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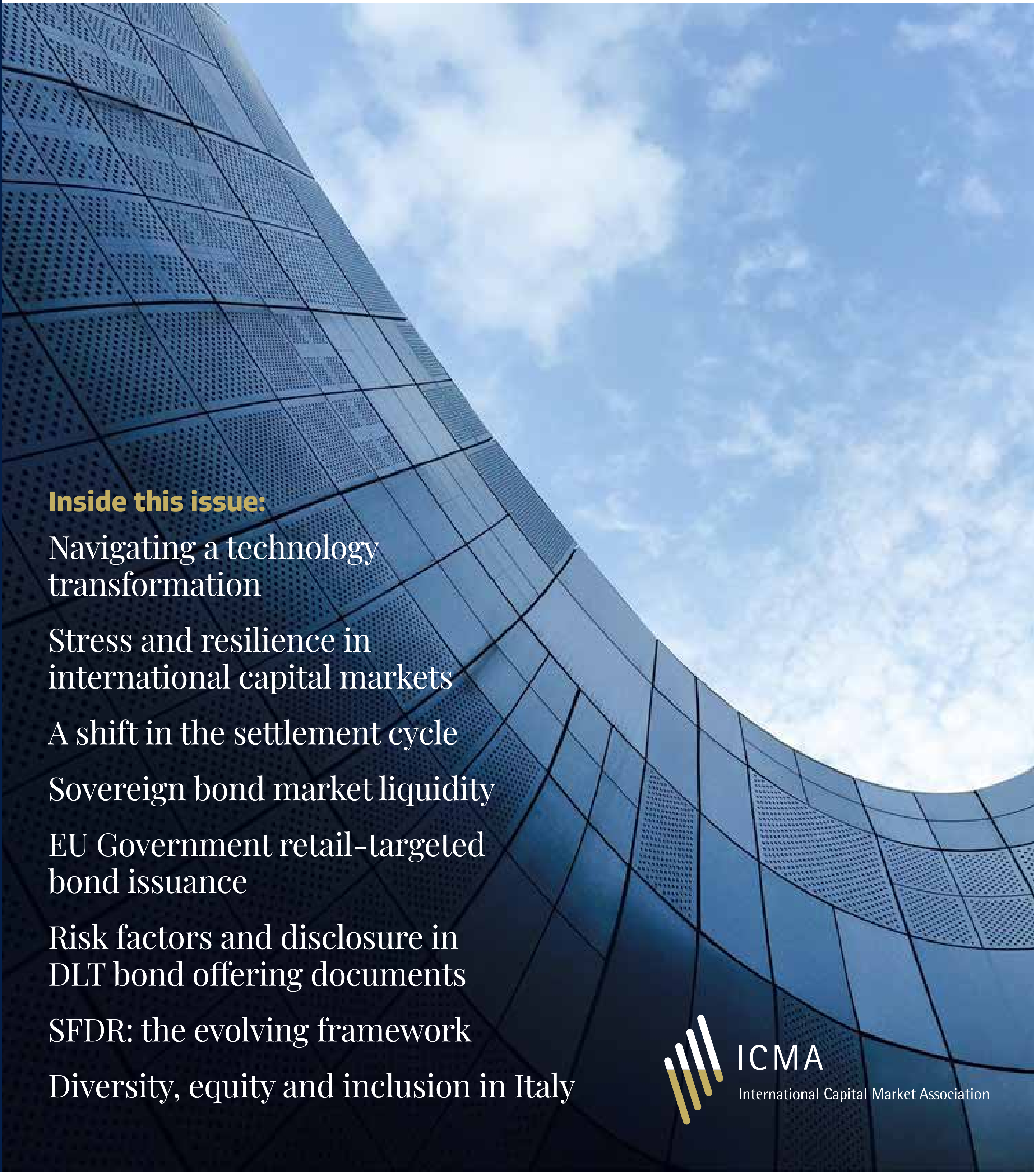

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ICMA
International Capital Market Association

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The mission of ICMA is to promote resilient and well-functioning international and globally integrated cross-border debt securities markets, which are essential to fund sustainable economic growth and development.

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include public and private sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide.

ICMA currently has over 610 members in 67 jurisdictions worldwide. ICMA brings together members from all segments of the wholesale and retail debt securities markets, through regional and sectoral member committees, and focuses on a comprehensive range of market practice and regulatory issues which impact all aspects of international market functioning. ICMA prioritises three core areas – primary markets, secondary markets, repo and collateral: with two cross-cutting themes of sustainable finance and FinTech.

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Navigating a technology transformation

By **Fabianna Del Canto**

With the start of a new year upon us, I reflect on the last 12 months. Interest rates took the market on a wild ride, and we adjusted to near-constant market volatility and the difficulties policy makers face in balancing growth against inflation. As noted by my fellow Board members throughout the year, resilience was the overarching theme to 2023. We came to expect the unexpected, whether from changes in growth outlooks or escalating environmental and geopolitical concerns. Fortunately, once again, the markets did prove themselves resilient and adaptable. We observed increased levels of primary issuance, further innovation, and acceptance that a volatile backdrop is not only the "new normal" but can also present significant opportunity, profitability or provide a catalyst for necessary change.

As a Board member of ICMA, I am fortunate to regularly exchange ideas with market leaders who graciously voice the priorities and concerns of our membership. While 2023 saw a more defensive stance, the new year offers a sense of relief that rates have peaked and cautious optimism for the year ahead. Cautious, as there is no shortage of events on the calendar, with a record number of elections slated for 2024 impacting the majority of the world's GDP. With such an eventful political cycle ahead of us and a significant economic policy year behind us, ensuring market resilience is a paramount priority for all ICMA members. Capturing this new year optimism, supporting growth initiatives, and contributing to the ongoing development of a more robust financial system will help guide ICMA's focus and activity in the year ahead.

This optimism was recently on full display at a December year-end event, the ICMA FinTech and Digitalisation Forum, held in London. Around 300 participants across the value chain joined this flagship event, an energetic day buzzing with excitement and thought-provoking exchanges as we collectively explored the many ways in which technological innovation impacts financial markets. Attacking present-day challenges such as shortening settlement cycles (all the more important in times of volatility) to creating more efficient workflows, or even considering the role of Artificial Intelligence, the conversations spanned a vast range of topics fundamental to future-proofing the marketplace. I am a firm believer that the digitalisation and transformation of our existing market structure is both necessary and inevitable, yet to date the change has been gradual. We have learned that it takes time to chart the path for the adoption of new technologies, particularly in light of what feels like an ever-expanding set of potential solutions. I have sat both in the seat of a vendor and adopter, and promoting change can be difficult work. Though the roadblocks are various, I am encouraged by the increasing number of voices in the room supporting and debating the range of technological advancements. This increase was evidenced this past year by a record number of digital bonds, broader vendor adoption and implementation of new processes. Undoubtedly, the pace of change is increasing.

ICMA continues to play a critical role in the evolution of markets, including digitalisation. While innovation promoters espouse the collaboration and integration of technological solutions, ICMA is vital in accelerating the pace of change and enabling such integration by providing a framework and ongoing venue to exchange ideas. We saw and felt at the Forum that there is no shortage of ideas or enthusiasm, yet sustainable change will require the establishment of market standards and best practices, such as those set out by ICMA through the Bond Data Taxonomy (BDT), as one example. Identifying where ICMA is best placed to unify its membership and enable productive change is further cementing ICMA's role as an established thought leader, including in the realm of digitalisation. I look forward to what additional innovation and progress 2024 will bring, and I look forward to meeting many more of the ICMA members throughout the year.

Wishing you a prosperous and healthy year ahead.

Fabianna Del Canto is Co-Head, EMEA Capital Markets, MUFG Securities, and a member of the ICMA Board.

Stress and resilience in international capital markets

by **Paul Richards**

Summary

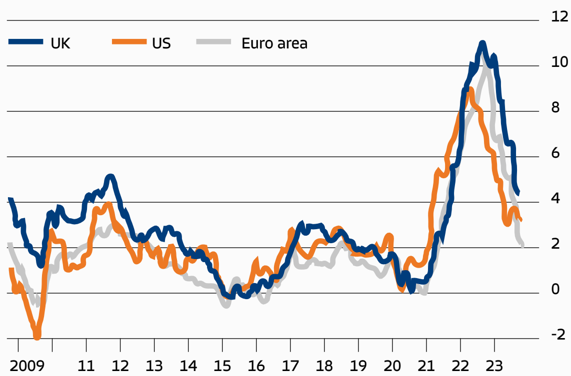
This Quarterly Assessment considers stress and resilience in international capital markets in Europe, taking account of recent official sector initiatives both in Europe and at global level. The tightening of monetary policy by central banks through the rise in short-term interest rates, which has been necessary to control inflation, has complicated the task for central banks in ensuring financial stability. So the assessment considers, first, the review by the authorities of financial stability in response to stress in the banking system in the spring of 2023; second, the steps being considered by the authorities to strengthen the resilience of the non-bank financial sector; third, the risk to resilience from market fragmentation as a result of regulatory divergence; and finally, the contribution that market firms themselves can make to strengthening resilience in international capital markets.

Monetary policy

1 There are different views on why inflation rose in Europe and the US in 2021 and 2022 to the highest levels for around 40 years: whether this was caused by a long period of exceptionally low interest rates, accompanied by high fiscal deficits and extensive quantitative easing (QE) during the pandemic; or by strong labour demand accompanied by relatively low unemployment after the pandemic; or by the impact of the Russian invasion of Ukraine on energy and food prices and by "friend-shoring" of fragile international supply chains against a background of continuing global tension; or by a combination of all these factors.

2 Whatever the reasons for the rise in inflation, the US Federal Reserve, the European Central Bank (ECB) and the Bank of England agreed on a similar monetary policy response: that they needed to restore price stability by bringing inflation back to the target levels of around 2% in their mandates (and not to recommend raising or suspending these target levels); and that bringing inflation back to target required a substantial tightening of monetary policy by raising short-term interest rates in 2022 and 2023. The three central banks have also indicated that the rise in short-term interest rates needs to be sustained for as long as necessary in order to bring inflation back to target on a permanent rather than just a temporary basis. This approach by the three central banks has been characterised as "higher for longer". Although current economic conditions and the economic outlook in the US, the EU and the UK are not the same, in all three cases significant progress has been made in reducing inflation (Chart 1), and capital markets have begun to anticipate that the peak in short-term interest rates may have been reached. But it is not yet clear that the battle to restore price stability has been won.

Chart 1: Inflation in the US, euro area and UK: 2009-2023

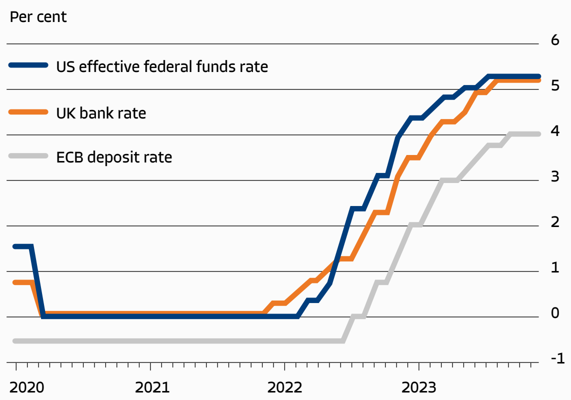


Note: annual percentage change in consumer price index.
Sources: LSEG, FT

Financial stability in the banking system

3 While the rise in short-term interest rates set by the three central banks (Chart 2) has been necessary to curb inflation, it has complicated the other key task of the three central banks, which is to ensure financial stability. Short-term interest rates are not high in historic terms, but the rise from exceptionally low interest rates has been rapid, and it has been accompanied by a substantial net increase in bond yields along the yield curve. This has increased the cost of financing and refinancing at a time when the stock of debt is already at a high level in both the public sector, in response to fiscal deficits (in particular during the pandemic), and the private sector, with implications for credit quality. And where central banks are replacing QE by quantitative tightening (QT) to reduce the size of their balance sheets, this increases the amount of public sector debt issuance that the private sector needs to absorb. The net rise in bond yields has resulted in capital losses for both central banks and commercial banks on their existing holdings of government debt, when marked to market. Against this background, four of the most vulnerable commercial banks – three regional banks in the US and Credit Suisse in Europe – were subject to bank deposit runs in the spring of 2023.

Chart 2: Short-term interest rates set by the Federal Reserve, ECB and Bank of England: 2020-2023



Note: %. Sources: Eurostat, US Federal Reserve, ECB, Bank of England, FT

4 In response, the Financial Stability Board (FSB) has reviewed the operation of the framework for international bank resolution to see whether there are lessons to be learned. The review has concluded that "recent events demonstrate the soundness of the framework", as "the strains faced by individual banks did not cascade into a full-blown crisis". But there are still lessons to be learned:

- The FSB has noted that a striking feature of the recent bank failures was the unprecedented speed and scale of deposit runs. So it is "assessing vulnerabilities from asset-liability and liquidity mismatches and exploring whether technology and social media have changed deposit stickiness".
- The FSB has also emphasised that "banks' risk management and governance arrangements remain the first and most important source of resilience". So the Basel Committee on Banking Supervision (BCBS) is prioritising work to strengthen supervisory effectiveness.[1] The FSB has also emphasised that banks need to have sufficient sources of funding and internal liquidity resources and be prepared to mobilise collateral in resolution.[2]

5 While the authorities' focus is on making sure that banks are safe and sound, this does not equate to a "zero-failure" regime, as the authorities want banks to continue to provide useful services such as lending which involve significant risks.[3]

Financial stability outside the banking system

6 The authorities are also concerned that, given their focus on regulating the banking system in response to the 2007/09 global financial crisis, the non-bank financial sector has grown to represent around half of global financial sector assets;[4] and that one of the main reasons why the non-bank financial sector has grown so much and so fast is that it is more lightly regulated than the banks. In the authorities' view, the non-bank financial sector has introduced important new sources of systemic risk.[5]

7 Originally, the non-bank financial sector was often described as so-called "shadow banking", which appeared to cast doubt on its role. Recently, the term "non-bank financial

1. 2023 FSB Annual Report: *Promoting Global Financial Stability,* 11 October 2023.

2. 2023 FSB Resolution Report, *Applying Lessons Learnt,* 15 December 2023.

3. Sam Woods, CEO of the Prudential Regulation Authority and Deputy Governor for Prudential Regulation at the Bank of England: Mansion House, 16 October 2023.

4. Bank of England, *Market-Based Finance,* October 2023. The FSB reports that there was a slight reduction to 47.2% in 2022, mainly reflecting valuation losses, in the relative share of total global financial assets held by the NBFI sector: 2023 edition of *Global Monitoring Report on NBFIs,* December 2023.

5. Andrew Hauser, Executive Director for Markets, Bank of England: *A Journey of 1000 Miles Begins with a Single Step: Filling Gaps in the Central Bank Liquidity Toolkit,* 28 September 2023.

institutions" (NBFIs) has increasingly been used. But this does not distinguish adequately between a range of very different types of financial institution: eg between asset managers and hedge funds or private equity. Some NBFIs are already regulated, while others are not. The Bank of England Financial Policy Committee uses the term "market-based finance" to describe its own area of focus.

8 Non-bank financial sector risks have been identified by regulators as a potential problem since at least the "dash for cash" in March 2020 at the outbreak of the pandemic. There have been other cases since: eg the failure of Archegos in March 2021; and the liability-driven investment (LDI) crisis in the UK in October 2022:

- The FSB has noted that the rise in interest rates could lead to higher volatility in asset prices; and it considers that this could generate significant spikes in collateral and margin calls which could induce fire sales of assets, as could liquidity mismatches in NBFIs.[6]
- The Bank of England Financial Policy Committee considers that market-based finance is subject to a number of risks, such as leverage, liquidity and maturity mismatch, and market features, such as interconnectedness and concentration, which make the sector and markets vulnerable to shocks.[7]

9 The policy approach which the authorities are taking in response to these risks is to identify and address systemic risks to financial stability across the non-bank financial sector as a whole, particularly where extensive use of leverage is involved, adopting the principle: "same activity, same risk, same regulation".[8] Their objective is to ensure that market-based finance is resilient enough to absorb shocks and not to amplify them.[9] So, for example:

- the FSB and IOSCO have revised their policy recommendations and guidance to strengthen liquidity management by open-ended fund managers;[10] the FSB is also working with standard-setting bodies to enhance margining practices and has launched policy work on non-bank leverage; and it is consulting on a global standard to support the resolution of central counterparties (CCPs), given their systemic importance;[11]
- the Bank of England is undertaking a "system-wide exploratory scenario" (SWES) exercise. The objective of the SWES is to assess the behaviour of banks and NBFIs during stressed financial market conditions, "and how they might interact to amplify shocks to markets core to UK financial stability".[12] And the FCA is planning to review valuations in private markets.

10 In response to the LDI crisis, the Bank of England is also planning to tackle systemic risks in market-based finance by developing a central bank lending facility against high quality collateral for non-bank financial institutions subject to stress with a view to restoring stability, while incentivising NBFIs to improve their own risk management. The plans will start with pension funds and insurance companies, and they will require the support of market participants and regulators. They "will be designed to address dysfunction in core sterling markets in the exceptional circumstances where there is a threat to UK financial stability."[13]

11 It is clear that a wide range of different initiatives are being considered by the authorities in the interests of ensuring financial stability in the non-bank financial sector. The authorities need to adopt an integrated approach, as the market is interconnected. Regulating one particular part of the market may have unintended consequences elsewhere. Where regulations are designed to have an extra-territorial impact, this is another complicating factor.

The risk of market fragmentation

12 An additional risk to the resilience of international capital markets is the risk of market fragmentation as a result of regulatory divergence between different jurisdictions.[14] The

6. 2023 FSB Annual Report, *Promoting Global Financial Stability,* 11 October 2023.

7. Bank of England Financial Policy Committee, *Market-Based Finance,* October 2023.

8. The US Financial Stability Oversight Council has also finalised new guidance easing its ability to designate NBFIs as systemically important and to place them under Federal Reserve supervision, November 2023.

9. Bank of England Financial Policy Committee, *Market-Based Finance,* October 2023.

10. FSB and IOSCO published policies to address vulnerabilities from liquidity mismatch in open-ended funds on 20 December 2023.

11. 2023 FSB Annual Report, *Promoting Global Financial Stability,* 11 October 2023.

12. Bank of England Financial Stability Report, 6 December 2023. In addition, the UK authorities have launched a consultation on enhancing MMF resilience measures.

13. Andrew Hauser, Executive Director for Markets, Bank of England: *A Journey of 1000 Miles Begins with a Single Step: Filling Gaps in the Central Bank Liquidity Toolkit,* 28 September 2023. The FSB also "plans to review whether existing public sector backstops are adequate for the range of potential failure scenarios": 2023 FSB Resolution Report, 15 December 2023.

14. See, for example, Maros Sefcovic, Vice-President of the European Commission: "Over time, increased divergence may bring even more costs and will further deepen the barriers to trade between EU and the UK.": EU-UK Forum Annual Conference, 12 June 2023.

President of the ECB has said that "there are increasing signs that the global economy is fragmenting into competing blocs."[15] The risk of market fragmentation that needs to be addressed takes many forms. At *global* level, for example:

- the FSB has concluded that the stress in the banking system in March 2023 underscores the importance of completing the implementation of outstanding Basel III standards in full, consistently and as soon as possible, but has noted that implementation in many cases is being pushed to 2024 or a later date;[16]
- the transition from T+2 to T+1 in the settlement cycle in the US in May 2024 has raised concern in the EU and the UK about whether, and if so when, they should follow the US, as the transition from T+2 to T+1 is likely to be more complex and take significantly longer in the EU and the UK, leading to the co-existence of different settlement cycles in different jurisdictions during any transition period;
- the FSB is working with the International Sustainability Standards Board (ISSB), IOSCO and other bodies to promote the timely and wide use of the ISSB's inaugural sustainability disclosure standards as well as their interoperability with jurisdictional frameworks so as to achieve global comparability of climate-related disclosures;[17] and
- the FSB is focusing on the global implementation of its recommendations on a regulatory framework for crypto-assets, including stablecoins, based on the principle of "same activity, same risk, same regulation"; and has issued recommendations to achieve greater convergence in cyber incident reporting.[18]

13 At *European* level, since the end of the post-Brexit transition period, EU and UK regulation of financial services have begun to diverge in two main ways. First, the UK is changing its regulatory process by devolving detailed rulemaking powers to the FCA and the PRA under the Financial Services and Markets Act 2023, while maintaining their accountability to Parliament in the UK. This is intended to give UK regulation greater agility than the EU, where regulations have to be applied in the same way in 27 different Member States, with the result that the text of legislation takes time to agree and implement and more time subsequently to review and reform. Second, the UK is also making changes to the substance of the rules inherited from the EU. While the UK Government is not pursuing regulatory reform for its own sake, it *is* proposing regulatory divergence from the EU where it believes that this meets the needs of UK financial services and markets.[19] As EU regulations are themselves changing, and not necessarily changing in the same direction as the UK,[20] both the UK and the EU will diverge from the previous regulatory regime.

14 Within the EU, Banking Union and Capital Markets Union are closely related projects which both still represent work in progress. Banking Union remains incomplete, as the EU banking sector is still segmented along national lines. In particular, political agreement on a European deposit insurance scheme, which would involve joint and several guarantees for up to €8 trillion of insured deposits, has not yet been achieved. The Chair of the Supervisory Board of the ECB has argued that "an incomplete Banking Union is the reason why cross-border banking groups are ring-fenced along national lines and cross-border integration does not happen. But the absence of cross-border integration is one of the fundamental reasons why the Banking Union cannot be completed." He has concluded: "The harsh reality is that the lack of integration creates a dangerous fault line in our institutional set-up, and this cannot be fixed by effective supervision alone. But if the system breaks down again, repairing it could prove to be very difficult and expensive."[21]

15 In order to complete Capital Markets Union (CMU), there are still some fundamental issues which have yet to be resolved at EU level. These involve addressing legislative differences at national level, such as different tax and insolvency regimes, as well as reforming pensions and improving financial literacy, which are a national responsibility. In this context, the President of the ECB has proposed that the EU should create a European equivalent of the US Securities and Exchange Commission (SEC), for example by extending the powers of ESMA, which "would need a broad mandate, including direct supervision, to mitigate systemic risks posed by large cross-border firms and market infrastructures such as EU central counterparties. To mitigate fragmentation in EU capital markets, a more ambitious approach should involve the creation of a single rulebook enforced by a unified supervisor."[22]

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15. Christine Lagarde, President of the ECB: *A Kantian Shift for the Capital Markets Union,* European Banking Congress, Frankfurt, 17 November 2023.

16. 2003 FSB Annual Report, *Promoting Global Financial Stability,* 11 October 2023.

17. Ibid.

18. Ibid.

19. See ICMA, *The UK's Future Regulatory Framework Review in a Global Context,* ICMA Quarterly Report, Third Quarter 2023.

20. eg Compare the EU Listing Act with the UK prospectus regime.

21. Andrea Enria, Chair of the Supervisory Board of the ECB: *Exogenous Shocks and Endogenous Challenges: Five Years of European Banking Supervision (and Beyond):* London, 30 October 2023.

22. Christine Lagarde, President of the ECB: *A Kantian Shift for the Capital Markets Union:* European Banking Congress, Frankfurt, 17 November 2023.

16 This "top-down" proposal needs to be assessed in the context of an EU debate about whether sufficient progress towards CMU is being made through incremental improvements in the structure of EU capital markets "bottom-up".[23] The "top-down" and "bottom-up" approaches are not necessarily mutually exclusive. But implementation of the "top-down" approach depends on the willingness of Member States to make hard political choices, whereas the "bottom-up" approach may help EU capital markets to develop without necessarily leading to CMU. It is notable that ESMA has set up a taskforce which is considering ways of enhancing the effectiveness and attractiveness of EU capital markets and which is due to report in public in May 2024.[24]

17 There is also a question about whether CMU can be completed without the creation of a central euro safe asset: the equivalent in the EU of US Treasuries. The EU is already an issuer in capital markets in its own right. But interest rate spreads remain between the debts of national governments in the euro area reflecting their respective credit standing. While the former President of the ECB said in response to the sovereign debt crisis in the euro area in 2012 that the ECB would do "whatever it takes" to preserve the euro, national governments in the euro area do not stand behind each other's debts.[25] The current President of the ECB has said that "this should not stop us from working on the many other areas that are necessary for CMU to become a reality".[26]

18 It is not yet clear whether the EU will focus on creating a CMU only for financial institutions located within the EU, with barriers for institutions located in third countries, or whether and on what basis the EU market is going to become more open globally. An EU location policy is designed to make it easier for the EU authorities to ensure financial stability within the EU, though ensuring financial stability in international capital markets is an international concern. A location policy also raises questions about its potential impact on international competitiveness, as it is more expensive for international market firms to run two separate operations (eg in the EU and the UK) than in the equivalent of a single market encompassing them both.

19 In the case of relations between the EU and the UK as a third country, the EU/UK MOU on regulatory cooperation, for which the first semi-annual meeting between officials on the two sides took place on 19 October 2023, provides a way of sharing regulatory information. It does not necessarily imply that grants of regulatory equivalence for the UK from the EU will be forthcoming in future.[27] Even so, both the EU and the UK are committed to continuing to comply with high international standards (set through the FSB, BCBS and IOSCO). Decisions relating to the regulation of financial services at global level need to be implemented by member jurisdictions at both EU and UK level, and in a broadly consistent way.

