AMIC
The buy side voice of ICMA

AMIC Review

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Also:
- **The impact of negative yields**
- **A cash bond consolidated tape**
- **The transition from LIBOR**
- **SFTR implementation**

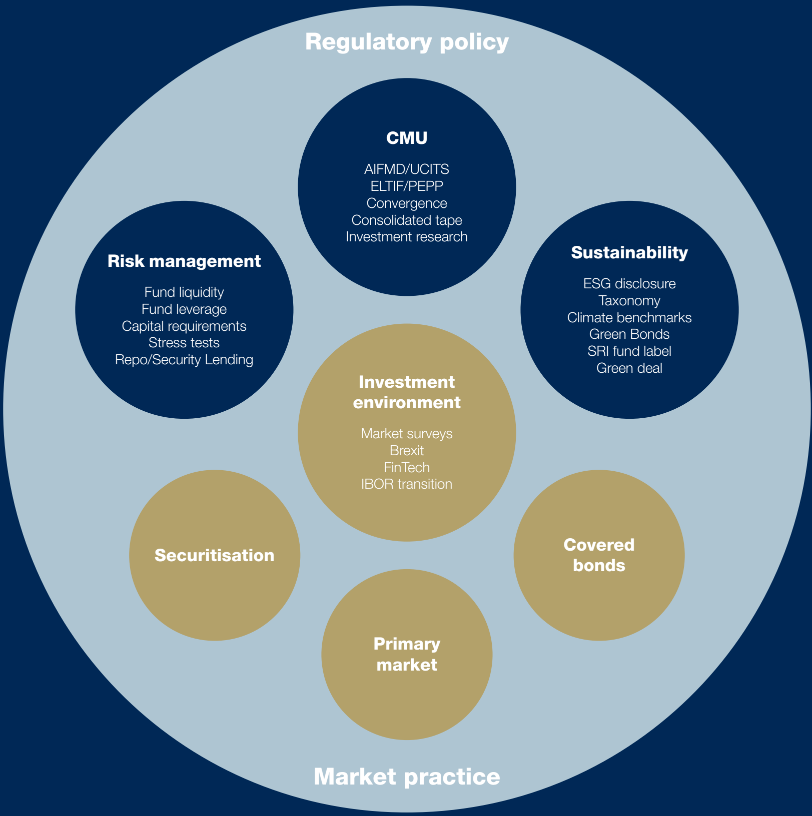
Welcome

We are very pleased to welcome readers to the fourth edition of the AMIC Review. The purpose of this Review is to highlight the role of the buy-side community within ICMA, to remind readers of the objectives and priorities of the Asset Management and Investors Council (AMIC) and to outline the work of its working groups, alongside some topics of pertinence for the AMIC.

ICMA is one of the few trade associations with a European focus that has both buy-side and sell-side representation. In order to better pursue its objective, to promote resilient well-functioning international and globally coherent cross-border debt securities markets, ICMA had to expand its membership and voice to be able to represent the whole market and hence embraced a segment of the market which was rapidly growing in importance – the buy-side. AMIC was set up in 2008 for this purpose. While AMIC is the only independent voice for the buy-side within ICMA, the broader ICMA activities are also open to buy-side participation and this is today integral to many of them.

AMIC priorities

The following diagram illustrates current AMIC priorities, which also underscore the content of this Review. ■



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Fund liquidity risk management

– the need for AMIC to take into account a new environment?

Stéphane Janin,

Head of Global Regulatory Development, AXA Investment Managers, Vice-Chair of AMIC and Chair of the AMIC Risk Management Working Group

Introduction

Since 2015, the Asset Management and Investors Council (AMIC), has been very active to tackle the topic of fund liquidity risk management and the potential mismatches which might arise between the liquidity of fund assets and the liquidity of investors' fund shares. It is indeed critical for fund managers to prevent as far as possible such mismatches from happening, and in case of occurrence that fund liquidity risk management tools allow for managing them.

