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News from the International Capital Market Association (ICMA)

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New report from ICMA shows European bond markets still waiting to experience the benefits of MiFID II implementation

The International Capital Market Association (ICMA) has today published a report on the impacts and challenges of MiFID II/R for the international bond market in the year since the implementation date.

The introduction of the second Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR) on 3 January 2018 was flagged as the most significant development to impact European bond markets in memory, with new requirements affecting everything from how new issues are marketed, to transaction reporting, trade transparency, secondary market structure, evidencing best execution, and even how fixed income research is distributed and consumed. Despite anxiety in the market in the lead-up to implementation about how the new rules should be interpreted and implemented, in the first weeks of January 2018 it became clear that for European bond markets it was business as usual, and the market continued to function with little or no visible impact on liquidity.

This report, which draws on input from ICMA's diverse membership who are active in the European securities markets, is intended to provide an overview of the first year of MiFID II/R from the perspective of bond markets, covering primary market issuance, secondary market trading, and research distribution and consumption.

The main conclusion of the report is that, while the European bond markets continue to function, MiFID II/R is yet to deliver on its objectives of improved investor protection, greater transparency, and a more competitive landscape.

Martin Scheck, Chief Executive of ICMA said: "Despite the resource commitment to meet the obligations of MiFID/R, our members, both buy and sell-side, are not yet seeing the benefits of this regulation although they do understand that it will take time for the many challenges to be addressed and for benefits to accrue. Data quality and accessibility were cited as particular concerns. ICMA and others continue to work with the authorities and market participants to help harmonise approaches and improve the effectiveness of the regulation."

Download MiFID II/R and the bond markets: the first year

Primary markets: Obligations regarding allocation justification recording, and disclosures of cost and charges have had little substantive impact other than an additional administrative burden. The interplay of the product governance and the PRIIPs regimes for capital market participants have proved challenging to implement. The introduction of these regimes has been followed by a marked drop in low-denomination bond issuance, limiting the investment possibilities for retail investors.

Secondary markets: One of the objectives of MiFID II/R was to encourage more trading on regulated venues rather than in the OTC market, and there is evidence that this has been the case. Liquidity and market functioning appear to have been maintained in the wake of the regulation. However, there are ongoing issues, particularly with respect to the transparency regime and the accessibility and quality of pre- and post-trade data. While it is accepted that this will improve over time, the implementation of MiFID II/R seems to have missed an opportunity to provide a utility based consolidated tape for fixed income.

FICC research: Many firms are finding it difficult to decide what research needs to be paid for, and there still seems to be a need for further regulatory guidance in this respect. While the number of research providers used by firms has decreased, most feel that the overall quality of research has remained unchanged, although views on the availability and breadth of SME focused research is more mixed. In the main, firms do not seem overly concerned that the reduction in accessible research has had or will have a negative impact on investment performance.

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International Capital Market Association (ICMA)

ICMA is the trade association for the international capital market with over 550 member firms from 62 countries, including issuers, banks, asset managers, central banks, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to help to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market.

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