The market's own contribution to strengthening resilience

20 Ensuring financial stability is not just a matter for the authorities alone. It is also a matter for international capital market firms to do what they can to strengthen the resilience of the financial system, both through good governance and risk management in their own institutions and by taking steps to improve market liquidity, transparency and efficiency, where this is feasible. Some of the steps to strengthen the resilience of international capital markets involve extensive cooperation between the market and the official sector. The transition from LIBOR to near risk-free rates is a good example of cooperation between the market and the official sector globally to reduce the financial stability risks arising from US$400 trillion of LIBOR contracts across the global financial system. The initiative in the US to improve settlement efficiency by shortening the settlement cycle from T+2 to T+1 is also likely to require international cooperation, as any change in the EU and the UK would be more complex and take significantly longer than in the US.

Conclusion

21 In developing the G20 reforms in the aftermath of the 2007/09 global financial crisis, the authorities recognised the benefits of international standards in promoting confidence in the financial system and the resumption of cross-border financial activity. The FSB has warned that "maintaining this level of cooperation is critical, given the challenging combination of rapidly evolving financial conditions and structural change in the financial system brought about by the growth of NBFI, accelerating digitalisation and climate change."[28] Market firms and their trade associations also have an important role to play in reducing the risk of stress by strengthening resilience in international capital markets.·

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23. See, for example, Paschal Donohoe, President of the Eurogroup: "By adopting a more bottom-up approach and sharing best practices, domestic regulation could be harmonised in the near-term, in advance of EU level regulation being adopted and implemented.": 20 October 2023.

24. Terms of reference of ESMA *Task Force on the Effectiveness of EU Capital Markets,* 24 October 2023.

25. See the Maastricht Treaty on European Economic and Monetary Union.

26. Christine Lagarde, President of the ECB: *A Kantian Shift for the Capital Markets Union:* European Banking Congress, Frankfurt, 17 November 2023.

27. The only grant of EU equivalence to the UK at present relates to CCPs, which is due to end in 2025.

28. 2023 FSB Annual Report: *Promoting Global Financial Stability,* 11 October 2023.

A shift in the settlement cycle

By **Bryan Pascoe**

In May 2024, a tectonic shift will be felt across the international capital markets as the US, in collaboration with Canada and Mexico, is set to transition from the current two-day settlement cycle (T+2) after trade execution to a more streamlined one-day cycle (T+1). This move will dramatically reduce the time for market participants to complete a whole range of post-trade activities that lie between the execution of a trade and its settlement, ie the simultaneous delivery of the securities and cash.

The move, recently finalized by the Securities and Exchange Commission (SEC) after extensive industry deliberation led by The Depository Trust and Clearing Corporation (DTCC), seeks to mitigate credit and counterparty risks, potentially reducing margin requirements and fostering operational efficiency.

Global implications of T+1

Unsurprisingly, the move by the US has spurred reaction and discussion among regulators and market participants across the securities' industry in other markets around the world, assessing direct implications and driving consideration of whether (and how) the adoption of a similar overhaul to boost market efficiency and international alignment can reap further benefits. While the US discourse primarily focuses on domestic considerations, it is clear that the benefits of a shorter settlement cycle could extend to other markets, and we have seen this step taken recently, for example, in the case of India.

However, the transition to T+1 poses substantial challenges and costs, necessitating a comprehensive overhaul of existing infrastructure across the entire securities' lifecycle and a fundamental re-evaluation of post-trade processes. Front office desks will also need to be repositioned, with new processes and tools for funding, liquidity and risk management required to guard against potential disruption.

In Europe, these discussions come at a time of an already heightened focus on the settlement process and the related challenges, which led to the adoption of the EU Central Securities Depositories (CSD) Regulation, introducing stringent measures to improve settlement efficiency, including cash penalties for fails. This work is ongoing and ICMA has been playing a key role on the industry side, driving discussions to better understand current bottlenecks and identify drivers for improving settlement efficiency, including the use of related settlement optimisation tools such as partial settlement.

The T+1 discussion in the UK and EU: state of play

In Europe, the issue was initially picked up in the UK, where the Government announced in December 2022 the launch of an industry taskforce, the UK Accelerated Settlement Taskforce (AST), mandated to explore the case for moving to T+1 and how this could be implemented. An interim report with initial findings is expected in early 2024, followed by a final report with more specific recommendations in autumn of 2024. In the EU, where considerations are considerably more complex, deliberations have been more measured with the European Securities and Markets Authority (ESMA) charged to prepare a cost-benefit analysis in relation to T+1 by the end of 2024. As a first step, on 5 October a call for evidence consultation on the potential shortening of the settlement cycle was launched.

As the EU, UK and other jurisdictions assess the relevance to their own markets and how (or when) to follow suit, ICMA, representing the international fixed income markets, believes that a measured approach to the topic is essential to ensure all of the issues, risks and opportunities are fully considered. And while assessing alignment with the US change may certainly be beneficial, it could be more important to assess the fundamental stand-alone case by jurisdiction, and also for the EU and UK to be aligned given the very high transaction volumes and integration between the two markets. Misalignment of settlement cycles across jurisdictions is, of course, nothing new but impacts more negatively the greater the degree of interoperability.

The prospect of transitioning to T+1 necessitates substantial investments in automation, compelling firms to upgrade IT systems, post-trade processes, and potentially on-board external technology providers. While larger firms may have greater ease in deploying resources, the industry must carefully weigh these costs against potential benefits. Predicting the impact on end-investors remains challenging, as the expected decrease in friction costs over time does not guarantee a proportional reduction in costs for investors.

The specificities of the EU market

In the case of the EU, where driving a more inclusive, deep, flexible and accessible capital market through the Capital Markets Union (CMU) plan is a core policy focus, the challenges and costs are compounded by various factors, most notably due to the often-cited complexity and fragmentation of EU markets, as recently highlighted by ECB President Christine Lagarde in her speech, *A Kantian Shift for the Capital Markets Union*. In the world of post-trade, such fragmentation is particularly visible as it is reflected in the large number of national financial market infrastructures (trading venues, central counterparty clearing houses and central securities depositories) which all add to the complexity that distinguishes the EU from more centralised markets such as the US and the UK.

A migration to T+1 would also require a deeper review of current market operating times and cross regional engagement, both at the trading and settlement level. At the trading level there has been a push in recent years in several markets to extend trading hours until late in the evening, partly motivated by the desire to align hours with the US market and thereby facilitating cross-border business. However, in a T+1 environment, late trading hours may pose a particular challenge, as this leaves very little time to conclude post-trade processes already on trade date (T+0) which would be necessary in order to achieve timely settlement on T+1. At the settlement level, current cut-off times in existing settlement houses will also have to be extended, which implies longer working hours and the introduction of extra shifts. Not unsurmountable issues but still in need of careful scrutiny.

It should also be taken into consideration that in today's global capital markets, transactions are often highly complex in nature involving a multitude of instruments, currencies and counterparties. In this respect, executing one transaction across a number of instruments takes time. Furthermore, different settlement cycles of underlying securities might create new challenges and potential costs. As a result, higher intra-day funding costs to finance overnight positions, or conversely an increased risk of settlement fails – at least temporarily – are to be expected. Looking at the other side of a trade, market making in bond markets, which also relies on a dealer's ability to sell short, is expected to be impacted, as the available time to source such bonds from the markets will contract. This would impose additional time constraints on fixed income front office trading desks, and related repo and securities lending markets, again increasing the risk of settlement fails.

T+1 as a step towards same day settlement?

Aside from the direct costs of a move to T+1, it is also important to appreciate the opportunity costs of firms having to prioritise T+1 over other important plans, including more forward-looking projects such as a move to T+0 and instantaneous settlement. Such projects would require a fundamentally different market (infra)structure and technology, including the digitalisation and "tokenisation" of payments, which ultimately could allow for instant payment and settlement of securities. This stands in contrast to the overhaul and modernisation of existing post-trade systems and processes for T+1. So, if the end goal is to move to T+0, T+1 will not fundamentally assist with this process. It should be pointed out, however, that the potential timelines for a move to T+0 would be very different to those of a move to T+1. Ultimately, the key question for the industry and regulators is about priorities and the future direction of travel and where the real benefits are expected to emerge. T+1 certainly can be a tool to reduce counterparty risks, enhance settlement efficiency and incentivise modernisation. On the other hand, there is a high cost of transformation expected, and other risks might emerge.

In conclusion, there are undoubtedly significant benefits to be enjoyed from financial market infrastructure which enables processes to happen quicker and risks to be reduced. However, getting there is by no means an easy undertaking, especially in a jurisdiction such as the EU given its size, scale and current relative complexity. The imminent US move has set the wheels in motion in Europe and it is very important that the industry and regulators come together to conduct a thorough cost-benefit assessment, considering the multifaceted challenges and potential risks. ESMA's call for evidence marks a pivotal step in shaping the future direction of settlement cycles, emphasizing the importance of prioritizing and aligning the industry's goals.

Watching the US experience unfold and taking the time to get all the requisite building blocks lined up and in place is essential to ensure potentially costly mistakes are avoided.

Bryan Pascoe is Chief Executive of ICMA. This article has been published in The Banker in January 2024.

Sovereign bond market liquidity


By **Andy Hill** and **Simone Bruno**

Background

In 2023, in response to a request from members, ICMA created a Bond Market Liquidity Taskforce (BMLT) to take a deep dive into bond market microstructures and liquidity conditions with a view to identifying potential vulnerabilities and providing recommendations to increase resilience. The analysis is based on both quantitative and qualitative data. This first phase of the BMLT's work focuses on core European sovereign bond markets: Germany, France, Italy, Spain, and the UK.

In December 2023, ICMA produced a draft report of its analysis and findings, along with provisional recommendations. This was shared with the firms which had participated in the important interview stage of the process for their review and further feedback. The interviews, which are intended to provide an anonymised and synthesised overlay of qualitative observation and insights, form a critical element of the initiative, helping to contextualise and interpret the substantive quantitative data.

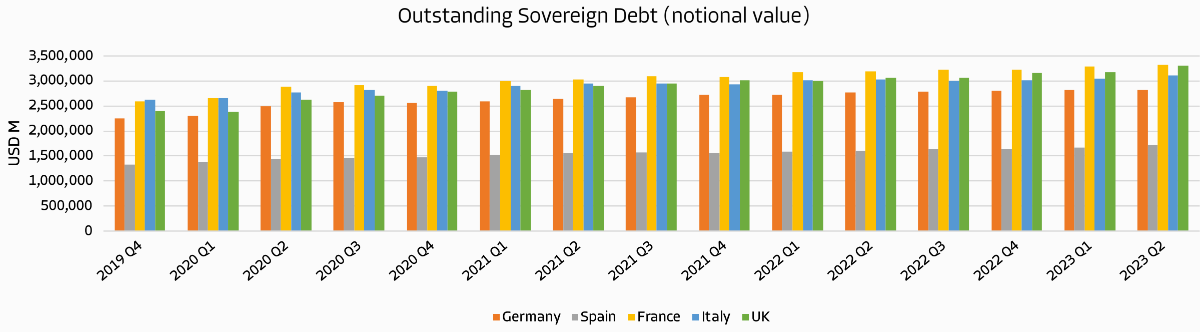
As part of its extensive quantitative analysis, ICMA also used machine learning to model for illiquidity premia in these core markets. Some of the analysis is featured with this article.

The following summary is provisional, and ICMA hopes to conduct further interviews with firms active in these markets before publishing the final report in early 2024. We strongly encourage both sell-side and buy-side firms to participate.

Key findings as of December 2023

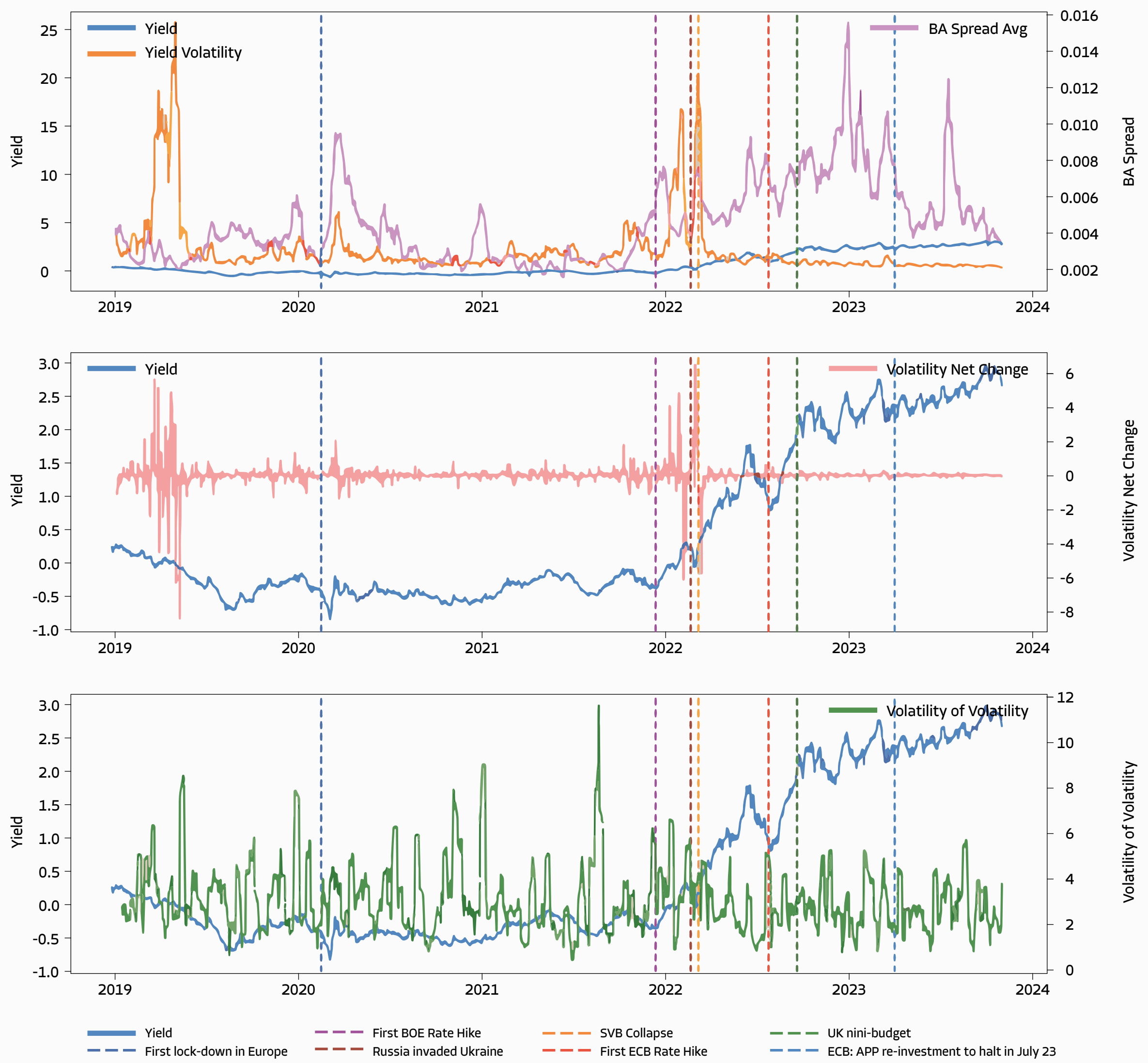
- Liquidity in the core European bond markets is generally good, as defined by the ability to execute larger than average transactions, relatively quickly, without significantly moving the market.
- However, in recent years liquidity has become much more sensitive to both episodes of unexpected volatility and regulatory reporting dates (ie year-end and some quarter-ends).
- This is roundly attributed to the combination of a significant increase in the outstanding stock of government debt while primary dealer balance sheets and appetite for risk, on aggregate, have reduced markedly.
- Applying modelling on historical bid-ask spreads, it becomes clear that at certain points these widen significantly, and this cannot be explained by volatility alone. Rather volatility is the catalyst for a discernible retreat from liquidity provision.
- Furthermore, the speed at which markets become volatile (the "volatility of volatility") has increased, possibly aided by greater transparency and more dependence on e-trading and automation.
- Repo markets function well, even in times of heightened stress, but are also subject to sharp drops in liquidity around reporting dates.
- Liquidity in the sovereign bond futures markets is generally good, although limited to a few contracts, and again prone to a rapid thinning of depth and widening of prices in times of stress.
- Market participants accept that episodic heightened volatility, with rapid evaporation of liquidity, and a sharp repricing of risk, is the new normal.
- Participants also believe that central banks will be required to intervene in bond markets more frequently and systematically to restore stability.
- The consistent recommendation from market participants, both sell-side and buy-side, to make sovereign bond markets more resilient, is that policy makers and regulators should review the design and calibration of prudential regulation as it applies to primary dealers. They suggest that there is a trade-off between high levels of bank capitalisation and bond market liquidity and resilience.

Quarterly time series of outstanding core European sovereign bond markets



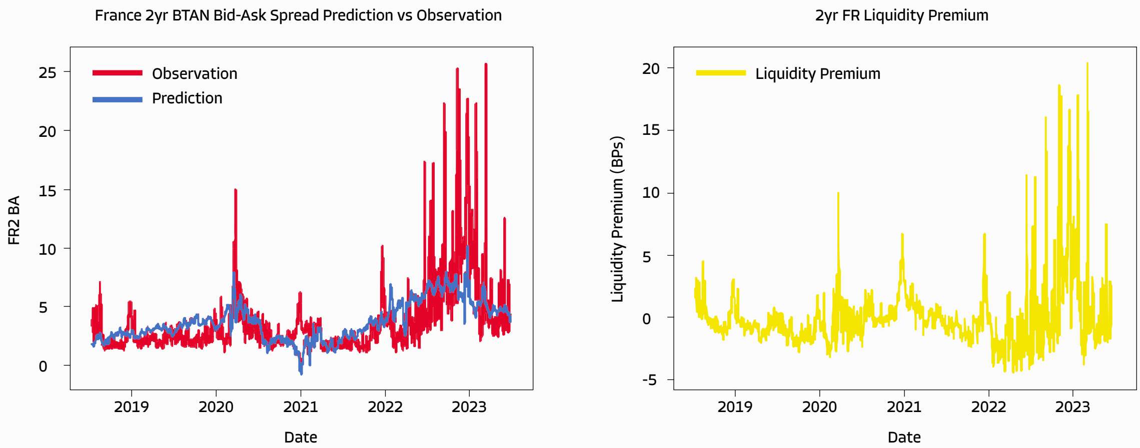
Source: ICMA analysis using UK ONS and Eurostat data

German 10yr on-the-run liquidity analysis



Source: ICMA analysis using Bloomberg data

2yr France illiquidity premia



Source: ICMA modelling using Bloomberg data

Next steps

Following a planned second round of interviews with stakeholders in January 2024, ICMA will share a further draft with all participants for final review, before publication. ICMA is keen to share the conclusions and recommendations with regulators and policy makers as the basis for a deeper market-wide discussion around sovereign bond market liquidity and resilience.

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EU Government retail-targeted bond issuance

by **Katie Kelly**

In the EU, Government retail-targeted bond issuance is not new, but a recent surge in issuance in some countries has prompted ICMA to examine this trend. I am grateful to a number of individuals from debt management offices from among the ICMA Public Sector Issuer Forum (PSIF), who generously shared their insights for this article.

Many governments' retail programmes have always been very active, while others have accelerated over recent years, induced in some cases by the "flight to quality" in the global financial crisis and post COVID-19 recovery. In other cases, government strategy has long been to motivate people to save in the domestic currency, resulting in an historically active market, while some jurisdictions, notably Germany and the Nordic region, do not issue directly to retail at all (although retail access may be granted to regular bonds as part of an ETF basket or similar).

Although retail programmes can form part of more strategic, annual government funding planning, for others it is more speculative, possibly predicated on the public mood (for instance, where demand for subscriptions in previous bonds has been unusually high). Although there may be caps on individuals' participations, demand for retail subscriptions is almost always fully met. Some governments may close subscription windows early in order to control issuance volumes, but the inherent difficulty in predicting subscription levels can leave issuers with a lot of excess liquidity to manage, which can then skew the rest of the year's funding plans.

It has been reported that recent Belgian Government retail issuance was intended to motivate banks to give better depositor savings rates. Whether this is the case or not, for governments the attractions of issuing to retail are myriad: it pays a social dividend which aligns with many governments' aims of encouraging households to save by providing safe investment opportunities; it can satisfy yield-sensitive investors with above-market pricing, and can incorporate a variety of features to match public demand, such as step-ups, or interest paid in securities rather than cash; and products can serve certain, bespoke purposes, such as savings for new-borns. Issuance and distribution are straightforward, and expensive marketing is rarely necessary, although brand awareness and identity through education are considered important.

In terms of financial management, issuing to retail allows diversification of the public debt portfolio and widening of the investor base on a relatively risk-free basis. Most retail investors tend to be buy-and-hold; although retail bonds may be capable of being traded, and banks may be retained to make a market, in reality there is little secondary activity, and some holders are incentivised to hold to maturity with additional premia paid at maturity. This means that issuing retail bonds represents a constant, safe, steady funding source in rising market rates environments or in periods of sudden higher financial needs, which also reduces refinancing risks. This is particularly pertinent in times of market shocks when retail investors are attracted to "safe" investments. Retail bond issuance also alleviates supply pressure on ordinary bonds, and higher domestic savings means less dependence on foreign inflows, capital and investment. Keeping retail issuance domestic means there would be less competition should all EU Governments need to boost issuance simultaneously.

For investors, retail bonds are easily available on dedicated government websites and via distributors, high street banks (in branch or online), and post offices. They are offered free of fees and charges, and are usually tax efficient (in some cases there is no tax payable on interest by investors at all, while in others, tax on interest is payable but at a preferential rate). Structures tend to be simple, transparent and understandable, with simple terms and conditions. They are accessible to a range of investors (entry-points vary between €1 to €1,000), which also conveniently aligns with many governments' ambitions of enhancing financial integration, education and literacy, albeit at a basic level.

This is all very positive, and recognising that barriers can be solved at a government and local legislative level, it is likely that the market for retail issuance will continue on an increasingly upward trajectory. However, it does present technological challenges: systems are not always able to cope with existing demand let alone planned increased capacity, accessibility and the user experience could be improved, and there is a need to keep pace with advancements in mobile phone and other technology. Much of this could be achieved by digitalisation, which could also help to expand distribution channels, fix existing technical difficulties and improve ranges of products and pricing.

Related, financial literacy and inclusion are high on the agenda, in line with governments' ambitions of encouraging a culture of saving and investing, particularly in countries where retail investors tend to be only the financially sophisticated, older and with high disposable income or otherwise with high levels of savings. Digitalisation could assist by appealing to a younger generation used to the ease and immediacy of screen-based apps.

The nexus between issuance to retail and financial literacy and inclusion also aligns with Action 7 of the CMU Action Plan. Commissioner Mairead McGuinness said recently that: "Retail investor participation in the EU is low by international standards. Just 17% of EU household assets are held in financial securities, and that's compared to 43% in the US. Our levels of financial literacy are also low. Too many EU consumers just don't understand enough about their finances."

Elsewhere, green retail bonds have been issued in other global jurisdictions (including the UK, Indonesia and Hong Kong), and are now receiving some focus across the EU. Although there is some perception that retail investment decisions are more likely to be based on returns than on green credentials, which may dampen the impetus somewhat, this may become the next development in retail bonds.

There is of course a risk that continued government issuance to retail could crowd banks out, and with fewer deposits and savers, that could force up funding rates for banks. This could also be a consequence for those corporate issuers who issue to retail, with a knock-on effect on the global economy if as a result they are less likely to fund capital projects, employment etc. However, bank disintermediation, risks to financial stability or weakening of the banking sector are the last thing governments would intend, so in all likelihood retail funding programmes would be reined in if these risks were to materialise.

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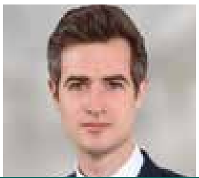
Risk factors and disclosure in DLT bond offering documents




by **Alex Tollast**
and **Gabriel Callsen**

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The market for distributed ledger technology (DLT)-based debt instruments has significant potential to become a complementary and flexible source of funding for the real economy. An increasing number of issuers, including the World Bank, the European Investment Bank and other financial and corporate issuers around the world, have used DLT to explore how to further optimise funding processes.

Nobody can accuse those working in the emerging DLT bond industry of not being ambitious. Huge efforts have gone into formulating robust legal frameworks and regulatory sandboxes and the early movers who have dipped their toes into the water on live transactions have sought to implement innovations and tackle new operational challenges at every opportunity.

When it comes to documenting DLT bonds, there is equally an onus on those involved in the drafting and negotiation process to ensure that the documentation phase remains agile and efficient despite the legal complexities and different technical and operational set-ups underlying the transactions.

ICMA's DLT Bonds Legal Sub-Group was delighted to work on a project whereby we sought, in conjunction with the wider ICMA DLT Bonds Working Group, to examine around a dozen offering documents for the issuance of DLT-based debt instruments and share a number of considerations for drafting risk factors and other disclosure. The focus was on recent precedents set by SSA issuers, financial and non-financial institutions, across a global landscape of jurisdictions.

Risk factors

Our review of precedents demonstrated that additional risk factors feature in recent DLT bond offering documents, addressing risks for investors relating to (i) the use of DLT from a technological and operational perspective, (ii) the legal and regulatory environment for DLT bonds and (iii) limited liquidity.