In April 2016, AMIC published an educational paper on managing fund liquidity risk in Europe, co-signed by the European Fund and Asset Management Association (EFAMA), which stressed to regulators that from an EU perspective the regulatory requirements of the AIFM and UCITS Directives regarding fund liquidity risk management in general were already solid but that some specific liquidity management tools (such as swing pricing, anti-dilution levies and gates) were not yet available in all European national jurisdictions and that ESMA could contribute to spread the use of such tools over Europe – to make the EU Single Market even more efficient and safe, to the benefit of investors.

This pro-active and constructive educational approach of AMIC was very well received by regulators, and appeared as a significant contribution to the International Organization of Securities Commissions (IOSCO) in the elaboration of its final report on fund liquidity risk management, embedding recommendations and good practices to improve liquidity risk management for investment funds, issued on 1 February 2018. In that report, IOSCO referred to many provisions already included either in European legislation or national liquidity management tools of some member states, which had been particularly highlighted by AMIC in its education paper of 2016.

In a complementary manner, in January 2019, AMIC, still jointly with EFAMA, issued a second paper on fund liquidity, regarding specifically fund liquidity stress-tests, to contribute to the EU regulatory reflections launched by ESMA in that area.

The new context

Both market events and new regulatory developments occurred in Europe since the publication of the initial AMIC EFAMA fund liquidity risk management paper in 2016. Due to these events and developments, and considering the credibility acquired by AMIC along with EFAMA in the content and constructive proposals embedded in their 2016 report, the AMIC Executive Committee along with EFAMA's Board of Directors decided in 2019 to update that report – in order to get it adjusted to that new context without repealing the previous contribution proposed in 2016.

Regarding market events having occurred since 2016, it appeared that at least three events related to investment funds have to be taken into account. First, the Woodford case in the United Kingdom generated a lot of wondering - including at political level - about the regulatory environment (at the level of the regulation itself as well as at the level of the regulator) in which the difficulties encountered by that fund and the damaging consequences for investors had happened. Second, still in the UK, the H2O case raised additional concerns. In Switzerland, the GAM case enlarged that case-based preoccupation about the way European investment funds are – and should – be regulated and monitored.

In parallel, recent developments coming from regulators themselves, at EU and worldwide levels, have also to be noticed. First, in September 2019, ESMA published its final report on fund liquidity stress-tests for investment funds, being either UCITS or AIFs. Second, a few months before, IOSCO had communicated on its decision to assess as early as 2020 the compliance by local regulators with the IOSCO recommendations on fund liquidity risk management issued in 2018.

Conclusion

Based on this new market and regulatory context of 2019, The AMIC Executive Committee has mandated its AMIC Risk Management Working Group (formerly known as the AMIC Fund Liquidity Working Group) to examine and prepare an update of the 2016 educational paper.

The objective is to proceed rapidly on that topic, not only because of some political dimension which has developed around it in some countries, but also because ensuring that the fund industry itself is able to be constructive and in positive dialogue with regulators is critical. ■

