gallery and the German Historical Museum. Delegates heard an impressive line-up of regulators, politicians, central bankers and market participants speaking on topics related to ICMA's work programme including: the importance of capital markets in financing economic growth; the role of collateral and repo; prospects for European banking union; and developments in Chinese and in German capital markets.



 **Save the Date**

The 47th ICMA AGM and Conference Amsterdam,
3-5 June 2015

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ICMA Executive Education

Book now for these ICMA Executive Education courses in 2014.

New course – the ICMA Guide to Best Practice in the European Repo market

ICMA's *Guide to Best Practice in the European Repo Market* was published in March, it aims to encourage an orderly market in repo in Europe by recommending practices which market experience suggests can help avoid uncertainties or disagreements, and the consequent delays or disruption to repo trading & settlement. This new one day course will look in detail at the issues covered in the Guide and will be relevant to staff in trading and sales, treasury, trade support, product and business management, collateral management, margining, settlement and legal/documentation.

Register

Primary Market Certificate in Hong Kong

The long established ICMA Primary Market Certificate Course will run in Hong Kong for the first time from 22 to 26 September. The programme examines the entire life cycle of bond issuance, from considering the financing choices through to the closing of transactions in the marketplace. While the course examines the theoretical principles underpinning the markets, and the instruments and financing techniques that are available, emphasis is placed on interpreting and using that knowledge in practical case studies. Candidates who gain this qualification therefore will have all the requisite tools to add value now to their company's activities in the primary markets.

Register

IFID Distance Learning

ICMA Executive Education's *IFID training programme* is the benchmark qualification for the fixed income market, putting emphasis on developing practical skills for trading, investment and risk management. The IFID is available online as a Distance Learning programme, where students work through the training at their own time (subject to a six month exam deadline), pace and location with ongoing support from expert e-tutors at the IFID OnLine Campus. [Register online](#) and join our global student community!

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Part I, Introductory Programmes

Financial Markets

Foundation Course (FMFC)

Luxembourg: 22-24 September 2014
 London: 5-7 November 2014

Securities Operations

Foundation Course (SOFC)

London: 10-12 September 2014
 Brussels: 12-14 November 2014

Part II, Intermediate Programmes

International Fixed Income and Derivatives (IFID) Certificate Programme

Next classroom-based course:
 Barcelona: 26 October-1 November 2014

Operations Certificate Programme (OCP)

Brussels: 16-22 November 2014
Primary Market Certificate (PMC)
 Hong Kong: 22-26 September
 London: 17-21 November 2014

Part III, Specialist Programmes

New courses added for autumn 2014 **The ICMA Guide to Best Practice in the European Repo Market**

London: 22 September 2014
 London: 17 November 2014

Collateral Management

London: 9-10 October 2014

Credit Default Swaps (CDS) – Features, Pricing & Applications

London: 22-23 October 2014

Fixed Income Portfolio Management

London: 27-28 November 2014

ICMA Executive Education Skills Courses

Mastering Mandates

London: 7-8 October 2014

The full 2014 course schedule is available here, www.icmagroup.org/Training-Development

GLOSSARY

ABCP	Asset-Backed Commercial Paper
ABMI	Asian Bond Market Initiative
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
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
CoCo	Contingent convertible
COGESI	Contact Group on Euro Securities Infrastructures
COREPER	Committee of Permanent Representatives (in the EU)
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 Depository 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
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFC	Economic and Financial Committee (of the EU)
EFSF	European Financial Stability Facility
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
ERC	ICMA European Repo 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
ELTIF	European Long-Term Investment Funds
EURIBOR	Euro Interbank Offered Rate
Eurosystem	ECB and participating national central banks in the euro area
FAQ	Frequently Asked Questions
FASB	Financial Accounting Standards Board
FATCA	US Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FCA	UK Financial Conduct Authority
FIIF	ICMA Financial Institution Issuer Forum
FMI	Financial market infrastructure
FPC	UK Financial Policy Committee
FRN	Floating-rate note
FSB	Financial Stability Board
FSOC	Financial Stability Oversight Council
FTT	Financial Transaction Tax
G20	Group of Twenty
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
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 Depositories
IFRS	International Financial Reporting Standards
IMMFA	International Money Market Funds Association
IMF	International Monetary Fund
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 für Wiederaufbau
KID	Key information document
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
MifIR	Markets in Financial Instruments Regulation
MMCG	ECB Money Market Contact Group
MMF	Money market fund
MOU	Memorandum of Understanding
NAV	Net asset value
MTF	Multilateral Trading Facility
NAFMI	National Association of Financial Market Institutional Investors
NCA	National Competent Authority
NDRC	National Development and Reform Commission
NSFR	Net Stable Funding Ratio (or Requirement)
OTC	Over-the-counter
OTF	Organised Trading Facility
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
PD	EU 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
PSI	Private Sector Involvement
PSIF	Public Sector Issuer Forum
QMV	Qualified majority voting
RFQ	Request for quote
RM	Regulated Market
RMB	Chinese renminbi
RPC	ICMA Regulatory Policy Committee
RTS	Regulatory Technical Standards
SEC	US Securities and Exchange Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SLL	Securities Law Legislation
SME	Small and medium-sized enterprise
SMPC	ICMA Secondary Market Practices Committee
SPV	Special purpose vehicle
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
TRs	Trade repositories
UKLA	UK Listing Authority



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.

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