The precedents reviewed included additional risk factors from a technological and operational perspective, despite this going against the grain of what is done for traditional bonds where technological and operational risks also exist (notably those linked to the use of a central server and the single point of failure). Some examples of technological risk factors in DLT bond offering documents are the following:

- enhanced cybersecurity risks due to advancements in cryptographic technologies;
- risks of outages, connection errors, and exploitable flaws in DLT platforms;
- the potential malfunction or unexpected behaviour of platforms, leading to adverse settlement or transfer consequences;
- risks from malicious actors, interoperability dependencies, and technological immutability; and
- challenges related to public blockchains, including forking, disruptions, and privacy concerns regarding digital wallets.

Legal and regulatory risk factors were also present in the DLT bond offering documents that we examined, with the focus mainly on the fact that the legal and regulatory environment is evolving fast. That may appear counterintuitive as the changes in law are designed to offer greater legal certainty to the market and often address perceived shortcomings or incompatibilities between financial regulation, securities law and DLT, but it would take a brave person to bet on exactly what changes, if any, may be made to the legal frameworks for DLT bonds and market infrastructures using DLT in the UK, the EU (on an individual Member State level and on an EU level) and beyond over the next few years.

As for liquidity risks, the lack of familiarity of investors with DLT bonds and the fact that DLT bonds are often not admitted to trading means that the addition of a risk factor as to the lack of a secondary market for DLT bonds has been a common occurrence.

Other disclosure

Offering documentation for traditional bonds, which in the EU and UK are subject to the respective Prospectus Regulations, is standardised and arguably in recent years it is only in the sustainability-linked bond market that we have seen "new" sections added to the usual form.

Due to the idiosyncrasies of DLT bonds and in part due to the need to educate investors about them, the precedent offering documents for DLT bonds have also seen disclosure added to cover matters such as the type of DLT platform (public or private) being used and its key functionalities, the roles of key intermediaries such as DLT platform operators, custodians and registrars (including their involvement in KYC checks), the processes and mechanisms for transferring DLT bonds, extracts from business continuity plans and the environmental impact of the underlying DLT.

In some precedents, there were sections on the limitations or assignments of liability by issuers, especially when the above disclosure is based on third-party information, and deemed representations and warranties from investors, given upon acquisition of the DLT bonds.

The review noted the lack of a universal approach to these topics, with the only consistent point being information on how the DLT was used and the identity of the relevant DLT-based market infrastructure, platform or network.

Key take-away: proceed with caution

It is always necessary to consider each bond transaction afresh when deciding on the appropriate risk factors and other disclosure to include in the bond offering documentation; that is especially so in the case of DLT bond transactions as this is an innovative area where certain structures provide more complexity than others. The precedents we looked at, whilst helpful, may quickly become outdated and blind copying and pasting between transactions may miss crucial risk factors, or lead to an exorbitant number of risk factors and a potentially unfair perception that DLT bonds are riskier than normal bonds. It would be fairer to conclude that the risk profile is simply different.

We identified seven factors that may influence the inclusion of specific risk factors and disclosures:

(a) the *type of DLT market infrastructure,* in particular whether private or public DLT networks are used and whether they are permissioned, semi-permissioned or permissionless;

(b) the *purpose and nature of the transaction*, in particular any innovations that are being tested;

(c) the *type of issuer*, in particular its nature and creditworthiness;

(d) *listing considerations,* in particular the extent to which the DLT bonds are admitted to trading;

(e) *targeted investors,* in particular whether retail investors are targeted or certain jurisdictions;

(f) *the choice of governing law and perceived level of legal certainty* for the use of the DLT; and

(g) *temporary arrangements such as regulatory sandboxes (if any).*

Finally, the ecosystem continues to evolve, which may lead to greater interdependency with different technological infrastructures and potentially different options for the settlement of the cash leg. Transaction parties will therefore need to carefully consider how to address such points in offering documents, the extent to which risk factors will need to be adapted, and whether other disclosure needs to be modified or added. The full report on *Considerations for Risk Factors and Disclosure in DLT Bond Offering Documents,* including the list of risk factors which were identified during our examination of the precedents, can be found on ICMA's website.

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SFDR: the evolving framework

by **Laurence Caron-Habib**

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The EU Sustainable Finance Disclosure Regulation (SFDR) effectively entered into force less than three years ago with application of the first requirements in March 2021. Despite this short timeframe, in 2023 we experienced two major consultations on the revision of the text, at both Level 1 and Level 2. This is the first time we have seen such a rush to amend a Regulation which is considered a cornerstone of the EU sustainable finance framework. That said, the EU has been a pioneer in its development of this framework with adoption of a comprehensive set of sustainable finance legislation over the last five years.

Difficulties with the framework

This new framework has undoubtedly contributed to improved transparency on ESG matters and the reallocation of capital towards a more sustainable economy. At the same time, despite the huge investment made by financial market participants (FMPs) to comply with the new norms, the effective SFDR implementation has revealed itself to be challenging and unsatisfactory in several aspects. These difficulties can be explained by several cumulative factors:

- *Lack of clarity of several concepts used in the SFDR:* typically, classification in Article 8 products refers to the notion "promote Environmental (E) and Social (S) characteristics" with no clear definition of what "promote" means. Similarly, there is no clear definition of what E and S characteristics cover. In the case of Article 9 products, the proportion of sustainable investments required for these products was not clearly specified from the start. A Q&A document by the European Commission (EC) published in 2022, which specified that only 100% sustainable investment products could qualify as Article 9, led to the downgrading of several Article 9 products to the Article 8 category. This was damaging for the credibility of the approaches initially retained by FMPs. These grey zones have also resulted in different interpretations by the National Competent Authorities.
- *Lack of available and quality data:* FMPs need to collect huge amounts of data from their investee companies to produce their own disclosures on several data points (notably principal adverse impacts, taxonomy-alignment percentage). As this data is not available in several instances, FMPs have been obliged to rely on estimates produced internally or sold by external ESG providers.
- *Globally, inconsistencies between different sustainable finance legislation and associated disruptive sequencing issues* have led to further difficulties. Definitions used in different legislation are not always harmonized and, in some cases, the concepts used refer to information that is of low utility for end-users.
- *In addition, information disclosed is over-complex and in most cases unintelligible for end-investors.* Reference to complicated concepts such as "taxonomy" and "principal adverse impacts" do not deliver a simple understanding of ESG features of investment products and lead most investors not to choose their own criteria for determining their sustainable preferences.
- *Lastly, and most importantly, no minimum criteria have been adopted to determine which products can qualify for Article 8 and 9 classification.* This is notably the case for the Article 8 category, with a wide variety of products having different requirements in terms of ESG dimension and criteria used to achieve their ESG strategies.

Beyond the difficulties for FMPs to develop their own ESG processes, this has resulted in loss of confidence in sustainable finance and to an increase in greenwashing claims. Instead of promoting efforts deployed by FMPs to develop ESG products and improve the related information, SFDR has created to some extent more suspicion of sustainable finance.

What is the right answer?

EU policy makers have acknowledged that the outcome so far is unsatisfactory and have decided to take new regulatory action to improve the current rules. Accordingly, we have observed an inflation of new initiatives over past months that makes the general situation more complex than ever:

- ESMA consulted in early 2023 on guidelines for funds' naming by introducing new thresholds to be allowed to use ESG and sustainable-related terms, while complying with minimum safeguards.
- In spring 2023, the European Supervisory Authorities (ESAs) consulted on the revision of the SFDR Regulatory Technical Standards, whereas those standards only entered into effect in January 2023.
- In September 2023, the EC launched a new public consultation on the review of the SFDR Level 1 text.
- The ESAs have consulted on greenwashing to agree a common definition and identify relevant actions to fight against it. A progress report was published at the end of May 2023 with a first round of proposals and a final report is expected in May 2024.

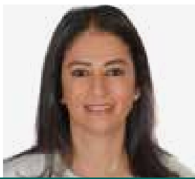
All these efforts deserve attention as real improvement is necessary. However, it is crucial that various issues, signaled by the industry, are properly taken into consideration and that past mistakes are not repeated. The following principles should be followed in any further developments:

- *Substantive simplification* should be brought to the existing transparency requirements, both in terms of content and format. The number of indicators to be reported should be significantly reduced and cover sector agnostic datapoints. Availability of data should also be assessed to ensure that the indicators make sense and are not distorted due to low underlying coverage.
- *A harmonised transparency framework* should remain a priority, with a minimum common set of disclosures that are limited to really useful information. These minimum transparency requirements should apply to all products (even the so-called Article 6 products) to avoid any confusion on the ESG commitments taken (or not) by each product and enable minimum comparability between the products.
- *End-investors should be at the heart of the new framework.* Any information required should be tested against the added value for investors and the level of protection it provides.
- Based on consumer testing, *the introduction of a categorisation scheme should be developed.* This would not be totally new as it already exists with the current Article 8 and 9 classification which has made SFDR more than a pure transparency Regulation. *Maintaining this classification* approach and keeping sustainable investment as a central concept in the SFDR would allow leverage on existing developments by FMPs and provide investors with clear information on the level of requirement of each product.
- *Providing information on how this level of requirement is attained would also be of value for end-investors.* Categories based on the strategy used by the product as proposed by the EC in its consultation paper are seen as a positive development by a large majority of stakeholders. These categories should cover a large spectrum of products and not result in a niche framework with too prescriptive criteria that would exclude most of them.
- *Minimum criteria should be introduced* for both the definition of the level of requirement of the product and the categories retained on investment strategies. Further work involving consultation of the industry and consumer testing would be necessary in that determination exercise. Regarding level of requirement, one approach that deserves attention is the use of a relative approach that applies today for financial performance of investment products. It consists of comparing the proportion of sustainable investment for one product with its benchmark or its investment universe. End-investors would know how the product performs from an ESG perspective with information such as "above the benchmark" or "significantly above the benchmark". This approach would solve issues encountered with absolute thresholds which are often subjective and based on non-harmonised definitions.
- On the categories based on investment strategies, *objective and binding elements should be introduced.* There should be a balance between minimum quantitative criteria reflecting the investment strategy used and its effective achievement, and qualitative information referring for instance to the specificities of the product.

In conclusion, the EC's recent work to fix the SFDR framework is of the upmost importance and must be addressed with proper attention and objectives. This should not become a missed opportunity to put retail investors at the heart of the sustainable finance framework and become real contributors to the transition to a more sustainable economy.

Laurence Caron-Habib is Head of Public Affairs at BNP Paribas Asset Management.

Diversity, equity and inclusion in Italy


Katie Kelly spoke to **Marwa Elhakim**, Head of Diversity & Inclusion at Eni, and **Anna Maria Morrone**, Organization & People Development at Ferrovie dello Stato Italiane, regarding diversity, equity and inclusion (DE&I) in Italy.

1. Welcome, Marwa and Anna Maria. What is the DE&I landscape like in Italy?

Anna Maria Morrone, Ferrovie dello Stato Italiane (FS): Italy has *had* to adopt a more diverse and inclusive approach; the demographic landscape of Italy has changed, characterised by an ageing population, increased immigration, and substantial mobility between the southern and northern regions. This all leads to a more diverse society, which is mirrored in all workforces. On the business side, companies are increasingly realising that a diverse and inclusive workplace is not only socially responsible but also crucial for driving innovation, enhancing decision-making processes, and ensuring a competitive edge in a dynamic economy.

Marwa Elhakim, Eni: It is helpful that Italy's laws and regulations address discrimination issues and promote equal opportunities. The Italian Constitution, for example, explicitly prohibits discrimination based on race, gender, religion and disability. And in 2022, the Gender Equality Standard was introduced for the management and measurement of gender equality, which is aimed at encouraging companies to adopt policies for reducing gender gaps in areas with major challenges, such as career opportunities, equal pay for equal work, gender diversity management policies and maternity protection. The Italian Cabinet also approved the National Guarantor for People with Disabilities, and set up some working groups to consider social projects on autism, ensure universal accessibility, draft a comprehensive disability law and recognise family care-givers.

Anna Maria, FS: The Gender Equality Certification System (GECS) is helpful; we are working towards the GECS certification, which is a great opportunity to self-evaluate and improve. But despite great progress, challenges remain. Italy still faces fundamental issues related to gender inequality, under-representation in leadership positions and cultural barriers. Companies such as ours need to commit to addressing these challenges with our extensive workforces, leveraging our assets, and taking advantage of our significant communication influences.

2. What is your approach to achieving meaningful impacts for your workplace and the Italian market?

Marwa, Eni: There has always been a strong focus on people at Eni, whether in Italy or in the other countries in which it operates. We have a framework for all DE&I initiatives, the target of which is to always improve the workplace and ensure an inclusive and safe workplace, so our main DE&I initiatives are around internal processes, communication and training. We also work on initiatives aimed at strengthening female presence and the empowerment of women, attracting female talent through Eni and promotion of initiatives for students oriented towards STEM subjects (InspirinGirls, Think About Tomorrow, Coding Girls) and through the contribution of Eni's 150 role models and ambassadors, who bear witness to equal opportunities for women in the energy industry.

We are also part of several associations, including Valore D (focusing on female empowerment) and Parks Liberi e Uguali (focusing on the inclusion of the LGBTQI+ community). These partnerships assure the sustainability of our initiatives and allow us to continually benchmark with the best-in-class on DE&I.

Non-discrimination is also important to us, and we actively commit to a working environment where personal and cultural diversity is considered a source of mutual enrichment and an indispensable element of business sustainability. We also have a policy on violence and harassment in the workplace. Our DE&I policy and Action Plan, as affirmed in

Eni's regulatory and corporate governance framework, are aimed at developing an inclusive mindset and enhancing specific uniqueness targets such as gender, internationality, age, disability, sexual orientation and gender identity.

Anna Maria, FS: I think DE&I initiatives can have significant positive impacts across various dimensions. We aim to create a better workplace for everyone, as when people feel empowered, valued, respected and secure and can benefit from a diverse and inclusive culture, the overall well-being and productivity of the entire workforce are enhanced. So for us, DE&I extends beyond traditional HR functions, for instance, through our Women in Motion initiative, the high-impact employer branding social campaign that FS Italiane Group has been implementing in Italian schools since 2017. Through the examples of over 100 role models, predominantly women engaged in technical and STEM professions, we convey the message that "Talent transcends gender". Our efforts focus on eliminating gender stereotypes right from middle school, not just our company. This leads to a positive ripple effect on the broader Italian society. With this ambition, we use our assets, such as trains and stations, to actively promote DE&I across all employees and clients. In 2022, the Diversity Brand Index ranked the FS Italiane Group among the top 20 Italian companies for inclusivity, and we were identified as an ideal workplace in Italy for female students in STEM careers by Universum Italy.

3. How have you ensured that DE&I transcends beyond gender and ethnicity?

Marwa, Eni: As a global energy company present in more than 60 countries with more than 32,000 employees, we base our DE&I approach on intersectionality. This means that each employee cannot be fully understood and viewed by examining characteristics in isolation, but rather through the interconnected nature of characteristics and how they shape one's experiences, privileges and disadvantages.

Anna Maria, FS: Our approach to DE&I is comprehensive, addressing the social priorities of our diverse workforce and reflecting the richness of our society. Diversity is dynamic, so our approach fosters professional competence, enabling inclusivity throughout the entire organisation. We have hired and trained 21 foreign asylum seekers to obtain a driving licence and become bus drivers in Busitalia, in the north of Italy. Additionally, 12 vulnerable people recently completed a gardening course to work around two of our stations. Furthermore, some individuals with neurodiversity have completed internships at our stations and maintenance plants. Through these initiatives, we have assisted our colleagues in acquiring specific knowledge and competences that are valuable both at work and in their personal lives.

This is not just a theoretical commitment; it is a lived practice. We focus on the behaviours and professional standards that individuals within the company should exhibit. With this approach, we believe we can create a genuinely inclusive environment for everyone.

4. Implementing diversity ultimately requires a pool of diverse talent that is often lacking in financial markets. What is being done about this in Italy?

Anna Maria, FS: In Italy, there is a proliferation of DE&I training. But rather than seeking individuals with specific skills, we leverage the talents of our existing workforce, making DE&I competence an integral part of their professional skill set. For instance, all our over 5,000 train managers have comprehensive training on disability awareness, so they can effectively assist passengers with disabilities onboard trains.

5. What kind of conversation will you be having on DE&I in 10 years' time?

Marwa, Eni: DE&I priorities depend on the country, the seniority of the business and the social atmosphere. This is why one of the key aspects of our DE&I strategy is to continue to listen to our people and understand their main needs in order to stay relevant.

Anna Maria, FS: At FS, the discourse on gender has been ongoing for several years, but it has shifted to a recognition of the intersectionality of individuals, acknowledging and celebrating their unique attributes.

So, the future dialogue will highlight the importance of valuing various forms of diversity, recognising them as integral to ensuring stability; this will require a paradigm change in how we perceive DE&I, from a "nice to have" to an unequivocal and distinctive professional competency, and an understanding that DE&I is a collective responsibility involving everyone, transcending individual roles and departments.

Eni S.p.A. and Ferrovie dello Stato Italiane are members of ICMA's Corporate Issuer Forum.

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Summary of practical initiatives by ICMA

The purpose of this section of the ICMA Quarterly Report is to summarise recent and current practical initiatives by ICMA with – and on behalf of – members.

Regulatory policy

1 *ICMA RPC:* ICMA's Regulatory Policy Committee (RPC) held a meeting with the French regulator, the AMF, in Paris on 6 October and held a meeting with the Chair of IOSCO in Brussels on 7 December.

Primary markets

2 *ICMA's Issuer Forums:* ICMA's Public Sector Issuer Forum (PSIF) met on 12 October in Marrakech, hosted by KfW, at the IMF and World Bank Annual Meetings, where the PSIF agenda focused on the implications of FinTech for issuers in international capital markets. ICMA has also prepared a paper on EU Government retail-targeted bond issuance.

3 *EU and UK regulatory reviews:* ICMA continues to engage with policy makers on proposals to reform the listing regimes in the EU and UK. In the case of the UK, ICMA submitted written comments to the FCA on the UK prospectus regime on 29 September. In the case of the EU, ICMA continues to engage on the retail investment strategy.

4 *Singapore and Hong Kong regulatory changes:* ICMA is working on consequential market practice changes (in terms of transaction selling restrictions), following the Singapore MAS notice on corporate finance adviser business conduct. ICMA has also responded to a Hong Kong SFC consultation on market soundings.

5 *Commercial paper:* ICMA is liaising with the FSB, IOSCO and the FCA on measures to enhance the resilience of commercial paper and held an event on *Commercial Paper as a Funding and Investment Tool* in Milan on 21 November in cooperation with ICMA's Italian region.

6 *ICMA primary market events:* ICMA held its annual Primary Market Forum on 22 November at Clifford Chance in London; and ICMA and Allen & Overy are due to hold the European Primary Bond Markets Regulation Conference on 30 January 2024 at Allen & Overy in London.

Secondary markets

7 *T+1:* ICMA is part of a UK Taskforce on Accelerated Settlement launched by HM Treasury and ICMA is also part of a cross-industry EU Taskforce on proposals to shorten the settlement cycle to T+1. ICMA responded by the deadline of 15 December to ESMA's call for evidence on shortening the settlement cycle.

8 *Bond market liquidity:* ICMA's Bond Market Liquidity Taskforce (BMLT) brings together market experts from different ICMA Committees to recommend improvements in the functioning of markets, both in terms of market practice and regulation. The BMLT's initial focus is on core sovereign bond markets.

9 *Bond market transparency:* ICMA has continued to engage with the EU authorities on bond market transparency as part of the MiFIR Review. ICMA is also engaging with the FCA on the UK's bond market transparency framework.

10 *ICMA ETWG:* ICMA's Electronic Trading Working Group (ETWG) is being revived as a deliverables-focused, technical working group under the ICMA Secondary Market Practices Committee, and met on 28 November.

11 *Secondary bond market data:* ICMA published its third semi-annual report on European secondary bond market data, including data for the first half of 2023, with data support from Propellant, in September.

12 *Pre-hedging:* ICMA is consulting members on developing a potential position paper on pre-hedging in wholesale bond markets, in anticipation of the development of IOSCO principles in this area.

13 *ICMA Secondary Market Forum:* ICMA held its Secondary Market Forum in Amsterdam on 17 November, hosted by ING.

Repo and collateral markets

14 *ICMA GRCF:* ICMA's Global Repo and Collateral Forum (GRCF) held its third quarterly meeting on 9 November. A new GRCF working group is currently being set up to focus on new and emerging repo markets.

15 *ICMA ERCC*: ICMA's European Repo and Collateral Council (ERCC) held its Annual General Meeting at the Painter's Hall in London on 6 December. The process for the 2024 ERCC elections has been launched with a call for all ERCC

member firms to nominate a candidate by the deadline on 10 January. The election window will open later in January.

16 *Settlement efficiency:* Improving settlement efficiency is a key priority for the ICMA ERCC, in particular in relation to the EU CSDR Refit. Besides its work on best practices, ICMA is actively contributing on the subject to the work of the authorities, including the ECB in the context of AMI-SeCo as well as ESMA.

17 *Repo advocacy:* The ERCC is engaged on a number of key EU repo-related advocacy issues. In particular, the ERCC has been in discussion with the EBA following an unhelpful Q&A issued by the EBA in relation to the treatment of open reverse repo under the LCR. The ERCC has also been liaising with policy makers on the ongoing EMIR review, specifically to raise concerns about some proposals on buy-side repo clearing which have been put forward in this context.

18 *SFTR reporting:* ICMA continues to work with members of the ERCC's SFTR Taskforce to help firms improve the quality of SFTR reporting and address related issues. In this context, ICMA is in close contact with the authorities, submitting regular comments to ESMA and the FCA, most recently responding to a consultation on amendments to the UK validation rules.

Asset management

19 *ICMA AMIC:* An ICMA Asset Management and Investors Council (AMIC) Forum on *Investing for the Longer-Term through Uncertain Markets* was held on 24 November in Zurich, hosted by Swiss Re, and the AMIC Committee met in London on 14 December with the FCA as discussant on sustainable finance.

20 *ICMA response to the SFDR consultation*: On 13 December, ICMA submitted its response to the European Commission's targeted consultation on the SFDR on behalf of ICMA and its constituents, especially the AMIC Committee and the Executive Committee of the Principles.

Sustainable finance

21 *Code of Conduct for ESG Ratings and Data Products Providers*: on 14 December, the final *Code of Conduct for ESG Ratings and Data Products Providers* was published. With publication of the final Code, ICMA has assumed ownership and will keep a list of providers who have signed up to the Code on the ICMA website.

22 *Voluntary Code of Conduct for ESG Rating and Data Product Providers, sponsored by the Hong Kong SFC:* on 31 October, ICMA convened an industry group to discuss how the Code of Conduct could work in the Hong Kong market. A draft Hong Kong voluntary Code is expected to be issued for consultation in Q1 2024.

23 *List of adopters of the Singapore Code of Conduct for ESG Rating and Data Product Providers:* on 7 December, it was announced that ICMA is working with MAS to host on the ICMA website the list of ESG Rating and Data Product Providers which adopt the Singapore Code of Conduct.

24 *Updated Guidance Handbook:* on 29 November, the Executive Committee of the Principles with the support of ICMA has published an updated edition of the Guidance Handbook. The objective of this publication is to achieve broad circulation and application in the GSSS bond market. It is designed to support market development and to underpin market integrity.

25 *Industry collaboration to develop green sukuk guidance:* On 3 December at COP28, ICMA signed a collaboration agreement with the Islamic Development Bank (IsDB) and the London Stock Exchange Group (LSEG) to develop green sukuk guidance.

FinTech and digitalisation

26 *FinTech Advisory Committee (FinAC):* ICMA's FinAC held its fourth meeting on 29 November to discuss bond tokenisation in Hong Kong, Euroclear's D-FMI platform and exchange views on the implications of AI for the international debt capital markets.

27 *DLT bond documentation:* ICMA published a paper on *Considerations for Risk Factors and Disclosure in DLT Bond Offering Documents* on 21 November based on extensive input by the Legal Sub-Group of ICMA's DLT Bonds Working Group.

28 *Portfolio management and DLT bonds:* A buy-side workshop was held on 30 November to foster dialogue on opportunities and risks of DLT bonds and facilitate investor engagement.

29 *DLT bonds:* ICMA's DLT Bonds Working Group held a meeting on 13 December to discuss progress on priorities.

30 *Bond Data Taxonomy (BDT):* ICMA's BDT Working Group and DLT Bonds Working Group held a joint meeting on 31 October to finalise the DLT extensions as well as general, minor enhancements for release 1.2.

31 *Common Domain Model (CDM):* ICMA held a meeting on 25 October with repo market stakeholders to discuss how to leverage the CDM to further automate collateral management operations with a focus on repo GC baskets. ICMA presented the features of the CDM at the FINOS Open Source in Finance Forum on 2 November in New York. On 4 December, CDM version 5.0 was released in FINOS, including major enhancements contributed by ICMA, ISDA and ISLA.

32 *UK Digital Securities Sandbox:* Legal experts of ICMA's DLT Bonds Working Group engaged with HM Treasury, the Bank of England and the FCA in Q4 to provide feedback on the draft Statutory Instrument for the sandbox.

33 *Wholesale CBDC:* ICMA, together with ING, SWIFT and Fnality, was invited to provide a presentation on interoperability and standards at the meeting of the Eurosystem's New Technologies for Wholesale settlement Contact Group (NTW-CG) on 15 November.