The impact of negative bond yields on investor behaviour

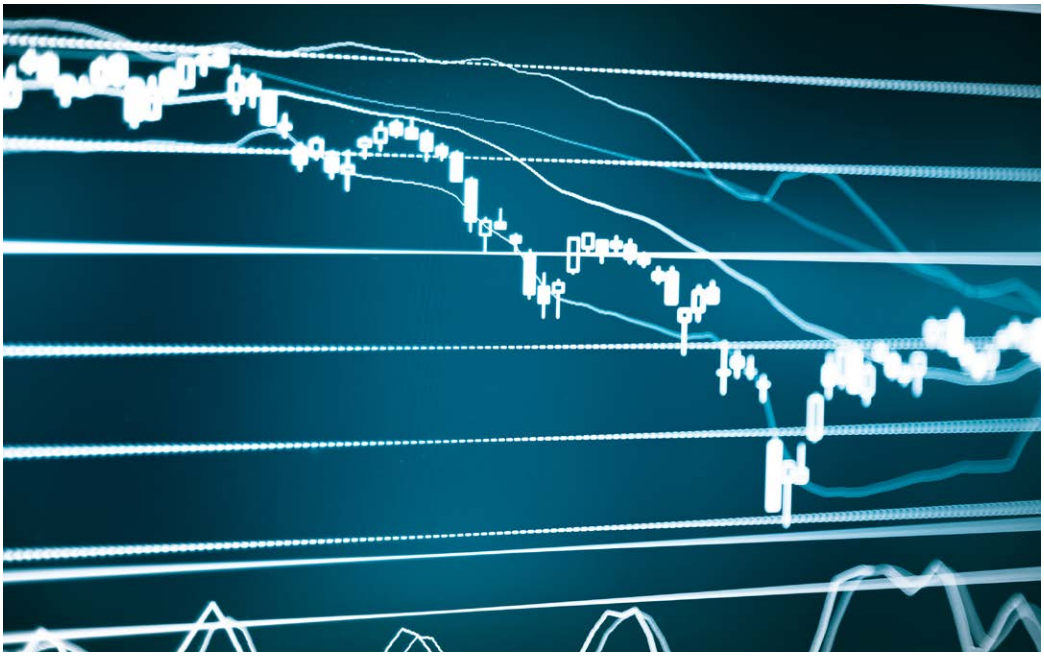
Robert Parker,

Chair of the Asset Management and Investors Council (AMIC)

At the beginning of 2019, the volume of bonds with negative yields was approximately US$ 6 trillion, but during the third quarter of 2019 this figure approached US$ 17 trillion. Apart from understanding why this unprecedented situation has occurred, investors are asking whether it can persist, how they should change their investment strategies and what is the impact on the global economy.

10-year Japanese Government bond yields were negative for most of 2016, but then until late 2018 traded in a range of zero to 20 bps, before trending lower in 2019 and at one stage were at minus 25 bps. In Europe, 10-year Swiss Government bond yields have largely been negative since 2015 and in August 2019 reached -125 bps. Ten-year Bund yields were temporarily negative in 2016, but then from April 2019 have trended into negative territory and in August reached -70 bps. A number of other European Government bond markets have followed the Bund market with the French, Dutch, Swedish and Danish markets all offering negative yields across most of their yield curves. Except for Italy, the UK and Norway, the bulk of European bond yields out to 5-year maturities were negative during the third quarter of 2019. Although nominal yields in Australia, Canada and the US were positive, in real terms, yields were either negative or close to zero.

There is no single factor that can be attributed to this unprecedented situation in global bond markets. However, it is notable that the increase in negative yields coincided with the change in monetary policy by the Federal Reserve, which in contrast to 2018, when the Federal Funds Rate was progressive increased, started to cut interest rates. In addition, having carried out quantitative tightening in late 2017 and 2018, the Federal Reserve stabilised its balance sheet around US$ 3.8 trillion and more recently has started a programme of injecting liquidity into the repo markets. The Bank of Japan has consistently followed its easy monetary policy and in 2019 its balance sheet exceeded 100% of Japanese GDP, with it owning over 45% of the JGB market while simultaneously being the largest owner of Japanese equity ETFs. Although the ECB ended its quantitative easing (QE) programme at the end of 2018, its balance sheet has slowly increased in 2019 with a further reduction in deposit rates in September, an expansion in lending to banks in the Eurozone and the announcement that QE would recommence in November 2019. The Swiss National Bank balance sheet exceeded 100% of Swiss GDP in 2016 and is now close to 120% of GDP, largely due to the SNB's efforts to prevent an untoward appreciation of the Swiss Franc.



Apart from Central Bank activity in cutting interest rates, lending to the banking system and QE programmes, three other factors are relevant in driving yields into negative territory, viz. low inflationary expectations, fears of recession or a period of below average growth, and hedging against perceived geopolitical risks. Inflation has trended lower; in September the consumer prices indices showed year-on-year increases of 1.7% for the US, 0.8% for the Eurozone and 0.3% for Japan, all well below the stated objectives of the relevant Central Banks. Inflation has notably decreased over the last six months in the Eurozone and Japan, while despite a relatively tight labour market upward pressures on inflation have dissipated in the US. Inflationary expectations are subdued. Although the service sectors and consumption have generally held up in most economies, activity data, investment spending and exports have weakened in 2019. In the second quarter, annualised growth in the US was a subdued 2% while year-on-year figures for the Eurozone and Japan were 1.2% and 1% respectively. For the second quarter German growth contracted.