34 *Post-trade harmonisation:* ICMA attended the second meeting of the ECB's AMI-SeCo Securities Group (SEG) on 26 October, which focused on remaining barriers to post-trade integration and shortening settlement cycles, amongst other issues.

35 *Data collection and reporting:* ICMA participated in the meeting of the Industry Data Standards Committee on 22 November, which is part of the Bank of England and FCA's programme on transforming data collection from the UK financial sector.

36 *Events:* ICMA's FinTech and Digitalisation Forum, held in London on 5 December, was attended by around 300 participants and featured keynotes, panel discussions, fire-side chats and vendor showcases.

LIBOR transition in the bond market

37 ICMA has continued to chair the RFR Bond Market Sub-Group (BMSG) at the request of the FCA and Bank of England and with their support. The BMSG met on 17 October. Following the cessation of panel bank US dollar LIBOR on 30 June, the BMSG is focusing on completing preparations in time for the cessation of synthetic sterling LIBOR due on 28 March 2024 and the cessation of synthetic US dollar LIBOR due on 30 September 2024.

Other meetings with the official sector

38 On 22 and 23 November, ICMA conducted a workshop for IOSCO in Cairo on primary and secondary markets and on sustainable finance to support capacity building in emerging markets.

39 On 27 November, ICMA held a series of meetings in Frankfurt with the ECB on market and financial stability issues.

Key ICMA regulatory policy messages

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EU and UK prospectus regimes: reviews

ICMA's key message is that the reasonably efficient functioning of wholesale bond markets in Europe under the current EU and UK Prospectus Regulations must be preserved. (See ICMA's Prospectuses webpage.)

EU: The European Commission's (EC) proposals appear broadly consistent with ICMA's key message. However: (i) the *status quo* should remain for fungible issuance exemptions; (ii) it should be clear that future financial statements can indeed be incorporated by reference into base prospectuses; (iii) incorporation by reference should not be mandatory; (iv) "tripartite" prospectuses should benefit from the same alleviations as other prospectuses; (v) there should not be restrictions (such as page limits and mandatory formats) on an issuer's ability to include material information in a prospectus; and (vi) it is important to avoid pre-empting at Level 1 the consideration of ESG disclosure that should be left to the technical Level 2 process (given the significant volume of new corporate ESG disclosure requirements that have been adopted and are still coming into force at EU or other regional or national levels). The Council of EU Member States (Council) (position with Annex) and the European Parliament (EP) (position) are now discussing a final text, aiming at Q1 2024 to finalise it.

UK: The substantive intention of the UK authorities also appears broadly consistent with ICMA's key messages in wholesale bond markets. But many aspects will require clarification given the significant change in format being pursued. Generally, in relation to retail bond markets and small and medium sized (SME) enterprise bond markets, the prospectus regime is only one factor among various other regulatory, commercial and market drivers (internationally as well as domestically). Constructing an appropriate regulatory regime in this respect requires holistic consideration of various regulatory tools and incentives. The UK Government's Statutory Instrument for the Public Offer and Admissions to Trading Regulation (POATR) was laid as draft affirmative in Parliament on 27 November 2023. The POATR delegates authority to the UK Financial Conduct Authority (FCA) to make detailed rules about the new prospectus regime. The FCA embarked on an engagement process with market participants on the new rules in Q2 and Q3 2023. On 12 December, the FCA published a summary of the feedback received during its engagement process, ahead of an expected formal consultation on the new rules in 2024.

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EU Market Abuse Regulation (MAR): market sounding

ICMA is advocating for an appropriately calibrated market sounding regime helping borrowers to avoid undermining market confidence and resilience by launching and then cancelling bond issues due to terms that do not fit market dynamics.

The incidence of market sounding is substantially reduced since the introduction of the MAR sounding regime in 2016, as the provisions were considered to be too onerous. The EC's proposal to confirm the regime as just providing a safe harbour for sharing inside information within its defined limits is welcome and should be adopted. The legislative process and references are the same as for the EU Prospectus Regulation review.

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EU and UK PRIIPs regimes

EU: The product scope of the regime should clearly exclude mainstream bonds. In this respect, the limited clarification proposal is incrementally welcome even though it seems unlikely to materially impact bond market practices and promote retail bond supply (proposed draft Regulation). The EP and Council are working on their positions on the draft and the discussions are expected to continue in 2024 (a vote in the EP's relevant committee is currently scheduled for 20 March 2024).

UK: The proposed repeal of the UK PRIIPs regime and seemingly intended exclusion of mainstream bonds from the FCA's replacement disclosure regime are both welcome. (This is because there seem to be significant limitations to disclosure as a retail investor protection tool and the PRIIPs regime has been a significant disincentive to retail bond availability.) The exclusion however needs to be clear and could track the existing exclusions from the UK's new Consumer Duty in this respect. As noted above regarding the EU and UK prospectus regimes, the PRIIPs Regulation is also only one factor requiring holistic consideration in relation to retail bond markets (see ICMA's PRIIPs KIDs and Retail Access to Bond Markets webpages for both the UK and EU materials). The UK Government's relevant draft Statutory Instrument as well as the FCA's feedback response are being reviewed and a further consultation is awaited.

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EU MiFID investor protection

In relation to the EC proposals, ICMA is advocating for appropriately distinguishing vanilla, commoditised instruments from asset management industry products in calibrating the investor protection requirements. In particular: (i) it is important generally to avoid disrupting the institutional/wholesale bond markets; (ii) the product governance proposals are not expected to impact the current bond market ICMA1/ICMA2 approaches, but the regime remains conceptually flawed regarding commoditised instruments such as bonds that should be excluded from the regime altogether; (iii) the underwriting & placing exemption from the proposed retail execution-only inducement ban is essential and welcome; (iv) the costs & charges proposals need correcting to clearly preserve the Capital Markets Recovery Package alleviations concerning professional investors and eligible counterparties; and (v) there is already substantive compliance with the proposed new marketing communication requirements, as the Prospectus Regulation already regulates advertisements. The EP and Council are working on their draft positions and the discussions are expected to continue in 2024 (a vote in the EP's relevant committee is currently scheduled for 20 March 2024). (See ICMA's MiFID II/R in Primary Markets website).

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EU CSDR review: mandatory buy-in regime

The adopted revision of the Central Securities Depositories Regulation (CSDR) removes the mandatory buy-in (MBI) requirement, but introduces a possibility to impose MBIs for certain financial instruments or categories of transactions by means of the EC's decision. ICMA continues to caution against imposing an MBI regime, particularly for bond markets. ICMA supports the adopted approach where penalties should first be allowed time to run and possibly be recalibrated. In parallel, other measures to improve settlement efficiency should be exhausted in the first instance (either market-based or regulatory, eg auto partialling, auto borrowing and lending facilities). In the absence of a full deletion of MBI provisions, ICMA welcomes a number of improvements expected in the revised Regulation in order to make sure MBIs can only be implemented as a last resort measure after strict conditions are met and that explicit exemptions apply, eg for securities financing transactions (SFTs). The final text was published in the EU *Official Journal* on 27 December 2023 and the Regulation will enter into force on 16 January 2024. The European Securities and Markets Authority's (ESMA) consultations on implementing rules are expected to be published in 2024. In the meantime, on 15 December ESMA published a consultation paper reviewing the CSDR framework for cash penalties.

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EU MiFIR and UK wholesale markets reviews

ICMA members would like to see the introduction of an effective, appropriately calibrated and dynamic post-trade transparency regime for all bonds, including corporate and sovereign bonds. In particular, large and extra-large illiquid trades should benefit from delayed publication of both price and size to prevent undue risk to counterparties involved. Once deferrals have expired, all bond trades should be published in a centralised place (a single-source bond consolidated tape) on a trade-by-trade basis.

In the EU, after the adoption of the transparency and consolidated tape framework in October 2023 under the revised Markets in Financial Instruments Regulation (MiFIR), ICMA will now encourage the development of implementing legislation that supports these objectives. The most recent public version of the agreed text is available here, final sign-offs are expected in the coming weeks (on 15 January 2024 by the EP) and official publication around March 2024. ESMA's consultations on most of the implementing rules are currently expected to be published in the first half of 2024. Furthermore, a link to the ESMA page for further timeline around the consolidated tape can be found here.

In the UK, the FCA published on 20 December 2023 its *Policy Statement on a Consolidated Tape for Bonds*, CP23/33, including a consultation, as well as the consultation *(CP23/32): Improving Transparency for Bond and Derivatives Markets*. This follows the consultation on the construct of a consolidated tape earlier in the year (see ICMA's response).

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T+1 settlement cycle

ICMA is actively involved in the discussions on a potential shortening of the settlement cycle which are under way in both the UK and the EU, triggered by the US decision to move to a T+1 settlement cycle in May 2024.

UK: ICMA is an active member of the UK's Accelerated Settlement Taskforce (AST) which was established by HMT in December 2023 to explore the case for T+1 in the UK. The aim of the AST is to produce an interim report on its initial finding by early 2024, followed by a consultation and set up of a technical group to further identify costs and benefits and work on a possible implementation process. A final report containing specific recommendations, is expected toward the end of 2024.

EU: On 15 December, ICMA responded to ESMA's call for evidence on shortening the settlement cycle. ICMA views a potential EU move to T+1 as a significant undertaking with wide-ranging implications, not only for the post-trade process, but also from a trading, market making liquidity and funding perspective. A move to T+1 would come with significant risks that need to be carefully considered, and that are exacerbated by the complexities and fragmentation of the EU market. In that sense, ICMA strongly supports ESMA's call for evidence with the aim of conducting a thorough assessment of all the expected costs and benefits of such move. It is important that the outcome of this process is, at this stage, considered open. Given the far-reaching and market-wide implications, it is critical that any decision in favour or against a further shortening of the settlement cycle is based on a solid understanding of costs and benefits.

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EU Alternative Investment Fund Managers Directive (AIFMD)

ICMA's Asset Management and Investors Council (AMIC) in general welcomes the EC's targeted review of the AIFMD and supports the Council's and European Parliament's proposals for recognising the critical risk management responsibilities that should remain with Alternative Investment Fund (AIF) managers. However, the final political agreement has several concerning new provisions on undue costs and fees as well as on fund labels. The most recent public version of the agreed texts are available here. The final sign offs are expected to be completed by early 2024 (by the EP on 5 February), which will be followed by an official publication and entry into law. ESMA's consultations on implementing rules are expected to start in the near future.

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EU Green Bond Standard (EU GBS)

ICMA welcomes the voluntary nature of the EU GBS and of wider disclosures templates for certain sustainable bonds (ie green use of proceeds bonds and environmental sustainability-linked bonds). ICMA will continue to make recommendations to ensure, among other things, that the proposed voluntary disclosure templates minimise duplication or inconsistencies across other EU sustainable finance legislation. The future uptake of the EU GBS will be closely correlated with the resolution of the considerable usability challenges of the EU Taxonomy identified in the extensive report of the EC's Platform on Sustainable Finance (PSF) as well as ICMA's earlier report (eg widespread data unavailability, heavy reliance on EU legislation and criteria (hindering the assessment of non-EU projects), and lack of assessment of proportionality for smaller projects and SMEs). (See ICMA's previous papers.) The Regulation establishing EU GBS was officially published on 30 November 2023, entered into force on 21 December 2023 and will apply as of 21 December 2024. Implementing measures need to be prepared by the European Supervisory Authorities (ESAs) and the European Commission (EC) in 2024 or 2025. Various review reports are scheduled in the period between end 2024 and 2028.

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The Sustainable Finance Disclosure Regulation (SFDR)

ICMA considers that the SFDR currently fails to fulfil its primary objectives of investor protection and helping sufficiently to channel capital towards sustainability. This is for various reasons, including use of disclosures as labelling, complexity and overload of disclosure requirements, data unavailability, lack of clarity and minimum standards in key regulatory concepts. Also, while the EC and the ESAs have provided some additional guidance, there is still room to enhance the consistency between different pieces of EU sustainable finance legislation.

As for the future of SFDR disclosures, ICMA emphasises the need to shorten, streamline, clarify and make them focused on the most material issues. The disclosure requirements should also take into account data availability from international standards such as the ISSB or other taxonomies. ICMA also supports uniform disclosures that could apply to all funds regardless of sustainability claims. For example, all funds could disclose their exposure to companies with credible transition plans.

Regarding the potential establishment of a categorisation system for sustainable financial products, ICMA strongly supports an EU official categorisation system, even though there are divergent views on how to achieve this. In any case, introduction of labels based on investment objectives and intentions should, to the extent possible, leverage the existing requirements and processes that have been resource intensive to implement. ICMA also underlines its support for several specific fund categories (A - sustainability solutions, B - products meeting credible sustainability standards or adhering to a specific theme, and D - transition-focused) and has presented some high-level recommendations and principles to guide the process of designing labels, in particular the need to avoid international fragmentation.

ICMA submitted its response to the EC consultation on the SFDR on 13 December 2023.

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Wholesale Central Bank Digital Currency (wCBDC)

ICMA advocates for a wholesale digital euro (wCBDC) to unlock the benefits of DLT-based securities at scale, enabling next-level automation, more efficient securities settlement and post-trade processing, and increasing the attractiveness of capital markets as a source of funding for the real economy.

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The cessation of synthetic sterling LIBOR

by **Katie Kelly**

Those market participants who still have contracts referencing three-month sterling LIBOR should ensure that they are prepared for publication of synthetic sterling LIBOR to cease permanently on 28 March 2024.

At the end of 2021, when panel bank sterling LIBOR ceased publication, the most commonly used sterling (and yen) LIBOR settings (the one, three and six-month settings) were transitioned to a new "synthetic" methodology. This was required because, in the sterling market, there was considered to be a tough legacy[1] problem due to the large number and volume of bonds with maturities beyond the end of 2021 with no or inappropriate fallbacks catering for LIBOR cessation.

A number of steps were taken to address tough legacy contracts, including amending the UK Benchmarks Regulation (UK BMR) to give the FCA new powers to require continued publication of LIBOR by ICE Benchmark Administration (IBA) on a different basis following the FCA determination that panel bank LIBOR was no longer representative of its underlying market, known as "synthetic LIBOR", as a temporary bridging solution for tough legacy contracts. An additional, helpful step was the passing of the Critical Benchmarks (References and Administrators' Liability) Act 2021, which addresses associated issues relating to contractual continuity, such that "contractual references to LIBOR should continue to be treated as references to that benchmark where the FCA has directed a change in how LIBOR is calculated, ie synthetic LIBOR."[2]

Synthetic sterling LIBOR is based upon the ICE Term SONIA Reference Rates provided by IBA plus the ISDA fixed spread adjustment (published by ISDA) and is available on the same screens and at the same time that panel bank sterling LIBOR was published. Under the UK BMR, UK supervised entities are restricted from using synthetic sterling LIBOR in new transactions and in legacy transactions, unless the FCA grants them permission to do so. The FCA decided in November 2021 to permit use of synthetic sterling LIBOR in all legacy contracts except cleared derivatives.

The UK BMR allows the FCA to compel IBA to publish synthetic LIBOR for up to ten years, with an annual review period. In June 2022, the FCA consulted on winding down one and six-month synthetic sterling LIBOR at the end of March 2023. That consultation also asked for views on when the three-month synthetic sterling LIBOR setting could cease in an orderly fashion. Based on the feedback, in September 2022,[3] the FCA decided to require continued publication of the one and six-month synthetic sterling LIBOR settings until 31 March 2023. And based on feedback with respect to when the three-month synthetic sterling LIBOR setting could cease, the FCA stated in November 2022[4] that it intends to continue to require IBA to publish the three-month synthetic sterling LIBOR setting until 28 March 2024, after which it will cease permanently.

Some remaining legacy sterling LIBOR bond contracts which have not been actively transitioned to robust alternative rates are likely to fall back to a fixed rate after synthetic sterling LIBOR ends on 28 March 2024 (being the actual date on which it ends, taking account of holidays), in particular those issued before 1 January 2018 and which are likely to

1. Defined by the Financial Stability Board as "contracts that have no or inappropriate fallbacks, and [which] cannot realistically be renegotiated or amended".

2. Critical Benchmarks (References and Administrators' Liability) Act (parliament.uk).

3. FCA announces decision on cessation of one and six-month synthetic sterling LIBOR at end-March 2023.

4. FCA: Further consultation and announcements on the wind-down of LIBOR.

contain Type 1 fallbacks (1 January 2018 being a proxy date for when Type 2 fallbacks began to be introduced in bond documentation).[5]

For this reason, the authorities have been clear that, although good progress has been made on sterling LIBOR transition, firms should continue to actively transition any remaining legacy sterling LIBOR contracts to robust alternative rates such as SONIA, rather than relying on synthetic sterling LIBOR. Further, the Bank of England's PRA and the FCA said they would continue to monitor transition progress of supervised firms, including through regular data collection.[6] Those market participants who still have contracts referencing three-month sterling LIBOR should ensure that they are prepared for publication to cease permanently on 28 March 2024.

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5. Fallbacks-for-LIBOR-floating-rate-notes-Q32019.pdf (icmagroup.org)
6. FCA: The USD LIBOR panel ceases at end-June 2023: Are you ready?

Primary Markets



by **Ruari Ewing, Miriam Patterson** and **Katie Kelly**

Review of EU and UK regulatory developments

This article reviews ICMA's work on regulatory developments in the EU and UK relating to PRIIPs, MiFID product governance, MiFID inducements, MAR soundings and prospectus regimes.

Regarding the replacement of the UK PRIIPs regime, ICMA has been working to submit comments on a near-final Statutory Instrument published by the UK Government (together with a related policy note) by the 10 January deadline.

Regarding the EU's Retail investment Strategy (RIS), which notably covers the PRIIPs, MiFID product governance and MiFID inducements regimes, ICMA has continued to track deliberations in the Council and in the Parliament. ICMA reiterated its key focuses to the Parliament *rapporteur* following her 2 October 2023 draft reports (noted in the Fourth Quarter 2024 edition of this Quarterly Report). Following the subsequent publication of further individual MEP comments on the proposed RIS Regulation (relating to the PRIIPs regime) and comments on the proposed RIS Directive (relating notably to the MiFID product governance and MiFID inducements regimes), ICMA noted to the Parliament *rapporteur* and to the Council Presidency that:

(1) some support for the exclusion of non-financial issuers from the scope of the PRIIPs regime seemed hopeful (ICMA also recapped various potential approaches to differentiating between packaged and non-packaged instruments);

(2) a suggested exclusion of non-packaged instruments from the scope of the MiFID product governance regime seemed hopeful (ICMA also noted various other suggested amendments might further complicate that regime);

(3) suggested deletions of the underwriting & placing exemption from the proposed inducements ban seemed merely consequent to suggested deletions of the ban itself;

(4) suggestions to limit new requirements more clearly to the retail context only seemed appropriate; and

(5) suggestions that the amended regimes come into effect at a set time after the finalisation of subsidiary, Level 2 rules also seemed appropriate.

Regarding the UK's new prospectus regime, ICMA has continued to track developments, with a final Statutory Instrument being laid before Parliament on 27 November 2023 that addresses ICMA's prior comments (reported at page 24 of the Fourth Quarter 2023 edition of this Quarterly Report). ICMA is also reviewing engagement feedback published by the FCA on 12 December 2023, which follows *inter alia* ICMA's response to its engagement papers (reported at pages 24-27 of the Fourth Quarter 2023 edition of this Quarterly Report) and which notes that the FCA is aiming to consult on proposals in the summer.

Regarding the EU's Listing Act, which notably covers the Prospectus Regulation and MAR pre-sounding regimes, ICMA has continued to track trilogue deliberations (between Council, Parliament and Commission) following Parliament's prior adoption of its 26 October 2023 report.

On 30 January, ICMA will be hosting with Allen & Overy a further edition of the European Primary Bond Markets Regulation Conference that is likely to touch on much of the above.

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A Hong Kong SFC's market soundings consultation: ICMA response

On 11 October 2023, the Hong Kong Securities and Futures Commission (SFC) published its *Consultation Paper on the Proposed Guidelines for Market Soundings*. The proposed regime impacts market sounding communications between the sell side and the buy side in relation to in-scope transactions. ICMA submitted a response to the consultation which closed on 11 December 2023.

The consultation and proposed rules follow on from a thematic review in 2022 by the SFC, with the help of an external consultant, of market sounding practices and controls implemented by intermediaries in Hong Kong. As a part of that thematic review, ICMA engaged with the external consultant to provide information on market soundings in the debt capital markets (DCM) as opposed to equity capital markets (ECM) context, but the proposed guidelines seem to address market soundings communications primarily from the ECM perspective. A key part of ICMA's response to the consultation has been to highlight differences between the DCM versus ECM contexts.

Proposed guidelines

As proposed, the market sounding guidelines apply to communication of any non-public information for in-scope transactions, regardless of whether the information is price-sensitive inside information or not. The guidelines apply to SFC licensed intermediaries as a disclosing person or as a recipient of the non-public information, even if the sounding is in relation to non-Hong Kong securities. This is different from market soundings under other regimes such as the EU Market Abuse Regulation (EU MAR), where the key trigger is where the security is admitted to trading (see Article 2(1), EU MAR) as opposed to where the disclosing or recipient person is licensed. Cleansing (where the disclosing person notifies the recipient that the non-public information communicated through market sounding has ceased to be non-public) is mandatory. The proposed guidelines do not apply to communications relating to: (i) speculative transactions or trade ideas put forward by a disclosing person without consulting the potential market sounding beneficiary (eg issuer) or without any level of certainty that the transaction will materialise, (ii) transactions of such size, value, structure or selling method that are commensurate with ordinary day-to-day trade execution, and (iii) public offerings of securities.

ICMA consultation response

Following engagement with members and informal discussions with the SFC, ICMA's consultation response highlighted, among other things, the following:

(1) *"Price sensitive inside information":* There should be a distinction made between "non-public information" and "price sensitive inside information" under the proposed guidelines, and the latter should be the trigger for wall-crossing under the market sounding regime, which would also be consistent with the market sounding regimes of other jurisdictions such as EU MAR.

(2) *Clarification of "non-public information":* If "non-public information" is retained as the relevant trigger for wall-crossing under market soundings, clear guidance is required in relation to the definition of "non-public information" and other aspects of the proposed guidelines, in particular (i) the differences between ECM and DCM transactions, (ii) the scope of the excluded transactions under paragraph 1.3 of the proposed guidelines, and (iii) the cleansing arrangements in relation to "non-public information" (these aspects are set out in further detail below).

(3) *Differences between DCM and ECM:* The requirements for market soundings should take into account the differences between DCM and ECM transactions. For example, DCM transactions by frequent issuers, SSA issuers and new market issuers involve investors that are not typically wall-crossed in market soundings, while tap issuances and issuances by occasional issuers are more likely to see wall-crossed investors.

(4) *"Speculative transactions" or "trade ideas" exclusion:* This exclusion should be broadened to capture communications relating to typical issuances by SSAs and new transactions that do not have a price/value relationship with existing listed or traded securities.

(5) *"Ordinary day-to-day trade execution transactions" exclusion:* This exclusion should be expanded to cover private placements and small transactions that are relatively immaterial as compared to an issuer's total outstanding debt securities and are more commensurate with its ordinary course of issuance or trading.

(6) *"Public offerings" exclusion:* This exclusion should be expanded to include DCM transactions offered "publicly" to professional investors through wholesale market channels, and where the information disclosed to investors is limited to information generally known to, or anticipated by, such professional investors through Bloomberg or other information services providers (for example, in the case of bond refinancings of existing debt securities).

(7) *Cleansing:* As recipients of non-public information may have been sounded by multiple sources on multiple potential transactions, they should have the ability to make their own independent determination of whether they are still in possession of any information which would restrict them from trading in the relevant securities. In the context of DCM transactions, disseminating information via information channels that professional investors are reasonably expected to have access to, such as Bloomberg and other subscription-based information service providers, should be included as acceptable methods of public dissemination of non-public information for the purposes of cleansing.

(8) *Applicability to overseas persons:* Clarity is needed on how the proposed guidelines apply to overseas persons as DCM transactions are generally cross-border transactions. ICMA recommends that certain market sounding activities should be excluded from the guidelines to the extent either the disclosing or recipient person is not regulated by the SFC or is located outside of Hong Kong.

(9) *"Level of certainty":* ICMA gave comments on how the meaning of "level of certainty" (when determining whether a potential transaction will materialise) needs further clarification.

(10) *Transition period:* ICMA requested an extension of the proposed six-month implementation period to 12 months.

ICMA looks forward to the opportunity for further discussions with the SFC prior to finalisation of the proposed guidelines.

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A ICMA form of Singapore selling restrictions

On 14 December, ICMA disseminated an updated ICMA form of Singapore selling restrictions in Appendix A13a of the ICMA Primary Market Handbook.

The update promotes tighter restrictions, by setting out institutional and accredited investor only offerings as the default approach and relegating reliance on Section 275(1A) of the Securities and Futures Act 2001 of Singapore (SFA) for high-denomination retail offerings to being a secondary alternative.

This follows the Monetary Authority of Singapore (MAS) publishing:

(a) a *Notice on Business Conduct Requirements For Corporate Finance Advisers* (CFA Notice) on 23 February 2023, together with a *Response to Feedback Received* to its preceding consultation paper P020 - 2021 (that ICMA responded to, as reported at page 30 of the Second Quarter 2022 edition of this ICMA Quarterly Report); and

(b) initial related FAQ on 21 June 2023 and updated related FAQ on 21 August 2023.

New requirements in terms of due diligence procedures imposed under paragraph 19 of the CFA Notice benefit from exceptions in its paragraph 3(a)(ii). These exceptions include institutional and accredited investor only offerings but do not include the SFA Section 275(1A) exception to the prior ICMA form of Singapore selling restrictions.

Whilst new issue transaction parties, depending on their approach to CFA Notice paragraph 19, may choose to use the broader form of selling restrictions (including permitting reliance on Section 275(1A)), it is anticipated that parties will generally not choose to do so. (The Section 275(1A) exception has been of limited significance in ensuring successful Singapore-nexus international bond transactions for issuers.) The ICMA form has been consequently updated for convenience.

Incidentally:

- it is expected that each institution remains responsible for its own compliance with the CFA Notice – in this respect any offers by a member of an underwriting syndicate, beyond institutional and accredited investors (including in reliance on Section 275(1A)) and done without the knowledge or acquiescence of the other syndicate members, would trigger the CFA Notice paragraph 19 due diligence procedures for that offering syndicate member only and not the others;
- regarding CFA Notice paragraph 19(b)'s requirement for "appropriate verification", ICMA understands from informal discussions with MAS that this would be triggered where professional judgement based on existing knowledge raises concerns (a "red flag");
- the update also deletes, as superfluous, the narrative concerning certain provisions of Singapore law previously included in the selling restrictions;
- regarding the ongoing inclusion of legends relating to Section 309B of the SFA, it is expected that the stricter form of selling restrictions will result in such legends no longer being included – but that, in programmes intended to allow for both the stricter and broader forms of selling restrictions, there will be a legend stating that, if applicable, the issuer will make a determination and include an appropriate product classification notification in the pricing supplement/final terms.

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ICMA Primary Market Handbook amendments

On 14 December, ICMA published three changes to the ICMA Primary Market Handbook.

- In Chapter 5 (*Bookbuilding and launch*), item 5.13B (on book disclosure in an Asia context) was amended. This was to reflect technical requirements arising in relation to offerings involving one or more Hong Kong "overall coordinators" per Chapter 21 of the Hong Kong SFC's Code of Conduct and to otherwise clarify current market practice.
- In Chapter 7 (*Pricing*), Recommendation R7.3 (on pricing references for new sterling bonds) was amended and related item 7.3A was deleted. This was to reflect a reduction in syndicate desk expectations of prescriptiveness around the pricing process for new sterling bonds and followed ICMA's earlier notice in June 2023.
- Appendix A13a (*Selling restrictions/Hong Kong and Singapore*), Part II (on Singapore selling restrictions) was amended. The background to this is narrated in a separate article in this edition of the ICMA Quarterly Report.

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Commercial paper in Italy

The size of the commercial paper market in Italy has so far been modest, but interest in commercial paper as a funding and investment tool is increasing, which may now catapult it more into the mainstream. Bank liquidity in Italy remains ample but is decreasing, so commercial paper may have a fundamental role as a funding tool for banks (as a substitute for TLTROs) and other non-financial issuers (as a substitute for reduced bank lending). Investor appetite is perceived to be healthy, with demand outstripping supply. Then again, the Italian corporate landscape is mainly comprised of SMEs; fewer than 2% of companies which employ over 50 individuals have revenues approaching €300 million,[1] meaning that the pool of potential issuers may be limited and commercial paper may remain the preserve of the larger Italian corporates and banks.

ICMA recently held an event highlighting the feasibility of commercial paper in Italy. A panel of market experts gave their assessment of market conditions, including the fact that in times of crisis investors might curtail their investing in commercial paper, might not roll over maturities, and might pull back from the market altogether, and dealers might not bid back commercial paper, all of which leads to a lot of structural vulnerability in the product.

The issuers on the panel agreed that commercial paper is an important element of a broad and dynamic funding mix and that, given the pricing, flexibility and ease of execution over other forms of short-term debt, it is in the market's interest to encourage its development. The experts agreed that an attempt at standardisation is a good ambition, but one which would be very difficult to achieve given the fragmentation of markets between the US, the UK and throughout the EU27. Automation, while not in itself a solution for commercial paper's vulnerability, may have an enabling role in commercial paper execution. But the dynamics between automation and dealers has to be able to co-exist, given that the role of dealers – providing information on market demand and supply, execution and providing secondary market liquidity by bidding paper back – is so important, and is often more intricate than other intermediated transactions. A lack of harmonised data amplifies the importance of the dealer role as an information provider, which works but can make the job of investors much more difficult.

With corporate issuers of sustainable commercial paper represented, the panels considered the benefits of sustainability-linked (or ESG ratings-linked) commercial paper, including the difficulty of reconciling sustainability with commercial paper due to the inherent short duration of commercial paper and longer-term sustainability strategies, and the lack of a workable penalty mechanism should targets not be met, or ESG ratings change negatively. But although this market is nascent, issuance is increasing and the market is likely to coalesce around some commonality after a while.

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1. Source: ISTAT

Secondary Markets



by **Andy Hill, Nina Suhaib-Wolf** and **Alexander Westphal**

Bond market transparency in the EU and UK

Introduction

Bond market transparency was very much in focus throughout 2023, both for EU authorities as part of the MIFIR/D Review as well as in the UK following the Wholesale Markets Review in 2021, which was conducted with the view to improving the UK's regulation of secondary markets, taking advantage of new freedoms in financial services, under which the creation of a consolidated tape and changes to the MIFIR framework were some of the many items on the agenda. ICMA has been actively engaging with both set of authorities, for example through various EU consultations over recent years as well as its discussion paper on *Transparency and Liquidity in the European Bond Markets* (2020), and ICMA's *Proposal for a New Post-Trade Transparency Regime for the EU Corporate Bond Market* (2021). More recently on the UK side, ICMA provided its response to the FCA consultation on a UK consolidated tape in September 2023, and also intends to respond to the FCA consultations CP23/33 on payments to data providers and data reporting services providers (DRSP) forms, including its *Policy Statement for the Framework on a UK Consolidated Tape*, and CP23/32: *Improving Transparency for Bond and Derivatives Markets*, both published on 20 December 2023.

EU state of play

In the EU, the co-legislators finalised the technical details of the MIFIR/D II review as were highlighted in the ICMA Quarterly Report Q4 2023, and the final consolidated text is now going through approval procedures. At time of writing this article, the date for final approval of these texts in the EP Plenary is foreseen for 15 January, and it is assumed that the EU *Official Journal* publication and subsequent Level 1 entry into force will take place during Q1 2024.

In summary, the key points of the MIFIR/D review are highlighted as follows:

- *Pre-trade non-equity transparency:* The requirement has been removed for RFQ and voice *systems.*
- *Post-trade non-equity deferral regime:* For bonds, the deferrals regime is based on five deferral categories based on transaction size and instrument liquidity – with ESMA to calibrate deferral lengths applicable to each category. Maximum durations are set per category in Level 1, ranging from 15 minutes price and volume for medium liquid transactions (Category 1) to four weeks price and volume for very large transactions (Category 5).
- *Sovereign bond deferrals:* Member State NCAs may elect for (a) the omission of the publication of the volume of an individual transaction for an extended time period not exceeding six months; or (b) the deferral of the publication of the details of several transactions in an aggregated form for an extended time period not exceeding six months.
- *Exemption for ESCB policy transactions:* The co-legislators have taken on board a proposal from the ECB to extend the reporting exemption to all transactions with ESCB members.
- *Consolidated Tape (CT):*
  - ESMA is to select a single consolidated tape provider (CTP) per asset class for a period of five years, covering equities, ETFs, bonds and OTC derivatives. The first bonds selection procedure is to be launched within nine months of Level 1 entry into force, followed by shares and
  - ETFs six months afterwards, followed by derivatives six months after shares and ETFs.
  - ESMA will then also specify data quality requirements at Level 2, including the quality and substance of data for operation of the CT, the quality of the transmission protocol, and what constitutes "as close to real time as possible" transmission by data contributors.

- Trading venues and APAs (not SIs) will be under the obligation as "market data contributors" to contribute core market data and regulatory data to the CTP, using an existing transmission protocol offered by data contributors.
- As regards revenue sharing for bonds, the text outlines the possibility of a revenue sharing scheme for other asset classes – leaving it optional for the CTP to establish one. However, the existence of a revenue sharing scheme will be taken into account as a selection criterion in the selection procedure for the bonds CT.

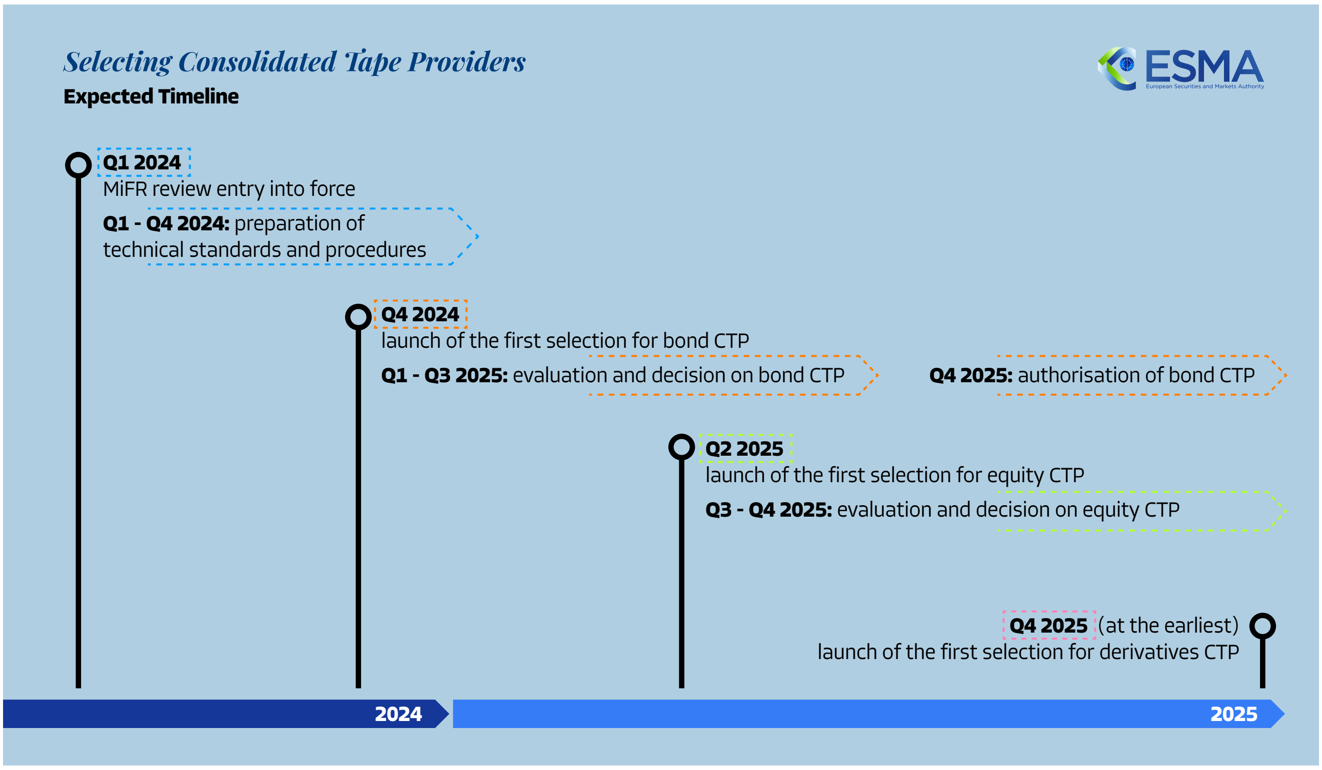
EU timeline and next steps

It is worth highlighting that there will be only a limited amount of time available for ESMA to establish the RTS especially around the bond consolidated tape, having been assigned nine months following Level 1 entry into force. This means that the bond consolidated tape is currently expected to be delivered by December 2024, in line with the bond price transparency RTS. Furthermore, this period will coincide with the selection process of the CTP.

ESMA has published a useful overview of the timelines for the consolidated tape, including the below figure.

Finally, and as per Level 1 legislation, an expert stakeholder group is to be formed by the European Commission within three months of Level 1 entry into force, which will be focused on the quality and substance of market data. This group is also expected to provide input to help inform the post-trade deferrals calibration.

Working closely with its members, ICMA is looking forward to engaging with ESMA to provide constructive feedback to help shape the Level 2 to ensure the success of the EU's bond transparency framework and the consolidated tape.



UK state of play

In July 2023, the Financial Conduct Authority (FCA) launched its *Consultation Paper for a UK Consolidated Tape*. The consultation paper formed part of the Wholesale Markets Review (WMR), conducted by the FCA with HM Treasury in response to the UK Government's plans to revise the existing regime, as well as paving the way for the emergence of a CT in the UK. In addition, the UK Government's Edinburgh Reforms require that HM Treasury and the FCA should put in place a legislative and regulatory regime by 2024 to facilitate the emergence of a UK CT. Lastly, the work on a consolidated tape also forms part of the FCA's commitment in its 2022-2025 strategy to strengthening the UK's position in global wholesale markets.

The aim of the FCA consultation paper for a UK consolidated tape was to set out a proposed framework for a consolidated tape (CT) for bonds, aiming to achieve a well-designed CT framework that would allow for the emergence of a CTP. ICMA responded to this consultation through its MIFID Working Group. In essence, ICMA welcomed the FCA's proposals for a UK consolidated tape to improve bond market transparency and reduce the cost of accessing bond data, aiming to improve liquidity and market efficiency, as well as various proposals to incentivise the emergence of a CTP in the UK as a single, low-cost source of bond market data. At the same time, ICMA highlighted that it will be important to ensure that the design of the auction process and subsequent regulation and governance of the CTP allow for competitive elements to remain and lead to a high-quality outcome for data users.

Next steps in the UK

Following the consultation earlier in the year, the FCA published on 20 December 2023 its *Policy Statement for the Framework for a UK Consolidated Tape*, which also includes a new consultation on payments to data providers and DRSP forms, and on the same day also launched its *Consultation on Improving Transparency for Bond and Derivatives Markets*. ICMA is working on its responses to these consultations through its MIFID Working Group. Further plans of the FCA, as outlined in those consultations, foresee the conduct of a tender process for a bond CTP during 2024, with a view that a bond CTP could start operation in the second half of 2025. Aside from this, the FCA expects to complete changes to the transparency regime during 2024, with the changes starting to be applied during 2025 before the CTP goes live.

Outlook

As highlighted in the FCA's consultation response on the framework for a UK consolidated tape, the main differences to the EU tape will be arising around the transmission of data to the CTP, the CTP tender process, and revenue sharing. Furthermore, the offering of value-added services is due to be conducted under a separate entity, an interesting point which in the EU may be determined during the Level 2 process this year.

Looking ahead to 2024, the EU and UK's calibration of their respective bond transparency regimes will certainly remain a key topic for ICMA. It will be interesting to see whether the differences above will be confirmed and/or any further discrepancies will emerge. The UK has been entering a separate and independent path post-Brexit, aiming to introduce regulatory divergence from the EU as and where it believes it can fit better the needs of UK markets and its participants. At the same time, it is important to bear in mind that any possible divergence might also be difficult to manage for firms which need to comply with two different regimes. What is clear is that, throughout 2024, bond market transparency will remain a key topic and ICMA intends to stay actively engaged in any future developments both in the EU and UK.

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CSDR Refit: mandatory buy-ins and settlement efficiency

On 27 November 2023, the Refit of the Central Securities Depositories Regulation (CSDR) received final sign-off by the European Council. This can now be published in the EU *Official Journal*, 30 days after which it will become law. This is expected to be in early 2024.

Preparation of Regulatory Technical Standards

With respect to mandatory buy-ins (MBIs), which will now be subject to the "two-step approach", ESMA will have 18 months after CSDR enters into force to submit draft Regulatory Technical Standards (RTS), which will support the implementation of MBIs, should they ever be applied.

ICMA, through its long-established CSDR-SD Working Group, intends to engage with ESMA to ensure that the RTS are as workable, and as close to market reality, as possible, in particular with respect to the following features:

- scope;
- the cash compensation process;
- the importance of guaranteed delivery;
- the requirement to appoint a buy-in agent (or rather no requirement);
- the pass-on mechanism;
- the pre-eminence of contractual buy-ins;
- market liquidity and stability impacts; and
- alternative measures to improve and maintain settlement efficiency.

ICMA will also continue to engage with ESMA through its seat in the Consultative Working Group (CWG) to ESMA's Post Trade Working Group (PTWG).

Ultimately, the industry goal remains to ensure that these RTS are purely academic and that MBIs are never implemented in the EU fixed income markets.

ESMA review of penalties

On 15 December, ESMA published a consultation paper on *Technical Advice on CSDR Penalty Mechanism*, one of its mandates under the CSDR Refit. In light of the fact that cash penalties are hoped to improve and maintain settlement efficiency so that MBIs are not required, it is important that the framework is appropriately calibrated with enough flexibility to respond to market conditions.

ICMA intends to respond to this consulatation and will be reaching out to members of its CSDR-SD Working Group early in the new year to begin the process of drafting a response.

The deadline for reponses to the consultation is 29 February 2024. ESMA will consider the feedback received in the consultation and expects to publish a final report and submit its technical advice to the EC by 30 September 2024.

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T+1: trading bonds for different settlement dates

Currently, discussions are under way related to the possible shortening of the standard settlement cycle for many financial securities in the UK from T+2 to T+1. This comes in the wake of the US's commitment to move to a T+1 standard settlement from May 2024. While there are numerous operational challenges to address in order to facilitate a successful compression of the time between agreeing and settling a trade, there are also considerations around the impact on pricing and market liquidity of affected securities, particularly in less liquid markets, such as those for corporate bonds.

This is made even more complicated in the case of international securities which are intended to be traded on a cross-border basis and which could be subject to different "standard" settlement cycles, particularly if the UK were to move to T+1 in advance of the EU.

It also raises a question about whether or not such instruments would benefit from a shorter settlement cycle, particularly if the outcome is more fails, less liquidity, and higher costs for investors.

Market making and the cost of funding

Let us walk through the potential impact on a market maker, who provides liquidity, for example, in corporate bonds that are traded both in the EU and the UK, and who posts prices and responds to requests for quotes on both EU and UK trading venues. Currently, with a standard settlement of T+2 in both the EU and the UK, the trader will be indifferent as to whether we are quoting and trading on either an EU or UK venue – all things being equal, the prices shown will be the same on both venues. Were we to sell a bond on a UK venue and cover it the same day on an EU venue, not only would we be flat from a market risk perspective, but also in terms of settlement.

Now let us think what happens if UK venues were to operate on a shorter, T+1, settlement, while the EU venues still operated on T+2. By way of example, let us pick a bond: TSCOLN 1.875% 11/02/28 (XS2403381069). And let us assume that on 3 November 2023 we are happy making a price of 83.60-70 (that is, we will happily buy bonds at 83.60 and sell bonds – even though we do not hold them – at 83.70) for standard T+2 settlement (7 November 2023). So, if a client comes to us looking for a bid via an EU venue, we will show them a bid price of 83.60. But what if the client requests a bid over a UK venue?

In this case we will need to assume that the earliest we can sell the bonds we buy is for T+2 (particularly if most of the liquidity is found on EU venues). Which means that if we are hit by the client at 83.60, we will need to fund the bonds for at least one day. However, we will also earn interest on the bond (effectively its yield) for a day. Given that a price of 83.60 for value 6 November gives a yield of 5.75%,[1] then there is no financing cost so long as our funding rate is no higher than 5.75% (ie we have "positive carry"). If it is, then we will incur a cost ("negative carry"), so we may want to consider lowering our bid for T+1 settlement, say to 83.59. If we are going to do this precisely, then we will need to calculate any cost based on our expected funding rate less the income earned on the bond through its yield, then turn this into a "cents or pence" equivalent, and "drop" our bid accordingly. But if we do not want to be overly scientific, we could just move our price back a few pence to play safe. Furthermore, if the difference between settlement dates is over a weekend, then we need to move the price by a factor of x3. This would also make Thursday the most expensive day to buy or sell bonds if we are only able to transact on a UK venue (we can call this the "Thursday effect").

The same considerations apply to selling a bond, particularly if we are going short in the process. In the same example, we

1. In reality, we earn the "running yield": the coupon divided by the dirty price.

are happy to show a client looking for an offer on an EU venue a price of 83.70. But what if the client requests an offer on a UK venue? Again, we need to assume that the earliest we can cover our short, if we buy it back on the same day, is for T+2. Which means that, if we should assume that we are going to be short for at least one day, our cost of this will be the yield of the bond again (which we effectively pay to the buyer) less the repo rate for borrowing the bond for a day. So, if the repo rate is lower than the yield, then we lose money ("negative carry"). Given that repo rates for corporate bonds are expensive (ie they trade at quite low rates), we can likely expect to incur negative carry every time. Furthermore, the less liquid the bond, the more expensive its repo rate is likely to be (ie even lower), and so the more negative the carry. And this is also assuming that we can borrow the bond. Given the ticket costs, many lenders will have little or no interest in lending a small amount of corporate bonds for a single day, something that also needs to be considered in the context of split settlement cycles. If we assume a repo funding spread of 150 basis points in our example, meaning that we would borrow the bond for "tom-next" (ie from T+1 to T+2) at 4.25%, this would move our offer up to 83.71.

In both examples, the additional estimated funding cost incurred by the market maker is passed on to the investor settling on T+1.

Additional trading costs

It could of course be argued that, depending on relative funding costs, any adjustment to the price would be symmetrical, meaning that both the bid and offer should be moved either higher or lower in line. However, there are not only funding costs that the market maker has to consider, but also any capital and liquidity costs related to an additional day of funding the position, as well as the probability and associated costs of failing.

Liquidity in the credit repo market can be patchy, particularly where the free float of a bond might be limited, meaning that bid-ask spreads can be quite wide (which, as we have seen, will need to be factored into the adjusted price for T+1 settlement). However, sometimes it can be quite challenging to source certain bonds in the repo market. This challenge is likely to be amplified by the fact that any repo used to cover the short created by a T+1 sale will (i) almost certainly need to be executed for same-day value (ie the next business day) and (ii) be only for one day. Both of these make lending unattractive to holders, firstly since they may not have enough time to process the repo transaction and, secondly, the cost of processing the trade is likely to outweigh any income earned on the repo. The repo economics become even less viable if the trade is for smaller than median size (which for European corporate bonds is less than €1 million notional).

So, going back to our example, a safer assumption is that we cannot cover in the repo market and will have to fail for a day (economically the equivalent of a 0% repo rate). So, to adjust our price, we should calculate the pence equivalent of being short the (running) yield (5.72%) for a day while earning zero on our cash (since we will not receive this).

In addition, we will also need to price in any ancillary costs of failing, such as CSDR penalties.

Again, these costs will be passed on to the investor settling on T+1, who can also expect an increased probability of receiving their securities a day late.

Conclusion

So, based on this example, and the various considerations related to funding (and settlement fails), it seems reasonable to conclude that dealers may want to consider showing wider bid-offer quotes on a UK (T+1) venue than they would on an EU (T+2) venue for the same bond (and even wider again on Thursdays!). This, of course, will be to the disadvantage of UK based clients, who can expect worse pricing and higher fails than their EU peers – at least until the EU also moves to T+1.

But it also raises additional questions about whether all securities types and markets would benefit from shorter settlement cycles, particularly off-exchange, non-centrally cleared, less liquid instruments such as corporate bonds, particularly if the outcome is more fails, less liquidity, and higher costs for investors.

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A DvP settlement reform in China

On 26 December 2022, the China Securities Regulatory Commission (CSRC) implemented its delivery-versus-payment (DvP) reform on the country's securities settlement system for stocks and bonds, following a Financial System Stability Assessment (FSAP) 2017 report recommendation for China.

This followed a public consultation by the CSRC in January 2022 on the proposed revision of the Administrative Measures for Securities Registration and Settlement, which embodies the principle of DvP in an effort to bring the country's securities market more in line with international practices. The reform will keep existing practices unchanged, but use "tagging" to make securities delivery and funds payment mutually conditional and to clarify default disposal arrangements.

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ICMA Electronic Trading Working Group

The Electronic Trading Working Group (ETWG) was established in 2023 as a follow-up forum to the Electronic Trading Council, with the view of continuing its work as a specialist group, focusing on present technical and e-trading data and with the aim to take a more output-driven approach. As such, the ETWG held its first meeting in November 2023, where a few recent trends in electronic trading were presented, based on data provided by ICMA's H1 2023 Secondary Market Data Report. The presentation was followed by a discussion around recent trading protocols, with a focus on portfolio trading. Members are now invited to put forward their ideas for any topics which they think could be relevant for the ETWG's work in 2024. We would also like to invite members again to join the steering committee/advisory group which will be more actively involved in the generation of future projects. The next virtual meeting is planned for Q1 2024.

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ICMA Secondary Market Forum

On 17 November 2023, ICMA held its annual Secondary Market Forum. Hosted by ING at its impressive Amsterdam headquarters, the Forum brought together practitioners and stakeholders in the European and international bond secondary markets to discuss the most pertinent and pressing topics facing both sovereign and credit markets, as well to learn more about ICMA's extensive work in this area.

The Forum was opened by Bryan Pascoe, Chief Executive or ICMA, and Stephane Malrait, Global Head of Market Structure and Innovation for Financial Markets at ING. Following a scene-setting introduction by Christoph Rieger, Head of Rates and Credit Research, Commerzbank AG, a panel of experts discussed the outlook for sovereign bond markets. The panel concluded that liquidity in the sovereign bond markets is generally good, and that we should be careful not to conflate liquidity and volatility. The panel also identified challenges looking forward, with increased issuance, the absence of one of the biggest buyers (ie central banks), more volatility, and dealer balance sheet constraints.