The New York Federal Reserve recession risk monitor has seen a jump in the last three months with a projected risk of recession over the next year well above 30%, ie similar levels in the model to those that were seen in 2007. Most countries have manufacturing purchasing manager surveys less than 50 and in the few cases of surveys over 50 the margin for expansion is limited. Surveys of investor behaviour have consistently shown that investors are concerned over the impact of the US/China trade conflict, the risks of trade conflicts developing between other blocs or countries and significantly, concerns, over the decreasing effectiveness of monetary policies. Geopolitical risks have also resulted in investors switching increasingly into perceived safe havens of Government bond markets. Risk factors have been the potential escalation in trade conflicts, tension in the Middle East and the expansion of populist politics in a number of countries. It is significant that in July and August surveys showed that the most crowded trades or investments by fund managers were in the US Treasury market, while long gold positions have progressively been built up.

While economic circumstances are different from the last two major recessions in 2000/02 and 2007/09, there is reasonable evidence, at least for the next two to three years, that further declines in unemployment will not occur, that investment spending will be subdued, and that, although trade tensions may diminish, the damage to global supply chains over the last two years has been significant and is at least partly irreversible, thereby constraining trade growth, manufacturing activity and investment spending. Consensus figures for the next three years show approximate growth forecasts of 2% per year for the US with corresponding forecasts of 1.5% for the Eurozone and less than 1% for Japan, with forecasts for Chinese growth significantly trending lower into a range of 5.5 - 6% per annum. Likewise, inflation is expected to stay subdued, at less than 2% in the US, approximately 1.5% in the Eurozone and less than 1% in Japan, with no evident upturn in inflation in emerging economies. Consequently, Central Bank monetary policies are likely to remain easy with official interest rates either at current levels or lower. QE programmes or variants of them are likely to remain intact or in certain cases expanded. Therefore, although in the third quarter of 2019 the extent of negative bond yields arguably reached extreme levels, a significant upturn in yields at least in the remainder of 2019 and in 2020 is unlikely, with investors being forced to operate in a negative or low yield environment.

Investors have reacted to low and negative bond yields by pursuing a number of different strategies. There has clearly been a significant switch into the traded loan markets, typically on a floating rate basis or in short duration paper. Investment managers have been forced to increase their resources in credit analysis to support this increased level of activity. One feature of capital markets has been the high level of equity dividends relative to bond yields and although equity markets reversed in 2018, in 2019 and probably in forthcoming years investors will focus on high dividend paying stocks. There has also been an increased allocation to illiquid asset classes such as infrastructure, real estate and private equity. Both infrastructure and real estate have reasonably certain cash flows and "bond like" characteristics. There is currently estimated to be over US$ 2 trillion in "dry powder" waiting to be invested in private equity. Although the IMF has recently warned of the risks of increased allocation to more illiquid asset classes, pension fund and insurance managers have little choice given the needs to meet either their liabilities or their clients' requirements for positive real returns.

The economic impact of negative or low bond yields is a lengthy subject and will be reviewed in future papers, but it is noteworthy that, firstly, there is clear evidence that the major Central Banks are concerned over the current effectiveness of monetary policies while, secondly, there has been a clear and major shift in investor behaviour and positioning, which is unlikely to reverse. ■

Negative yields… and their effects on pension funds

Hans Stoter,

Global Head of Core Investments, AXA Investment Managers

Erik van Bergen,

Head of Pensions, AXA Investment Managers

Today, we are living in interesting times. A substantial part of global government bond markets are currently experiencing negative yields. The consensus view is a weakening outlook for global growth with a considerable risk of economic recession in the next few years. Many foresee a continuation of super loose monetary policies from major central banks such as the US Fed, the ECB and the Bank of Japan. These views imply the current situation of very low or even negative bond yields might persist for many more years.