In her keynote address, Tanya Pieters-Gorissen of the AFM set the scene for the next panels, highlighting three areas of market evolution, each bringing opportunities, but also risks: the growth of algorithmic trading, the prospect of a consolidated tape, and the emergence of new multilateral trading system.

The second panel was focused on the evolution of credit market structure. The panel explored what has remained the same in underlying market structure over the past 10-20 years, but also what has changed, with the turbocharged impact of innovation, new trading protocols, the role of ETFs, and the arrival of new entrants. The panel also looked at the drivers of innovation, noting that we still need to go further to address the liquidity challenge.

A third panel debated the question of whether increased bond market transparency in Europe helps or hinders liquidity. The panellists, representing both sell and buy-side firms, began by exploring what we mean by transparency, and how varying levels can lead to different outcomes. This included the difference between pre-trade and post-trade transparency, with a view that the former is more important for price discovery, as well as a recognition that there is a point at which the strong correlation between post-trade transparency and market liquidity breaks down, as dealers become too exposed and avoid taking risk onto their balance sheets. Looking forward, panellists felt that, while there was already a high level of transparency in the European bond markets, it would benefit from the introduction of a consolidated tape, and that the industry focus would be on the quality of data as much as the quantity.

Following a keynote talk on the role of Artificial Intelligence (AI) in the bond markets delivered by Alexis Besse, Managing Director, EMEA Fixed Income Quantitative Trading, Jefferies International, the Forum was wrapped up with concluding remarks from Janet Wilkinson, Managing Director, Head of Global Markets Flow Sales EMEA, RBC Capital Markets and Chair of the ICMA Board.

ICMA looks forward to releasing details of its 2024 Secondary Market Forum in the new year.

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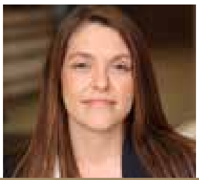
Repo and Collateral Markets






by **Andy Hill, Alexander Westphal, Deena Seoudy** and **Zhan Chen**

ICMA's Global Repo and Collateral Forum

On 9 November 2023, ICMA's Global Repo and Collateral Forum (GRCF) held the third of its regular virtual meetings. The meeting focused on regional developments in Europe and Asia, including recent and upcoming publications. On the European side, this included a preview of the key findings of ICMA's 45th European Repo Market Survey which was released after the meeting. From an Asian perspective, a representative of CCDC, the Chinese CSD, presented some highlights from a joint ICMA-CCDC White Paper on the international use of RMB collateral, an English version of which will be available in due course. Among other business, members also discussed the latest developments in the Japanese repo market.

One of the items on the agenda was a proposal for ICMA to develop best practices for repo specifically targeted at developing markets. This project will be advanced by a new GRCF working group dedicated to new and emerging repo markets. Members who would like to participate in the group are very welcome to join. Please email grcf@icmagroup.org to sign up to the GRCF distribution list and/or the new working group.

ICMA Guide to Asia Repo Markets: South Korea: On 8 November, ICMA published its *Guide to the South Korean Repo Market* (log-in details required). The report provides a comprehensive overview, including history and recent developments, the interbank market and exchange-traded repo, market infrastructure, products and trading dynamics, and the legal and regulatory framework. This is the sixth in a series of reports on Asian domestic repo markets that ICMA is publishing as part of its continued commitment to promoting the development of repo markets around the world. Guides to domestic repo markets in China, Japan, Indonesia, Vietnam and the Philippines were published in 2022.

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ICMA's European Repo and Collateral Council

On 6 December, the ICMA European Repo and Collateral Council (ERCC) held its 2023 Annual General Meeting in the beautiful surroundings of Painter's Hall in London. The afternoon event was well attended, despite train strikes in London, and featured some lively discussions. A first panel moderated by ERCC Senior Adviser Godfried DeVidts reflected on repo market trends, dynamics and catalysts from a front office perspective. This was followed by a second panel which focused on the important operational and post-trade challenges faced by the market, touching on ICMA's extensive work with members on settlement efficiency and the ongoing discussions around a potential move to T+1. Siegfried Ruhl, *Hors Classe* Advisor in the European Commission (DG Budget), joined us as keynote speaker to talk about EU bills and bonds. In addition, participants heard about the key findings of ICMA's 45th European Repo Market Survey and received updates on recent legal developments around the GMRA as well as the latest on the Common Domain Model project. An audio recording of the event will be made available to members.

ERCC Committee and elections: Just prior to the ERCC AGM, on 6 December, the ERCC Committee held its sixth and last meeting of 2023, hosted in the ICMA London office. The last meeting of the Committee in its current composition will be held in late January in Luxembourg in the margins of Deutsche Boerse's GFF Summit.

In the meantime, the process for the ERCC elections 2024 has been launched. As a first step, an e-mail was sent to all Named Repo Contacts on 7 December 2023 inviting each ERCC member firm to put forward a candidate for the upcoming elections by the deadline of 10 January. The actual (electronic) elections will be held in the second half of January with the aim of announcing the new Committee in early February just after the Luxembourg meeting.

Updated ERCC Guide to Best Practice published: On 2 November, the ERCC published an updated version of its flagship document, the *ERCC Guide to Best Practice in the European Repo Market*. Covering nearly 150 pages, the ERCC Guide provides detailed guidance, best practice recommendations, and clarifications that are intended to support the well-organized trading and settlement of repos. This latest document reflects 18 months of consultations with ERCC members, which led to updates in several key areas of best practice including:

- Interest claims and CSDR cash penalties.
- Compounding of floating repo rates.
- Repo re-rates.
- Ways of cleaning up accrued interest.
- Re-sizing repos.
- Late manufactured payments.
- Open, evergreen, extendable repos.

For ease of comparison, the Guide itself was published along with a blackline version which highlights all the latest changes, as well as a full list of material changes.

45th European Repo Market Survey published: On 20 December, the ERCC released the results of its 45th semi-annual survey of the European repo market. The survey measured and analysed the value of outstanding repo plus reverse repo on the books of 62 participants at close of business on 14 June 2023, excluding monetary policy repos with central banks. The total size of the survey grew 11.5% year-on-year to a record EUR10,794 billion, continuing a consistent upward trend initiated in 2016 by the ECB's Enhanced Asset Purchase Programme (EAPP) and the market's assimilation of post-global financial crisis (GFC) Basel regulations on capital, leverage and liquidity. The growth of the survey was driven by the flow of new cash into the repo market, attracted by higher interest rates and steeper yield curves in the money market and the protection offered by repo against credit and liquidity risk. However, there are signs of survey growth decelerating.

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EBA Q&A on LCR treatment of open reverse repos

In November 2023, ICMA again reached out to the EBA regarding members' concerns about the LCR treatment of open reverse repos in the EU.

By way of background, on 30 September 2022, the EBA published a Q&A [Question ID 2021-6163] in response to a question about the LCR treatment of open maturity reverse repos. The EBA has answered: "reverse repos with open maturity not formally called for within the 30-day horizon and contingent on the option for the reporting institution of the reverse-repo to trigger the liquidity inflow, shall not be considered as inflows in the LCR."

This conflicts with the general treatment of open SFTs as rolling short-term SFTs, based on the relevant notification period of the transaction (which in most cases is 24 or 48 hours, and which is the contractual right of both parties), and which is also consistent with previous EBA guidance.

The ERCC, anticipating such a possible interpretation of the Regulation, had previously written to the EBA and ECB in January 2022. The industry concern was that the likely outcome of this guidance would be for the market to switch to rolling short-term SFTs, in place of open trades, resulting in significant additional costs and operational inefficiencies for market users, with a likely increase in settlement fails, while having no impact on the overall LCR calculation.

In December 2022, ICMA discussed the industry concerns with the EBA. The EBA explained the rationale for its guidance, which is based on: (i) the assumption that, where a loan is subject to a call, under stressed conditions there is a risk that the lender may elect not to execute the option to recall the loan (eg for reputational reasons); and (ii) the fact the Regulation does not provide for any exceptions in the treatment of contingent inflows/outflows. The EBA further suggested that, where the reverse repo is against HQLA, the lending (reversing) party has the ability to include the HQLA in their LCR calculation, which could be seen as an advantage.

In February 2023, ICMA held a further call with the EBA, this time with ERCC members who were able to outline the industry concerns, particularly with respect to the operational implications and related risks that this will cause, particularly in the context of non-HQLA. Given that open-SFTs are widely used in financing dealers' trading positions in credit and EM, this is turn could have consequences for liquidity provision in these bond markets.

Following further discussion with members of its recently established ERCC Prudential Working Group, ICMA again wrote to the EBA on 28 September 2023. In its most recent letter ICMA highlights the contractual construct underpinning open reverse repos that is consistent with a short-dated reverse repo, as well as the divergence of the EBA's interpretation and treatment from that of other major jurisdictions. Again, ICMA emphasises that the most significant outcome of the Q&A is increased operational risk and cost, as well as certain SFT activity moving out of the EU.

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EMIR 3.0: repo clearing

In the context of the ongoing discussions in relation to EMIR 3.0, the ERCC had raised some concerns related to proposals floated in the European Parliament. The proposed amendments to the MMF Regulation (MMFR) and the UCITS Directive put forward in the context of the EMIR review were meant to remove barriers to buy-side repo clearing, but also threatened to further constrain funds' access to bilateral repo. Given the heavy reliance of funds on bilateral repo for funding purposes, this would have been highly problematic. Further to ERCC outreach on the topic, the proposals have now been modified in order to leave limits for bilateral repo unchanged while excluding CCP-cleared repo from those limits.

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SFTR reporting

On 23 October 2023, the FCA released the final versions of the UK SFTR Validation Rules and XML schemas. The changes to these rules will be applicable from 25 November 2024. In addition, the FCA also introduced a new UK SFTR Errors and Omissions Form. Going forward, the FCA requests that firms use this new form to notify any errors or omissions in their SFT reports under Article 4 of UK SFTR. Firms should notify as soon as practicably possible following identification of any errors and/or omissions with their UK SFTR reporting.

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Repo and sustainability

In November 2023, ICMA shared a preliminary market survey on sustainable repo with the members of its Repo and Sustainability Taskforce for review and feedback. The objective of the survey is to better understand the repo and sustainability market and its related current market practices, which will form the basis for exploring the potential need for future voluntary guidance. Members engaged in this topic were invited to provide comments on the draft survey by 1 December. All feedback received will be discussed at the next Taskforce meeting in January before the official survey launch.

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Global Master Repurchase Agreement updates

Annual legal opinion update: The 2024 ICMA Global Master Repurchase Agreement (GMRA) legal opinion update is well under way. We currently provide legal opinions in almost 70 jurisdictions, providing members with access to a substantive body of legal knowledge covering both the enforceability of the netting provisions of the GMRA as well as the validity of the GMRA as a whole. Following member feedback and requests, ICMA has commissioned an additional legal opinion for Kazakhstan, which we aim to publish alongside the 2024 legal opinion updates.

GMRA Master Confirmation Annex and Template Notices. ICMA was pleased to announce the publication of a new annex and templates to accompany the 2000 and 2011 versions of the GMRA on 14 December 2023. Developed by the ICMA Repo Legal Working Group, working with Linklaters, the following templates have been produced:

- Master Confirmation Annex.
- Mini Close-out Notice.
- Default Notice.
- Termination Notice.
- Amendment Agreement.

Exclusively available to ICMA members, the documents can be accessed here (login details required).

Developed following member feedback, the Master Confirmation Annex provides a standardised set of terms which can be used to document "non-standard" trade types, such as evergreens and extendables. We have also instructed counsel in 20 jurisdictions to cover the Master Confirmation Annex in their analysis for the 2024 legal opinion updates.

The template form of notices and agreements have been produced to provide a reference point for parties who have not otherwise developed their own. The use of these templates is not mandatory, and members may use and/or adapt them as they deem necessary.

If you would like to be an active participant in the Legal Working Group or have any questions on the legal updates, please do reach out to Deena Seoudy directly.

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Sustainable Finance

by **Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck, Ozgur Altun** and **Stanislav Egorov**



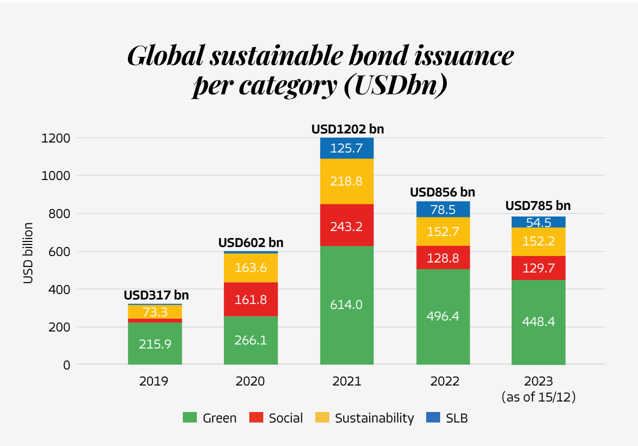


Summary

After reporting on sustainable bond market developments this quarter, we provide our take-aways from the recent COP28 meeting in the UAE. We otherwise highlight the update of the Guidance Handbook of the Principles and, separately, the announcement of an initiative to develop green sukuk guidance with ICMA support. We also cover the publication of the *Code of Conduct for ESG Ratings and Data Products Providers* now hosted by ICMA. We summarise our recent response to the European Commission's consultation on the Sustainable Finance Disclosure Regulation (SFDR) and discuss the release of the UK FCA's Sustainability Disclosure Requirements (SDR). Finally, we report on other significant regulatory initiatives internationally.

Sustainable bond market update

As of 15 December 2023, sustainable bond issuance reached USD785 billion, compared to USD826 billion over the same period in 2022, marking a 5% year-on-year decrease. Green bond issuance topped USD448 billion and accounted for 57% of the sustainable bond market in 2023. Sustainability bonds stood at USD152 billion (19% of the sustainable bond market), and social bonds at USD130 billion (17%), while sustainability-linked bonds contributed USD55 billion (7%).



Source: ICMA based on LGX DataHub data – as of 15 December 2023

SSA issuance reached USD341 billion and accounted for 43% of total sustainable bond issuance in 2023. Sovereign issuers from emerging markets were particularly active in Q4, with Brazil issuing its inaugural USD2 billion 7-year sustainability bond. In South America, other significant transactions included Colombia's first social bond sale, raising USD2.5 billion through issuance of USD1.25 billion 12-year and USD1.25 billion 30-year bonds. Argentina made its entry into the sustainable bond market with a USD125 million 1.5-year green bond. In the Middle East, new green bond issuers included UAE's sovereign wealth fund, Mubadala (USD750 million 10.5-year), and Istanbul Metropolitan Municipality issuing a USD715 million 5-year bond. Other sovereign issuers included Egypt selling its debut sustainability bond, CNY3.5 billion (USD479 million) 3-year, while Uzbekistan marked its entry into the green bond market by issuing a UZS4.25 trillion (USD348 million) 3-year bond.

Corporate issuance surpassed USD217 billion, representing 28% of the sustainable bond sales in 2023. Ericsson completed its first green bond issuance by issuing a EUR500 million 4.5-year bond, while Metso entered the sustainable bond market by selling a EUR300 million 7-year sustainability-linked bond. In addition, Valeo SE and H&M, which previously only issued sustainability-linked bonds, entered the green bond market by issuing EUR600 million 6-year and EUR500 million 8-year bonds respectively.

The year-to-date issuance from financial institutions exceeded USD227 billion. New green bond market entrants included

Bank Pekao issuing a EUR500 million 4-year bond and ASR Nederland completing a EUR600 million 5-year deal. On the social side, Impact Investing Exchange, a sustainable investment firm, issued a USD100 million 4-year bond targeting gender equality. Furthermore, Compagnie de Financement Foncier completed its inaugural social bond issuance, EUR500 million 5-year bond.

Take-aways from COP28

The latest annual Conference of the Parties, or COP28, took place in Dubai, UAE from 30 November-12 December 2023. This was the biggest COP ever, bringing together around 100,000 world leaders, delegates, negotiators, activists, journalists and observers on the vast former ExPo site. ICMA was represented by Nicholas Pfaff and Simone Utermarck (see box below for further details).

COP28 concluded the first Global Stocktake (GST), anchored in Article 14 of the Paris Agreement (PA), meant to take place every five years to assess the collective progress towards achieving the purpose of the Paris Agreement (implementation) and its long-term goals (ambition). The GST outcome is intended to inform the next round of nationally determined contributions (NDCs: efforts by each country to reduce national emissions and adapt to the impacts of climate change) to be put forward by 2025. The GST technical synthesis report released in September 2023 had highlighted the rapidly closing window to reduce emissions by 43% by 2030 compared to 2019 levels for a 50% chance to limit warming to 1.5°C above pre-industrial levels.

The PA recognizes finance, technology and capacity-building under its Articles 9, 10 and 11 respectively as critical levers for enabling climate action. As such, much of the programme, as well as many initiatives and significant announcements were related to those three topics:

Finance

As with other COPs, there was one Finance Day (4 December) but finance was also one of four cross-cutting themes with climate finance deemed the "great enabler for climate action", mainly on climate transition and adaptation. ICMA participated in several panels that discussed sustainable bonds such as green bonds, green sukuk and sustainability-linked bonds as instruments to raise climate transition finance. Related to green sukuk, ICMA also announced a new collaboration with the IsDB and LSEG (see box below). Moreover, following the publication of a practical guide for bonds to finance a sustainable blue economy in September 2023, ICMA had been invited to join a discussion on ocean finance and blue bonds (for further detail see box in next section).

Building on previous COPs, the Dubai conference already started off with a big announcement regarding "loss and damage". During COP26 a dedicated agency to work out a path forward had been established which at COP27 led to finally achieving an agreement to provide *"loss and damage"* funding for vulnerable countries hit hard by climate disasters. However, it had not been clear how the money should be provided and where it should come from until the breakthrough deal made on the first day of COP28 to operationalise the fund. Countries that have already committed almost USD800 million to the fund are: the United Arab Emirates, Germany, Italy, France, the US, Japan, Spain and Portugal. Other interesting announcements included:

- Multilateral development banks (MDBs) issued common principles for *nature-positive* finance. Signatories include the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), the African Development Bank (AfDB), the Asian Infrastructure Investment Bank (AIIB), the Caribbean Development Bank, the European Investment Bank (EIB), the Inter-American Investment Bank Group (IDB), the Islamic Development Bank (IsDB) and the World Bank Group.
- The Netherlands, joined by Austria, Belgium, Ireland, Spain, Finland, Antigua and Barbuda, Canada, France, Denmark, Costa Rica, and Luxembourg, launched an international coalition to phase out *fossil fuel subsidies.* The coalition commits to (i) transparency; (ii) identifying international barriers; and (iii) dialogue on national phase-out of fossil fuel subsidies.
- The United States, Canada, France, Japan, and the United Kingdom announced plans to mobilize USD4.2 billion in Government-led investments to develop a secure, reliable global nuclear energy supply chain. This will enhance uranium enrichment and conversion capacity over the next three years and establish a resilient global uranium supply market. Furthermore, 22 countries launched a declaration to triple nuclear energy capacity by 2050.
- The UK, France, World Bank, Inter-American Development Bank (IDB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD) and African Development Bank (AfDB) made new commitments to expand *Climate-Resilient Debt Clauses* (CRDCs) in their lending. In total, 73 countries joined a call to action for donors to expand the use of these clauses by 2025. (Note that ICMA in 2022 published new CRDCs to facility sovereign debt relief and financial stability).
- Independent carbon crediting standards such as Gold Standard, Verra and others announced a collaboration to increase the impact of activities under their standards and enhance transparency and consistency across the market.
- Gender Day, held on the same day as Finance Day, saw a new *Gender-Responsive Just Transitions & Climate Action Partnership* being unveiled, endorsed by over 60 parties. With a three-year package of measures, it seeks to address the disproportionate impact of climate-related job loss on women. Independently, the US Government announced USD1.4 billion in investments to the Women in the Sustainable Economy (WISE) Initiative, which Vice President Kamala Harris first launched at the APEC Economic Leaders' Summit in November, and which aims to improve women's access to employment, training, leadership roles, and financing in green and blue industries.

Technology

Technology and innovation, like finance, was also a cross-cutting theme. There were sessions on carbon capture and storage (CCS) and carbon capture utilisation and storage (CCUS), both of which could play an important role in addition to emissions reduction, through removing carbon from the atmosphere. However, they would need to be scaled up rapidly to be meaningful and should not be seen as a solution for removal of more than hard-to-abate residual emissions (also see IPCC report). Artificial intelligence was mentioned, among others, in an announcement by the UN Climate Change Technology Executive Committee (TEC), together with Enterprise Neurosystem, a non-profit open-source artificial intelligence (AI) community, about the launch of the AI Innovation Grand Challenge to identify and support the development of AI-powered solutions for climate action in developing countries. A practical example that could support the global methane pledge made at COP27 and expanded at COP28 is cutting-edge satellite technology which is already used to monitor methane leaks from space.

Capacity-building

COP28 featured a capacity-building hub and saw initiatives being launched such as the Global Capacity Building Coalition which, supported by Bloomberg Philanthropies and with the engagement of organisations including the UN, World Bank and other multilateral development banks, International Monetary Fund, International Sustainability Standards Board (ISSB), Network for Greening the Financial System (NGFS), Glasgow Financial Alliance for Net Zero (GFANZ), and UN Principles for Responsible Investment (PRI), aims to significantly increase the availability and effectiveness of climate finance technical assistance programmes for financial institutions in emerging markets and developing economies.

Another interesting launch was for the Capacity-building Alliance of Sustainable Investment (CASI), a platform initiated by China's Institute of Finance and Sustainability (IFS), with ICMA as one of several supporting parties, which will be used to deliver high-quality and higher-impact sustainable finance capacity building services to Emerging Markets and Developing Economies (EMDEs) through learning programmes expected to commence in 2024. Furthermore, the host country launched the Global Climate Finance Centre (GCFC), an independent, private-sector focused think tank and research hub, fostering innovation, convening stakeholders and providing capacity building for financial actors globally.

The final COP28 text agreed after days of negotiations had a mixed reception. The passage that received most attention was the one calling on parties to be: "Transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science". Relatedly, it also calls on countries to triple renewable energy production by 2030.

Although unfortunately COP again failed to call for a phase-out of fossil fuels, UN Climate Change Executive Secretary Simon Stiell in his closing speech seemed hopeful for positive change: "Whilst we didn't turn the page on the fossil fuel era in Dubai, this outcome is the beginning of the end. Now all governments and businesses need to turn these pledges into real-economy outcomes, without delay." Baku, Azerbaijan, has been chosen as the host of COP29.

ICMA at COP28

S ICMA was represented at COP28 in the United Arab Emirates by Nicholas Pfaff, Deputy CEO and Head of Sustainable Finance, and Simone Utermarck, Senior Director, Sustainable Finance. With the full schedule of conference engagements listed below, they spoke notably to the key role that the Principles play as the global standard for the sustainable bond markets, as well as to ICMA's other actions in support of sustainable finance.

2 December

- *How to Finance a Just Transition with Sustainable Bonds* – Simone Utermarck moderated a panel at FAB Pavilion, Green Zone, 4-5pm.

3 December

- Simone Utermarck signed a collaboration agreement on Green Sukuk Guidance with the Islamic Development Bank (IsDB) and London Stock Exchange Group (LSEG) at IsDB Pavilion, Blue Zone.
- *Climate Chain Coalition and Evercity Panel: Green Debt Innovation* - Simone Utermarck was a panellist at Digital Innovation Pavilion, Blue Zone, 1:30-2:30pm.

4 December (Finance Day)

- *Turbocharging Sustainable Finance and Capital Markets in MEA* – Nicholas Pfaff presented the collaboration agreement with IsDB and LSEG on Green Sukuk at COP28 Presidency Pavilion, Green Zone, 10-11am.
- *How to Make the Middle East a Hub for Sustainable Islamic Finance* – Simone Utermarck moderated a panel at FAB Pavilion, Green Zone, 12-1pm.
- *Closing the Climate Financing Gap: The Role of Green Sukuk* – Simone Utermarck moderated a panel at Islamic Development Bank (IsDB) Pavilion, Blue Zone, 2-3pm.
- *Green Sustainable Finance: New frontiers in Climate Action* – Simone Utermarck moderated a panel at State of Qatar Pavilion.
- *Embracing Green Capital Markets* – Nicholas Pfaff spoke on a panel at the Presidency Stage, Green Zone, 4:30-5:15pm.

5 December

- *Scaling Up Investment in Renewable Energy in Developing Economies* **–** Nicholas Pfaff spoke on a panel at ICC Partner Stage, ICC pavilion, Green Zone, 12-1pm.

8 December

- *Transitioning the Finance Sector* **–** Nicholas Pfaff moderated a panel at the World Climate Summit, Conrad Dubai, 11:20am-12:05pm.

9 December

- *Sustaining the Future of the Blue Economy* – Simone Utermarck spoke on a panel at the World Bank Pavilion, Blue Zone, 3-4pm.

Update of the Handbook of the Principles

The Executive Committee of the Principles with the support of ICMA published in November 2023 an updated edition of the Guidance Handbook. It is designed to be widely circulated and used in support of market development and integrity.

Since the original publication of the Green Bond Principles (GBP) in 2014, and the subsequent releases of the Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) in 2017, followed by the release of the Sustainability-Linked Bond Principles (SLBP) in 2020 (together, "the Principles") as well as the Climate Transition Finance Handbook in 2020, market participants have sought additional information on how to interpret this guidance especially for its practical application for transactions, as well as in the context of market developments and complementary initiatives.

In addition to an in-depth review of the past edition (January 2022), consisting of enhancing and adapting the drafting to the guidance published in 2022/23 (eg the Pre-issuance Check List for Green Bonds or the recently published guidance on impact reporting), the November release integrates the Q&As initially published on a stand-alone basis:

- Secured GSS Bonds (securitisation) – Chapter 3
- Sustainability-Linked Bonds – Chapter 4
- GSS Bonds related to pandemic or to support fragile and conflict states – Chapter 8

This edition also includes additional guidance on several topics:

- *Relabelling (1.18):* issuers are expected to demonstrate that appropriate processes for project evaluation and selection and management of proceeds were in place from the start.
- *Net Asset Value (2.1.12):* investors will typically expect issuers to allocate and report on amounts representing actual cash outflows and not the market value of assets.
- *Pure play companies (2.1.13 & 2.1.14):* issuers qualifying fund investments in pure plays and/or eligible projects as GSS Bond use of proceeds should ensure that their issuance follows all core components, and, where possible, key recommendations of the Principles.
- *Impact reporting (2.3.5):* the impact report should illustrate the expected green/social impact made possible as a result of projects to which GSS Bond proceeds have been allocated.
- *Social Bonds (2.3.9):* issuers should identify the target population(s) for which positive social outcomes are anticipated and include target population(s) in reporting wherever possible.

Industry collaboration to develop green sukuk guidance

On 3 December 2023 at COP28, ICMA signed a collaboration agreement with the Islamic Development Bank (IsDB) and the London Stock Exchange Group (LSEG) to develop green sukuk guidance. From January 2024, the three parties will work to develop a practitioners' guide on the issuance of sukuk (Islamic bonds) in line with the Green Bond Principles and Sustainability Bond Guidelines as published by ICMA. This will support the growth of green and sustainable finance within the global market for sukuk by providing issuers and other market participants with guidance on how it may be labelled as "Green" or "Sustainability" in line with the Principles through examples, case studies and best practice. The guidance will also help to improve investors' awareness of sukuk as an asset class in the global fixed income markets.

Code of Conduct for ESG Ratings and Data Products Providers

Following a report released by IOSCO in November 2021, in 2022 the FCA appointed ICMA and the International Regulatory Strategy Group (IRSG) to convene an industry group to develop a globally consistent voluntary Code under a joint Secretariat. The working group was chaired by M&G and Moody's with LSEG and Slaughter & May as vice chairs and brought together stakeholders such as ratings and data products providers, asset managers, asset owners, corporate rated entities, NGOs, academics and other organisations.

An initial draft of the Code had been published on 5 July 2023, which was then followed by a three-month consultation period that ended on 5 October 2023. Where and how feedback from consultation responses has been incorporated in the final Code, can be seen here.

On 14 December 2023, the final *Code of Conduct for ESG Ratings and Data Products Providers* was published. In line with recommendations by IOSCO, the Code focuses on promoting transparency, good governance, management of conflicts of interest, and strengthening systems and controls in the sector. As such, it is intended to be internationally interoperable and could be used by jurisdictions where no local Code or regulation is in place.

With publication of the final Code, ICMA has assumed ownership and will keep a list of providers who have signed up to the Code on the ICMA website. On 31 January 2024, a hybrid event will be held at the London Stock Exchange Group bringing together various stakeholders to discuss how the just released Code of Conduct will work in practice and in an international context (additional details to be provided on the ICMA website).

In parallel since 2022, we have seen several measures aimed at bringing more transparency to ESG ratings and data products, including legislative efforts or Codes of Conduct: notably in Japan, India, Singapore, South Korea, Taiwan and Hong Kong. The EU has proposed regulation focused on strengthening the reliability and transparency of ESG ratings and the UK is currently evaluating the potential of a future regulatory regime for ESG ratings providers.

In October 2023, sponsored by the Hong Kong Securities and Futures Commission (SFC), ICMA convened an industry group that aims to issue a draft Hong Kong voluntary Code for consultation in Q1 2024. Furthermore, ICMA will maintain a list of providers adopting the Singapore Code of Conduct, created by the Monetary Authority of Singapore (MAS), on the ICMA website.

Sustainable fund regulation

ICMA response to the European Commission's targeted consultation on the SFDR and related developments

On 13 December 2023, ICMA submitted its response to the European Commission's (EC) consultation on the Sustainable Finance Disclosure Regulation (SFDR). The feedback is given on behalf of ICMA and its constituents, especially the Asset Management & Investors Council (AMIC) and the Executive Committee of the Principles. Our cover letter and the full response to the Commission's questionnaire can be found here. In summary, we have made the following points:

- *Requirements of the SFDR:* While the SFDR's adoption has been positive, it currently fails to fulfil its primary objective of protecting investors and sufficiently channelling capital towards sustainability for various reasons, including use of disclosures as labelling, complexity and overload of disclosure requirements, data unavailability, lack of clarity and minimum standards in key regulatory concepts, etc. All these can lead to legal uncertainty, potential greenwashing, and reputational risks.
- *Interaction with other sustainable finance legislation:* While the Commission and the European Supervisory Agencies (ESAs) have recently provided various guidance on addressing inconsistencies between different pieces of legislation, there is still a need for further improvement and clarity.
- *Potential changes to disclosures:* Going forward, the disclosure requirements and templates should be shortened, streamlined and clarified, while being made proportionate and focused on material issues. Within these parameters, there is support for uniform disclosures across all products, regardless of the presence of sustainability claims. A uniform disclosure on funds' exposures to companies with transition plans aligned with ESRS, ISSB, and/or ICMA CTFH could create incentives for companies to voluntarily adopt transition plans and help advance the decarbonisation momentum across the economy including throughout value chains. Also, where possible, disclosures should leverage expected data from the application of international standards (eg ISSB) and recognise other existing taxonomies.
- *Potential establishment of a categorisation system:* Our members clearly and strongly support an EU official categorisation system. However, there are divergent views on how to achieve this. In any case, introduction of labels based on investment objectives and intentions should, to the extent possible, leverage the existing requirements and processes that have been resource intensive to implement. We note strong support for a transition-focused Category D. There is also support for Category A and B, but eventually international fragmentation should be avoided in labels' design. We do not support the exclusion-focused Category C. Also, while we do not propose any specific criteria for labels at this stage, we present in our response some high-level recommendations and principles to guide the process.

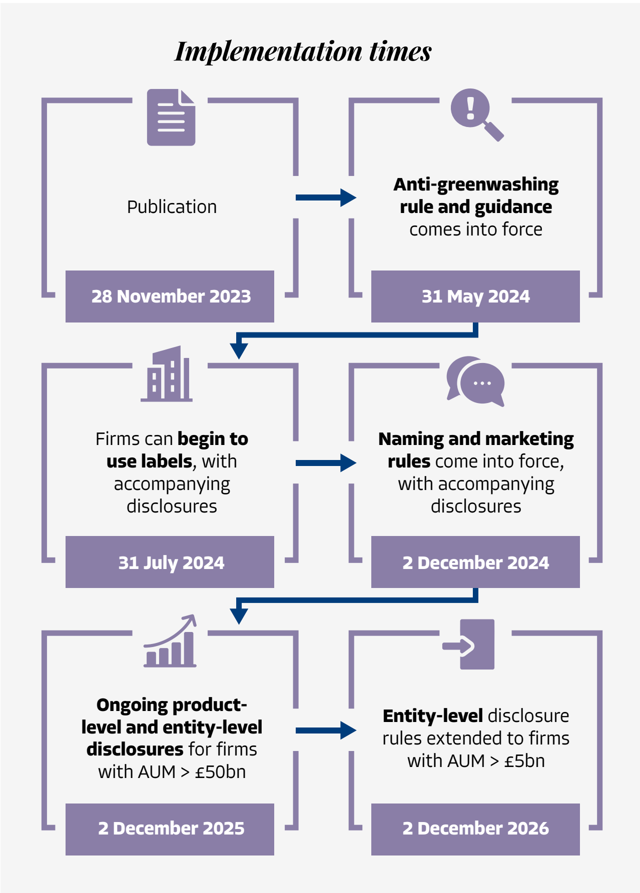
In parallel to the EC's SFDR consultation, there have been two other developments related to sustainability in the asset management industry:

- *ESAs' Final Report on draft SFDR Level 2 amendments:* On 4 December 2023, the ESAs released their Final Report proposing amendments to the Regulatory Technical Standards (RTS) under the SFDR Delegated Regulation (see previous ICMA consultation response). The ESAs' proposed amendments include: (i) changes to the PAI disclosures including an extension of social indicators; (ii) a new disclosure for products that have GHG emission reduction targets; (iii) improvements and simplifications to the pre-contractual and periodic disclosure templates, including a new dashboard; and (iv) other technical amendments including for the DNSH concept, the calculation of Sustainable Investments, the treatment of derivatives, and machine-readability. As next steps, the European Commission will study the draft RTS and decide whether to endorse them within three months.
- *ESMA update on guidelines for sustainability-related fund names:* ESMA expects to approve and publish its Guidelines in Q2 2024, subject to the timing of the publication of the AIFMD and UCITS Directive revised texts. ESMA's Public Statement also highlights some of the recent amendments introduced. Notably, the use of sustainability-related fund names would be subject to a minimum 80% of investments meeting the sustainability characteristics or objectives, the application of PAB exclusions, and meaningful investment in Sustainable Investments (instead of 50% threshold). There also specific rules for transition, social or governance, and impact-focused terms.

The UK FCA's Sustainability Disclosure Requirements and investment labels

In November 2023, the UK Financial Conduct Authority (FCA) introduced its final rules and guidance to help consumers navigate the market for sustainable investment products. The FCA's comprehensive package includes:

- an "anti-greenwashing" rule reinforcing that sustainability claims must be fair, clear and not misleading applicable to all authorised firms making sustainability claims. The FCA is currently consulting on the supporting guidance of this rule until 26 January 2024;
- naming and marketing rules for investment products ensuring the accuracy of sustainability terminology;
- four investment product labels, namely, "Sustainability Impact", "Sustainability Focus", "Sustainability Improvers", and "Sustainability Mixed Goals".
- consumer facing disclosures providing easily accessible information on products' key sustainability features;
- detailed pre-contractual and ongoing product level disclosures as well as entity-level disclosures; and,
- requirements for distributors.



Source: FCA

The use of the product labels introduced by the FCA are voluntary, but in the absence of labelling a product's name cannot include the terms "sustainable", "sustainability", "impact", and their variations in the retail context. Other sustainability terminology is not prohibited but triggers the same types of disclosures as with labelled products and a statement clarifying that the product does not use a label and explaining why. The use of labels introduced is underpinned by a set of general and label-specific criteria. The table below summarises these:

<table>
<tr><th>General criteria</th><th>Label specific criteria</th></tr>
<tr><td rowspan="4">• Sustainability objective: Labelled products must have a sustainability objective while firms need to identify and disclose whether the pursuit of such objective may result in material negative sustainability outcomes.
• Investment policy and strategy: Minimum 70% of assets to be invested in accordance with its sustainability objective, with reference to a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability.
• KPIs: Firms must identify KPIs to measure progress against the sustainability objective (these can measure the progress of the whole product or individual assets).
• Resources and governance: Appropriate resources, governance and organisational arrangements should be ensured to deliver on the sustainability objective.
• Stewardship: Firms must identify and disclose stewardship strategy (including expected actions and outcomes) and an escalation plan for assets not demonstrating sufficient progress.</td><td>Sustainability Focus: Minimum 70% of environmentally and/or socially sustainable assets (eg thematic funds)</td></tr>
<tr><td>Sustainability Improvers: Minimum 70% of assets with potential to improve environmental and/or social sustainability over time.</td></tr>
<tr><td>Sustainability Impact: (i) Minimum 70% in assets aiming to achieve a pre-defined positive measurable impact; (ii) specify a theory of change and a robust method for measuring and demonstrating impact of both firms' investments and products' assets.</td></tr>
<tr><td>Sustainability Mixed Goals: (i) Minimum 70% in assets in accordance with a combination of the sustainability objectives for the other labels above; (ii) disclosure of the proportion of assets compliant with other labels.</td></tr>
</table>

The FCA's labelling regime aims to strike a balance between a principles-based and prescriptive approach. Ultimately, specific asset selection criteria under each label are left to individual firms provided they use a robust, evidence-based standard by applying an external or proprietary methodology systematically. Examples include minimum % of environmental/social revenue or capex, taxonomy-based selection, GHG emissions profiles, etc.

Other regulatory developments

On 4 December 2023, IOSCO published a report called *Supervisory Practices to Address Greenwashing*. The report provides an overview of initiatives undertaken in various jurisdictions to address greenwashing and presents challenges hindering the implementation of IOSCO's earlier recommendations against greenwashing, including data gaps, transparency, quality, and reliability of ESG ratings, consistency in labelling and classification of sustainability-related products, evolving regulatory approaches, and capacity building needs. According to IOSCO, despite steps taken by both regulators and market participants, greenwashing remains a fundamental market conduct concern that poses risks to both investor protection and market integrity.

In Asia, we noted the following regulatory developments in the last quarter:

- In October 2023, the ASEAN Capital Markets Forum (ACMF) published guidance that addresses how entities may assess or demonstrate a credible transition in ASEAN to obtain financing from capital markets.
- The Monetary Authority of Singapore (MAS) launched in December 2023 the Singapore-Asia Taxonomy for Sustainable Finance – which sets out detailed thresholds and criteria for defining green and transition activities that contribute to climate change mitigation across eight focus sectors. Transition activities are comprehensively defined through a "traffic light system" (green-amber-red) and a "measures-based approach". The Taxonomy also provides a framework to phase out coal-fired power plants relying on a hybrid set of criteria at facility-, entity-, and energy-system levels, though this sits outside of the traffic light system.
- Besides the Taxonomy, MAS also announced its joint initiative with ADB and GEAPP to establish a blended finance partnership to accelerate energy transition at scale in Asia and the Transition Credits Coalition for the early retirement of coal-fired power plants alongside two pilot projects.
- MAS otherwise released the final version of its *Code of Conduct for ESG Rating and Data Product Providers* and an accompanying Checklist for providers to self-attest their compliance in December 2023.
- The Securities and Exchange Commission (SEC) of Philippines officially introduced also in December 2023 its framework for the issuance of blue bonds (see the *SEC Guidelines on Eligible Blue Projects and Activities for the Issuance of Blue Bonds*, released in September 2023).

In the EU, in addition to the developments on sustainability in the asset management industry, we would also like to highlight:

- *ESMA explanatory notes on key regulatory concepts:* In November 2023, ESMA released three papers covering the definition of Sustainable Investments, the application of "do no significant harm" (DNSH) requirements, and the use of estimates under EU sustainable finance regulations.
- *Corporate Sustainability Due Diligence Directive (CSDD Directive):* In December 2023, the European Council and the Parliament struck a deal on the CSDD Directive which sets obligations for large companies regarding actual and potential adverse impacts on human rights and the environment, with respect to their own operations, those of their subsidiaries, and those carried out by their business partners. The financial sector's downstream activities are temporarily excluded from the scope. Nevertheless, certain large EU and non-EU entities (including those from the financial sector) will have to adopt and put into effect, through best efforts, transition plans compatible with the 1.5C objective of the Paris Agreement".

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Sustainability-linked bond developments in China

by **Mandy Han**

S A *China Sustainability-Linked Bond Market*[1]

The National Association of Financial Market Institutional Investors (NAFMII) released a summary addressing questions about sustainability-linked bond issuance in the onshore China market in April 2021. The guideline referenced ICMA's Sustainability-Linked Bond Principles (SLBP), which shapes market developments with a set of definitions, qualification criteria for issuers, selection of Key Performance Indicators (KPIs), and Sustainability Performance Targets (SPTs). With regulatory support, the first batch of issuers launched onshore SLBs in May 2021. Among these eight issuers, five were central state-owned enterprises (SOEs) in the Electric Utilities industry.

Over the course of two years, 54 issuers tapped into the onshore SLB market. As of August 2023, the 79 onshore SLBs helped corporates raise a total of CNY88.6 billion (USD12.2 billion). While many of the deals were small, with an average size of CNY1.1 billion, State Grid Corporation of China successfully financed CNY8 billion through two tranches of sustainability-linked medium-term notes (MTNs), with cost savings from 16 basis points to 30 basis points lower than its normal MTNs. Over a quarter of the SLB issuers are from the Electric Utilities industry, followed by 16% from the Construction and Engineering industry, with KPIs varying substantially depending on the industries.

Most of the bonds are structured with a step-up clause, which only impacts the coupon rate for the last payment cycle. Over 50% of the outstanding onshore SLBs come with a 10 basis point coupon step-up clause; the rest of the public securities range from 5 to 50 basis points. Instead of coupon step-up, four SLBs are structured with early redemption triggers when issuers fail to meet the SPTs.

Challenges

The need for capacity building

The SLBP remains a relatively new framework for onshore investors and issuers in China. Capability building is required to foster SLB as the choice of financing vehicle. Instead of mandating the use of proceeds on environmentally friendly projects, SLBs incentivize a firm transition toward sustainable goals at the entity-level. To price an SLB, an investor would assess the issuer's likelihood of achieving the SPT, which requires domain knowledge. When dealing with a unique KPI, it can pose an extra challenge for analysis.

The challenges with structuring SLBs are evident in the pre- and post-issuance stages. In the pre-issuance stage, the lack of a platform providing peer

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1. Data Source: MioTech, China Foreign Exchange Trade System (CFETS), Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), iFinD.

group performance data puts DCM bankers and investors in a target-taker position in negotiating performance targets with issuers. In the post-issuance stage, periodic performance reporting and assurance review practices are primarily manual. Diversified KPIs, including project-specific ones, incur extra work for investors. Standardised KPIs, such as those proposed in the ICMA SLB KPI Registry, can help however to streamline the investment assessment process.

Most financial professionals and corporate CFOs are not climate or sustainability experts by training. To encourage the use of sustainability-linked instruments, it is necessary to invest in capability building. Industry organizations, bringing together financial practitioners and subject experts, can play a pivotal role in providing essential education and forming market norms. NGOs, industry organizations, and asset managers also disseminate knowledge by publishing research papers, which help shape best practices for SLBs.

Developments in data and IT infrastructure to promote efficiency

There is room for technical solutions to address challenges and improve cost efficiency while facilitating healthy market developments. An analytical platform that supports bankers in selecting proper KPIs, comparing issuers' performance with peers, and drafting bond structure will help comply with SLBP in practice, provide substance for target negotiation, and reduce the SLB learning curve for bankers. Implementing an IT infrastructure designed for SLB portfolio management can benefit bankers by providing them with the tools to monitor ongoing sustainability, facilitate performance reporting and documentation, and streamline assurance review processes. Such an enhanced system could ultimately increase efficiency and reduce overhead costs.

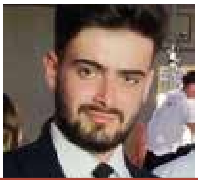
Narrow the dispersion between SLB maturity and project length

In the context of onshore SLBs, the average tenor is approximately 3.5 years, with certain bonds having as short as a 2-year tenor. This situation raises the question of how issuers are aiming to sequence the shorter maturity of these bonds with their longer-term net-zero strategy.

Issuers will likely adopt a phased approach. In that case, aligning the sustainability performance target of each milestone and evaluation period is necessary. Refinancing risk should also be considered and factored into the strategy of issuers.

Mandy Han is an ESG Methodology Specialist, MioTech. This article was prepared in September 2023.

FinTech and Digitalisation

by **Georgina Jarratt, Gabriel Callsen** and **Dimitrios Kletsas**

ICMA DLT Bonds Working Group

The objective of the Working Group is to foster scalable, efficient and liquid cross-border distributed ledger technology (DLT) bond markets. The latest quarterly meeting took place on 13 December 2023 and was attended by issuers, banks, investors, central banks, market infrastructures, law firms and technology providers. The purpose of the meeting was to take stock of progress by the group's different workstreams and discuss key issues.

Key deliverables include: (i) a report on *Considerations for Risk Factors and Disclosure in DLT Bond Offering Documents*, which was published on 21 November 2023; and (ii) a DLT extension of ICMA's Bond Data Taxonomy, to foster interoperability and further support issuance and trading of tokenised bonds, which is due to be published in Q1 2024.

To facilitate investor engagement on a wider scale, ICMA held a buy-side workshop on 30 November 2023 to foster dialogue between buy-side participants on opportunities and risks of digital assets and notably DLT-based securities in portfolio management, existing barriers and potential solutions.

Following ICMA's response to HM Treasury's consultation on a Digital Securities Sandbox (DSS) submitted on 22 August 2023, legal experts of the Working Group have engaged with HM Treasury, Bank of England and FCA to provide feedback for the legal review of the draft Statutory Instrument. The DSS Regulations were published on 18 December 2023 and entered into force on 8 January 2024.

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Bond Data Taxonomy

Following the release of the Bond Data Taxonomy (BDT) in early 2023, ICMA and its members have developed an extension of the BDT to further support issuance and trading of tokenised securities. As a reminder, the BDT provides a common language to represent key bond information in (i) a standardised and (ii) a machine-readable manner. The BDT covers information on debt securities typically found in the term sheet of a "vanilla" bond.

The DLT extension enables market participants and services providers to capture both standardised information, such as a DLT platform's Market Identifier Code (MIC), a ledger's Digital Token Identifier (DTI) or token standards such as ERC-20, as well as non-standardised information in relation to a DLT platform's accessibility rules (eg whether a private of public DLT network, and permission levels).

The purpose is to provide a framework for market stakeholders to exchange key information electronically during the lifecycle of a DLT bond from issuance, trading, settlement to distribution. While the key economic terms of the BDT remain unchanged, the DLT extension and general, minor enhancements are due to be released in BDT version 1.2.

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CDM for repo and bonds

Shortening settlement cycles, automating operationally cumbersome post-trade processes, forthcoming reporting requirements in the US for both securities lending and bilateral repos, as well as issuance and trading of tokenised securities will inevitably lead to further digitalisation and automation across capital markets. The Common Domain Model (CDM), which is open source and publicly available, can play an instrumental role for market stakeholders to lower implementation costs, avoid fragmentation and accelerate the development of new services.

Barclays' "RepoHack 2023", a hackathon held in September, brought together industry participants across the value chain of repo markets to explore how to leverage the CDM to streamline and improve repo post-trade processing. Use case challenges included bilateral trade settlement, cleared trade settlement, triparty custodian settlement and tokenised security settlement. A report, published on 8 December, can be found on the RepoHack 2023 event webpage. Recordings of the hackathon, including the teams' presentations, are available here.

Improving collateral management to help increase collateral mobility is a key feature of the CDM's capabilities. ICMA, together with ISDA, held meetings in Q4 and attended the FINOS Open Source in Finance Forum on 2 November in New York to demonstrate how to use the CDM with a focus on collateral eligibility. In particular, the demo highlighted how to align collateral eligibility rules according to firms' requirements across platforms, classify collateral consistently, as well as the CDM's embedded functions to verify whether collateral meets eligibility criteria.

In December, ICMA, ISDA, ISLA and FINOS announced the launch of CDM version 5.0, a production release. This marks the culmination of development releases from the second and third quarters of 2023 since the CDM was made an open-source project at FINOS in February 2023.

CDM 5.0 includes a number of enhancements, including the ability to define repo GC baskets with collateral eligibility criteria, a standardised format to disseminate securities available on loan, and expanded product coverage to exchange-traded derivatives, among others. Further details can be found here.

Further information on the CDM can be found here. To join ICMA's CDM Implementation Working Group or learn more, please get in touch.

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Eurosystem New Technologies for Wholesale Settlement Contact Group

The importance of interoperability and common standards in connection with tokenised securities and settlement in central bank money has been raised repeatedly at meetings of the Eurosystem's New Technologies for Wholesale Settlement Contact Group (NTW-CG). At the meeting on 15 November 2023, ICMA, together with ING, SWIFT and Fnality, was invited to give a presentation on interoperability and standards. The following focus areas for standardisation were identified: (i) asset definition; (ii) flow orchestration; and (iii) interoperability layers. The presentation can be found here (slides 40-60). In addition, participants presented various business cases for DLT.

On 13 December, the Eurosystem launched a call for expression of interest for trials with central bank money settlement and experiments with mock settlement in a test environment. Market stakeholders interested in participating in the trials and/or experiments between May 2024 and November 2024 are invited to respond to the relevant national central banks by 31 January 2024. Those wishing to join trials and/or experiments between July 2024 and November 2024 should respond by 30 April 2024. Further information, including service descriptions for the "Full DLT Interoperability" solution provided by Banque de France, the "TIPS Hash-Link" solution provided by Bank of Italy, and the "Trigger Solution" by Deutsche Bundesbank, can be found on the ECB's website.

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ICMA FinTech and Digitalisation Forum 2023

On 5 December 2023, ICMA held its annual FinTech and Digitalisation Forum in London. The event was attended by around 300 delegates and featured a mix of keynotes, panel discussions, fire-side chats and vendor showcases. Presentations and recordings of the event are available on ICMA's website.

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FinTech regulatory developments

HMT: Digital Securities Sandbox Regulations 2023

On 8 January 2024, the Statutory Instrument for the UK's Digital Securities Sandbox entered into force. The Regulations create the first Financial Market Infrastructure (FMI) sandbox, the "Digital Securities Sandbox (DSS)". The DSS will allow firms and the regulators to test the use of new technology across our financial markets. In particular, this will involve trialling the use of developing technology (such as distributed ledger technology, or in general technology that facilitates what are commonly referred to as "digital assets") to perform the activities of a central securities depository (specifically notary, settlement and maintenance), and operating a trading venue.

BCBS: consultation on targeted adjustments to its standard on banks' exposures to crypto-assets

On 14 December 2023, the BCBS published a consultative document to propose targeted adjustments to its standard on banks' exposures to crypto-assets. When the crypto-asset standard was published in December 2022, the Committee noted that certain issues would be subject to monitoring and review due to the rapid pace of market developments. Following reviews conducted during 2023, the Committee proposes to update the requirements relating to banks' exposures to stablecoins. The proposals flesh out the criteria on the composition of the reserve assets that back stablecoins, covering issues such as the credit quality, maturity and liquidity of the reserve assets. The requirements determine whether the stablecoins to which banks may be exposed will be eligible for inclusion in the Group 1b category of crypto-assets, and thus benefit from a preferential regulatory treatment. The deadline for responses is 28 March 2024.

EU: provisional agreement on AI Act

On 9 December 2023, the Council and European Parliament reached a provisional agreement on the proposal on harmonised rules on artificial intelligence (AI). The draft Regulation aims to ensure that AI systems placed on the European market and used in the EU are safe and respect fundamental rights and EU values. This landmark proposal also aims to stimulate investment and innovation on AI in Europe. To ensure that the definition of an AI system provides sufficiently clear criteria for distinguishing AI from simpler software systems, the compromise agreement aligns the definition with the approach proposed by the OECD. Amongst other aspects, the compromise agreement provides for a horizontal layer of protection, including a high-risk classification, to ensure that AI systems that are not likely to cause serious fundamental rights violations or other significant risks are not captured. AI systems presenting only limited risk would be subject to very light transparency obligations, for example disclosing that the content was AI-generated so users can make informed decisions on further use.

BIS: report on CBDC information security and operational risks to central banks

On 29 November, the BIS released a report on CBDC information security and operational risks to central banks. The report proposes an integrated risk-management framework that can be applied to the entire life cycle of a CBDC, from the research and design stages to implementation and operation. It discusses the implications of many of the design choices that a central bank needs to take and suggests tools and processes to identify and mitigate the risks that a CBDC poses to the issuing institution. For CBDCs to be a reliable means of payments, central banks also need to address, among others, the risks of interruptions or disruptions and ensure integrity and confidentiality. A key risk is the potential gap in central banks' internal capabilities and skills. While many of the CBDC-related activities could in principle be outsourced, doing so requires adequate capacity to select and supervise vendors.

EBA: guidance to AML/CFT supervisors of CASPs

On 27 November, the European Banking Authority (EBA) extended its risk-based anti-money laundering and countering the financing of terrorism (AML/CFT) supervision guidelines to AML/CFT supervisors of crypto-asset service providers (CASPs). The new guidelines set clear expectations of the steps supervisors should take to identify and manage money laundering and terrorism financing (ML/TF) risks in this sector and are an important step forward in the EU's fight against financial crime. The amendments include guidance on the sources of information competent authorities should consider when assessing ML/TF risks associated with CASPs. They highlight the importance of a consistent approach in setting supervisory expectations, where multiple competent authorities are responsible for the supervision of the same institutions. They also emphasise the importance of training so that staff from competent authorities have the technical skills and expertise necessary to carry out their roles.

IOSCO: policy recommendations for crypto and digital asset markets – final report

On 16 November, IOSCO published the final report of its policy recommendations for crypto and digital asset markets. IOSCO is issuing these 18 recommendations to help IOSCO members apply IOSCO's Objectives and Principles for Securities Regulation and relevant supporting IOSCO standards, recommendations, and good practices ("IOSCO Standards"), as appropriate, to crypto-asset activities within their jurisdictions and, in particular, to respond to widespread concerns regarding market integrity and investor protection within the crypto-asset markets. The 18 recommendations cover six key areas, consistent with IOSCO Standards: (i) conflicts of interest arising from vertical integration of activities and functions; (ii) market manipulation, insider trading and fraud; (iii) cross-border risks and regulatory co-operation; (iv) custody and client asset protection, (v) operational and technological risk; and (vi) retail access, suitability and distribution.

IMF: CBDC Virtual Handbook

On 15 November, the IMF released its CBDC Virtual Handbook. It is a reference guide for policy makers and experts at central banks and ministries of finance. It also serves as the basis for the IMF's engagement with country authorities and other stakeholders. It aims to collect and share knowledge, lessons, empirical findings, and frameworks to address policy makers' most frequently asked questions on CBDCs. As analysis grows, about five chapters every year will be added aiming to provide about 20 chapters by 2026. Moreover, chapters will be periodically updated, reflecting evolving views.

BIS, CPMI papers: "Will the real stablecoin please stand up?"

On 8 November 2023, the BIS released a paper titled: *Will the Real Stablecoin Please Stand Up?* The paper provides an overview of the evolution of the stablecoin market over the past decade and examines whether stablecoins have stayed true to their name in terms of being "stable". 68 stablecoins are studied and show that not one of them has been able to maintain parity with its peg at all times. This is irrespective of their size or type of backing. Moreover, it is argued that there is currently no guarantee that stablecoin issuers could redeem users' stablecoins in full and on demand. For these reasons, the conclusion is that the stablecoins in circulation today do not meet the key criteria for being a safe store of value and a trustworthy means of payment in the real economy. This paper also highlights some significant data gaps. Without further data on the uses and users of stablecoins, it is difficult to ascertain the risks of stablecoins to the smooth functioning of payment systems and financial stability more broadly.

IMF: technical assistance report on Peru's CBDC stakeholder engagement

On 3 November, the IMF released a Technical Assistance Report on *Peru's Central Bank Digital Currency (CBDC) Stakeholder Engagement*. The goal of the mission was to continue to support the Central Reserve Bank of Peru (BCRP) in its effort to research the conditions for success for a CBDC, as well as the role of various stakeholders. The IMF has been providing Technical Assistance to BCRP on the topic of CBDC since 2021. The initial TA mission supported the central bank during the first phase of the project, called the Preparation phase, which involved clarifying the context, key questions, and potential approaches to study a CBDC. The second phase of the BCRP's CBDC project, known as the Proof of Assumptions phase, started with the publication of a paper by the central bank, supported by the current mission. The white paper outlined the context, goals and challenges related to a potential CBDC in Peru. Consistent with recommendations from the first mission, the BCRP recognized the need to focus on an initial engagement with stakeholders, including representatives of the banking sector, payment service providers, and the Fintech and technology sector.

BIS Innovation Hub: update on Project mBridge – experimenting with a multi-CBDC platform for cross-border payments

On 31 October, the BIS Innovation Hub released an update on Project mBridge. The project experiments with a multiple-central bank digital currency (multi-CBDC) common platform for wholesale cross-border payments. It seeks to solve some of the key inefficiencies of cross-border payments, such as high costs, low speed and transparency, and operational complexities. At the same time, the project aims to safeguard currency sovereignty and monetary and financial stability for each participating jurisdiction, guided by the principles of "do no harm", compliance and interoperability. Project mBridge's platform is underpinned by custom-built distributed ledger technology (DLT), a set of comprehensive legal rulebook documents and a fit-for-purpose governance structure.

BIS CPMI report: considerations for the use of stablecoin arrangements in cross-border payments

On 31 October, the BIS Committee on Payments and Market Infrastructures (CPMI) published a report highlighting a range of considerations and challenges regarding the use of stablecoin arrangements in cross-border payments. The report first discusses key features of stablecoin arrangements that are relevant from the perspective of cross-border payments. Second, it highlights a range of relevant considerations and challenges. Third, it analyses how stablecoin arrangements might interact and coexist with other payment methods. Fourth, it evaluates the potential impact of their use on the monetary policy, financial stability and payment functions of central banks. Throughout the report it acknowledges the importance of jurisdictional differences regarding regulatory frameworks and macroeconomic conditions.

ECB: Eurosystem proceeds to next phase of digital euro project

On 18 October, the ECB announced that the next phase of the digital euro project – the preparation phase – will start on 1 November 2023 and will initially last two years. It will involve finalising the digital euro rulebook and selecting providers that could develop a digital euro platform and infrastructure. It will also include testing and experimentation to develop a digital euro that meets both the Eurosystem's requirements and user needs, for example in terms of user experience, privacy, financial inclusion and environmental footprint. The ECB will continue to engage with the public and all stakeholders during this phase. After two years, the Governing Council will decide whether to move to the next stage of preparations, to pave the way for the possible future issuance and roll-out of a digital euro.

BCBS: consultation on disclosure of banks' crypto-asset exposures

On 17 October 2023, the Basel Committee on Banking Supervision (BCBS) published a consultative document to follow on from its prudential standard on the treatment of crypto-asset exposures, finalised in December 2022. Disclosure of crypto-asset exposures proposes a standardised disclosure table and set of templates for banks' crypto-asset exposures with a proposed implementation date of 1 January 2025. Under the proposals, banks would be required to disclose qualitative information on their activities related to crypto-asset and quantitative information on exposures to crypto-asset and the related capital and liquidity requirements. Banks would also be required to provide details of the accounting classifications of their exposures to crypto-asset and crypto-liabilities. The Committee expects that a common format for disclosures will support the exercise of market discipline and help to reduce information asymmetry between banks and market participants. The Committee welcomes comments from the public and market participants, including the users and preparers of disclosures, on all aspects of the consultative document, by 31 January 2024.

ESMA: TRV risk analysis on decentralised finance – a categorisation of smart contracts

On 11 October 2023, ESMA published a TRV risk analysis on decentralised finance – a categorisation of smart contracts. First introduced on the Ethereum blockchain in 2015, smart contracts have become the backbone of decentralised finance (DeFi). Smart contracts are computer programmes stored on the blockchain and run when predetermined conditions are met. They are designed to facilitate financial transactions among blockchain users, without the need for trusted intermediaries that characterises traditional finance. Owing to their open-source nature, smart contracts have been claimed to be a major source of financial innovation. Nonetheless, they bring with them enormous technological complexity. Regulators and supervisors need to understand and monitor this complexity to systematically evaluate the risks to investors and financial stability stemming from DeFi.

BIS Innovation Hub: Project Mandala – shaping the future of cross-border payments compliance

On 5 October, BISIH Singapore Centre, the Reserve Bank of Australia (RBA), the Bank of Korea (BOK), the Central Bank of Malaysia (BNM), and the Monetary Authority of Singapore (MAS), with the collaboration of financial institutions launched Project Mandala – a proof-of-concept seeking to ease the policy and regulatory compliance burden by automating compliance procedures, providing real-time transaction monitoring and increasing transparency and visibility around country-specific policies. In doing so, it aims to address key challenges identified during Project Dunbar, which developed an experimental multiple central bank digital currency (mCBDC) platform. The envisioned compliance-by-design architecture could enable a more efficient cross-border transfer of any digital assets including CBDCs and tokenised deposits. It could also serve as the foundational compliance layer for legacy and nascent wholesale or retail payment systems.

ESMA: report on the DLT pilot regime – study on extraction of transaction data & on how financial instrument transactions are registered in various DLTs

On 5 October, ESMA published two reports on the DLT pilot regime: (i) study on extraction of transaction data & (ii) study on how financial instrument transactions are registered in various Distributed Ledger Technologies. The DLT Pilot Regime (DLTR) entered into force on 23 June 2022 and aims to foster innovation in the European Union's capital markets sector. It allows eligible firms to operate DLT market infrastructures to be used for trading and settlement purposes A survey conducted during the ESMA workshop on the DLTR on 31 March 2022, identified three main DLTs (Corda, Ethereum, and Hyperledger Fabric) that might be used by DLT market infrastructures. The three DLTs are analysed in this study with respect to transaction reporting.

BIS Innovation Hub: Project Mariana – cross-border exchange of wholesale CBDCs using automated market makers

On 28 September, the BIS Innovation Hub published a report on Project Mariana. The project explores how the future of FX trading and settlement could look in a world where central banks have issued central bank digital currencies (CBDCs) and financial market infrastructures include elements of decentralised finance (DeFi). The Mariana proof of concept demonstrates technical feasibility of so-called automated market-makers (AMMs) for cross-border trading and settlement of hypothetical Swiss franc, euro and Singapore dollar wholesale CBDCs (wCBDCs). It borrows ideas and concepts from DeFi and leverages a public blockchain to design and test a transnational FX interbank market using wCBDCs. Project Mariana is a collaboration between the BIS Innovation Hub, the Bank of France, the Monetary Authority of Singapore and the Swiss National Bank. The project is purely experimental and does not indicate that any of the involved central banks intend to issue CBDC or endorse DeFi or a particular technological solution.

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ICMA Capital Market Research

Considerations for Risk Factors and Disclosure in DLT Bond Offering Documents
Published: 21 November 2023
Author: Gabriel Callsen, ICMA

ICMA Guide to Asia Repo Markets: South Korea
Published: 8 November 2023
Author: Richard Comotto

Market Integrity and Greenwashing Risks in Sustainable Finance
Published: 10 October 2023
Authors: Nicholas Pfaff, Simone Utermarck, Ozgur Altun and Stanislav Egorov, ICMA

ICMA Report: European Secondary Bond Market Data (H1 2023)
Published: 27 September 2023
Authors: Simone Bruno, Andy Hill, Nina Suhaib-Wolf, ICMA (third semi-annual report, produced in collaboration with Propellant digital)

ICMA Report: European Secondary Bond Market Data (H2 2022)
Published: 25 April 2023
Author: Andy Hill, ICMA (second semi-annual report, produced in collaboration with Propellant digital)

ICMA Analysis: SFTR Public Data for Repo in 2022
Published: 31 March 2023
Author: Richard Comotto

The Asian International Bond Markets: Development and Trends (Third edition)
Published: 29 March 2023
Authors: Andy Hill, Mushtaq Kapasi, and Yanqing Jia, ICMA, with support from the Hong Kong Monetary Authority

ICMA ERCC Briefing Note: The European Repo Market at 2022 Year-end
Published: 26 January 2023
Author: Andy Hill, ICMA

White Paper on ESG Practices in China
Published: 10 January 2023
Author: Joint report by ICMA and the China Central Depository & Clearing Co Ltd (CCDC)

Observations and Categorisation Relating to Sustainability in the Repo Market
Published: 26 October 2022
Author: Zhan Chen, ICMA

ICMA Report: European Secondary Bond Market Data (H1 2022)
Published: 24 October 2022
Author: Andy Hill, ICMA (First semi-annual report, produced in collaboration with Propellant digital)

Frequently Asked Questions on DLT and blockchain in bond markets
Published: 22 September 2022
Author: Gabriel Callsen, ICMA

ICMA Strategy Paper: GMRA Clause Taxonomy & Library Project
Published: 25 May 2022
Authors: Lisa Cleary, ICMA, assisted by D2 Legal Technology (D2L)

ICMA Guide to Asia Repo Markets
Published: 3 May 2022 (latest chapter covering Vietnam)
Author: Richard Comotto

The Asian International Bond Markets: Development and Trends (Second edition)
Published: 24 March 2022
Authors: Andy Hill, Mushtaq Kapasi, and Yanqing Jia, ICMA, with support from the Hong Kong Monetary Authority

Ensuring the Usability of the EU Taxonomy
Published: 14 February 2022
Authors: Nicholas Pfaff and Ozgur Altun, ICMA

ICMA Events, Education and Training

Autumn events spotlight

During the autumn months we hosted a variety of global events, including the 7th Annual ICMA & JSDA Sustainable Bond Conference. Held in Tokyo, this conference covered international progress on policy and market support for transition finance, as well as the potential and the challenges of financing transition with sustainable bonds, including case studies in Japan.

This autumn also featured an IWN event in Dublin where a panel of professionals compared the worlds of financial services and sport, and an IWN event in Milan where the upcoming generation had the opportunity to ask questions of a panel of more seasoned professionals from the investment banking and corporate industry about their lived experiences, gained over the years in financial services.

The year concluded with a number of successful ICMA flagship events, including the Secondary Market Forum, European Primary Market Forum, AMIC Forum, FinTech & Digitalisation Forum and the European Repo and Collateral Council (ERCC) Annual General Meeting.

2024 events

ICMA's 2024 calendar will feature a number of global events focusing on key industry topics across primary, secondary, repo and collateral markets and asset management as well as our cross-cutting FinTech theme. 2024 will also feature the first ever ICMA Future Leaders and Women's Network joint event in London as well as a number of events that have sponsorship opportunities available. If you would like to be part of our next successful event, contact the sponsorship team: events@icmagroup.org

ICMA's forthcoming events

30 January 2024 **LONDON**	European Primary Bond Markets Regulation Conference
1 February 2024 **LONDON**	IFL & IWN: What does the future of work in finance look like?
28 February 2024 **LONDON**	CDM Showcase 2024
5 March 2024 **PARIS**	Artificial Intelligence & Debt Capital Markets
6 March 2024 **LONDON**	Japan Securities Summit

ICMA will be holding its 2024 Annual General Meeting (AGM) and Conference in Brussels.

The 2024 event will be the 56th edition of ICMA's flagship event which brings together its global membership. Last year's AGM in Paris attracted over 1,100 senior public sector officials, bankers and investors who are active in the cross-border bond markets, plus lawyers, academics and journalists, representing 427 institutions from 45 countries. We expect an even greater level of interest in 2024.

Many notable speakers have appeared at the event, including prime ministers, finance ministers and central bankers, and major industry figures. The 2024 programme will again feature a high-level line up, with insights on the current state and future prospects for capital markets, taking into account the geopolitical environment, focus on sustainability, regulatory change and FinTech developments.

Meet the international capital markets in Brussels at the 2024 ICMA AGM and Conference.

Sponsorship and exhibition opportunities

For the 2024 ICMA AGM, we have introduced a wider variety of sponsorship opportunities to include amongst others, private meeting and 'business lounges' to further facilitate your networking as well as more interactive exhibition ideas.

Download the 2024 ICMA AGM & Conference sponsorship pack **here**.

To discuss these sponsorship and exhibition opportunities or if you would like a more tailored option, please contact our Acting Head of Events, Ravina Patel.

The full 2024 Conference agenda will be announced in February 2024. Registrations will also open at this time. For speaking enquiries, please contact Managing Director, Membership & Communications, Allan Malvar.

ICMA Future Leaders (IFL)

The IFL is designed to benefit the younger generation of finance professionals in ICMA's membership, connecting them with the services and networking opportunities which can enhance their careers in debt capital markets. It is led by a steering committee of individuals to provide the Association with guidance and input on how ICMA can communicate with the rising generation of finance professionals, as well as ideas on events and initiatives.

The IFL has been responsible for a number of successful initiatives including the ICMA Mentoring Platform and the ICMA Podcasts. The mentoring platform today has over 568 mentees and 193 mentors signed up and it is available to employees of over 610 members in 67 jurisdictions, connecting professionals in the cross-border debt markets across regions. The ICMA Podcasts have also recently been nominated as one of the top 50 best capital market podcast channels. The IFL has an established a calendar of events across financial centres in Europe and Asia as well as a dedicated IFL newsletter.

There are still vacancies on the steering committee for representatives from the ICMA regions including for Asia Pacific, South Africa and West Africa. We welcome interested young professionals from members from these regions to apply.

Get involved now and be part of the IFL community! Contact: futureleaders@icmagroup.org

The ICMA Future Leaders Committee Representatives

AUSTRIA
Alexander Schierlinger
OeKB

Katsiaryna Souvandjiev
Raiffeisen Bank International AG

BELGIUM
Sébastien Van Campenhoudt
Euroclear

FRANCE
Grégoire Denoy
Natixis Investment Managers

Charles Tissier
Addleshaw Goddard (Europe) LLP

GERMANY
Hendrik Kuhne
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IBERIA
Carlos Soler Martín
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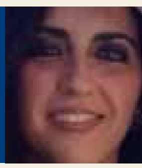

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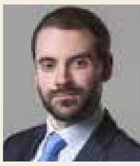

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ICMA Education & Training

Amazing learning opportunities with ICMA Education & Training

Financial Market Foundations

The perfect place to start when learning about how the various components of the capital markets operate.

Debt Capital Markets

Our courses on primary debt markets reflect ICMA's extensive work and expertise in this area, providing best market practice and the latest regulatory developments.

Fixed Income Trading & Strategies

With our flagship Fixed Income Certificate (FIC) at the centre of our fixed income secondary markets portfolio, these courses reflect ICMA's work with members and the broader industry to provide data, analysis, and insights on secondary bond markets

Financial Market Operations

Our operations courses examine the securities trade lifecycle and other related products from an operational perspective.

Repo & Collateral

Our courses in repo and collateral markets reflect ICMA's extensive work and expertise in this area, providing the latest information on regulatory and market practice changes.

Sustainable Finance

As Secretariat of the Principles - the leading framework globally for issuance of green, social and sustainability bonds – ICMA is a global leader in sustainable debt training, shaping market understanding in this critical topic

Financial Technology

Our fintech courses look at how technology is impacting the capital markets in a myriad of ways, from syndicated bond issuance to the evolution of digital assets and much more.

Dubai Courses

ICMA is proud to partner with the United Arab Emirates Financial Market Association to support the professional development of capital market participants through a series of classroom-based training courses in Dubai.

Glossary

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AI	Artificial intelligence
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
AMI-SeCo	Advisory Group on Market Infrastructure for Securities and Collateral
APA	Approved publication arrangements
APP	ECB Asset Purchase Programme
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BMR	EU Benchmarks Regulation
bp	Basis points
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBDC	Central Bank Digital Currency
CBIC	ICMA Covered Bond Investor Council
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDM	Common Domain Model
CDS	Credit default swap
CIF	ICMA Corporate Issuer Forum
CMU	EU Capital Markets Union
CoCo	Contingent convertible
COREPER	Committee of Permanent Representatives (in the EU)
CPC	ICMA Commercial Paper Committee
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payments and Settlement Systems
CRA	Credit rating agency
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
CSPP	Corporate Sector Purchase Programme
CSRD	Corporate Sustainability Reporting Directive
CT	Consolidated tape
DCM	Debt Capital Markets
DEI	Diversity, equity and inclusion
DLT	Distributed ledger technology
DMO	Debt Management Office
DNSH	Do no significant harm
DvP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
EC	European Commission
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
EDDI	European Distribution of Debt Instruments
EDGAR	US Electronic Data Gathering, Analysis and Retrieval
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFC	Economic and Financial Committee (of the EU)
EFTA	European Free Trade Area
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMDE	Emerging market and developing economies
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
ESAP	European single access point
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	Environmental, social and governance
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
ETP	Electronic trading platform
€STR	Euro Short-Term Rate
ETD	Exchange-traded derivatives
EURIBOR	Euro Interbank Offered Rate
Eurosystem	ECB and participating national central banks in the euro area
FAQ	Frequently Asked Question
FASB	Financial Accounting Standards Board
FCA	UK Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FICC	Fixed income, currency and commodity markets
FIIF	ICMA Financial Institution Issuer Forum
FMI	Financial market infrastructure
FMSB	Financial Markets Standards Board
FPC	UK Financial Policy Committee
FRN	Floating rate note
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FSC	Financial Services Committee (of the EU)
FSOC	Financial Stability Oversight Council (of the US)
FTT	Financial Transaction Tax
G20	Group of Twenty
GBP	Green Bond Principles
GDP	Gross Domestic Product
GFMA	Global Financial Markets Association
GHOS	Group of Central Bank Governors and Heads of Supervision
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
HKMA	Hong Kong Monetary Authority
HMRC	HM Revenue and Customs
HMT	HM Treasury
HQLA	High Quality Liquid Assets
HY	High yield
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositories
IFRS	International Financial Reporting Standards
IG	Investment grade
IIF	Institute of International Finance
IMMFA	International Money Market Funds Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
ISSB	International Sustainability Standards Board
ITS	Implementing Technical Standards
KID	Key information document
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio (or Requirement)
L&DC	ICMA Legal & Documentation Committee
LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
LTRO	Longer-Term Refinancing Operation
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II/R	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
ML	Machine learning
MMF	Money market fund
MOU	Memorandum of Understanding
MREL	Minimum requirement for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NAFMII	National Association of Financial Market Institutional Investors
NAV	Net asset value
NBFI	Non-bank financial intermediary
NCA	National competent authority
NCB	National central bank
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio (or Requirement)
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
OTC	Over-the-counter
OTF	Organised Trading Facility
PBOC	People's Bank of China
PCS	Prime Collateralised Securities
PEPP	Pandemic Emergency Purchase Programme
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RFRs	Near risk-free reference rates
RM	Regulated Market
RMB	Chinese renminbi
RMO	Recognised Market Operator (in Singapore)
RPC	ICMA Regulatory Policy Committee
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted asset
SBBS	Sovereign bond-backed securities
SEC	US Securities and Exchange Commission
SFC	Securities and Futures Commission
SFDR	Sustainable Finance Disclosure Regulation
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Statutory Instrument
SLB	Sustainability-Linked Bond
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SARON	Swiss Average Rate Overnight
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
STS	Simple, transparent and standardised
T+1	Trade date plus one business day
T2S	TARGET2-Securities
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TONA	Tokyo Overnight Average rate
TR	Trade repository
VNAV	Variable net asset value

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