A further complication is found in the low but positive inflation outlook. As a result, developed world real interest rates (being nominal rates corrected for inflation) are seen to remain firmly negative for the foreseeable future. For savers such an interest rate outlook does not bode very well. Negative rates mean saving for future income has become more expensive. And therefore, more money has to be put aside if a certain future income is desired. Alternatively, more investment risk has to be taken. For pension funds, next to the low rate environment, the increased life expectancy of their pensioners has meant further financial headwinds.

What are the effects of these trends for pension funds and their sponsors?

Historically, the typical pension fund participant enjoyed a “defined benefit” (DB). In this system pensioners were told they would be entitled to receive an “inflation proof” pension starting at the age of 65 years. The pension fund and sponsor would be taking the investment and longevity risk. Given the current low investment returns and increased longevity these systems have simply become unaffordable. The solvency of existing (DB based) pension funds has deteriorated substantially because of the fall of long-term interest rates in combination with insufficient matching between the duration of assets and liabilities. Many pension funds are now underfunded and have insufficient assets to cover all future liabilities. Sooner or later adjustment will be needed. What are the options?

Pension fund adjustments. In response to the described trends, some pension funds raised the annual premiums charged to their sponsor in order to preserve sufficient solvency of the pension fund. Alternatively, some pension funds have started to stop compensating inflation for their pensioners. This implies a gradual erosion of purchasing power. More extreme, a minority of pension funds have decreased nominal pensions in order to restore the balance between asset and liabilities. A final measure is to increase the age at which pensioners are entitled to start receiving their pension. All of these actions effectively imply more uncertainty for individual employees about their future pensions as the investment and longevity risk is partially transferred from the sponsor to the individual.

Closure of DB system / rise of DC system. In reaction to the problematic situation several corporate sponsors have moved to close their existing DB systems. Instead the sponsor contributes by an annual premium, a “defined contribution” (DC) into a new scheme, in which employees are now left with the investment and longevity risk themselves. Again, resulting in more uncertainty about future pensions, although DC is obviously completely transparent about the risk transfer to the individual. A downside of the DC system is that there is no mutualisation benefit on life expectancy, thus individual savings must be significantly higher to manage the risk of living much longer than, on average, expected.

Intergenerational conflicts. Younger employees contributing to underfunded DB pension schemes are facing the risk that the pension fund will pay out overly generous pensions to elder generations and thus have insufficient assets by the time the later generations retire themselves. Retired employees on the other hand are worrying if their pensions will be cut in the near future. These retired employees have typically little opportunity nor desire to go back into the labour market. Each generation is left with uncertainty and resulting stress. As pension contracts and governance might not be clear on how to solve the intergenerational dilemma, decision makers face tough choices of how to divide the pain.

Agent problem. Sponsors, employees’ trade unions, boards and regulators seem to be collectively wondering what went wrong and how to cope with the resulting imbalances. In many occasions the situation is best described as important but not urgent and painful decisions to correct the imbalances are accordingly postponed. Perhaps over time, the situation of low interest rates might have ended, other stakeholders might have taken the lead on painful decisions or the decision maker himself might have delegated or handed over accountability.

Solutions. It is clear the current DB systems are not sustainable and at the same time there is no easy way out. For individuals, the best way to deal with the situation seems to take control of their own pension destiny. Saving sufficient labour income for retirement and maintaining work-life long access to the labour market are obviously key. Buying insurance on very-old age (say 85 years plus) from either commercial insurance companies and/or mutual pools is a further risk mitigating possibility. Ultimately however, accepting some level of uncertainty about retirement age and retirement benefits and the trade-off between age and benefit will be unavoidable. Many individuals do not seem aware of the situation though.

Governments can support by raising awareness via education on retirement, and by relaxing the rules for mandatory (DB) pension scheme participation. Furthermore, providing a minimum basic pension income and some fiscal incentives for additional individual pension savings might help. Pension funds will change their operating models and improve their investment portfolios to better match assets and liabilities from various angles such as interest rate and (il)liquidity. Bank disintermediation is another opportunity for pension funds. The broader private sector (insurance companies, banks, mutual fund providers, private wealth managers, fin tech companies, …) will want to try and create new business models to cater for the new needs of current and future pensioners. As such the current set of challenges will lead to new opportunities for those whom are paying attention. We are living in interesting times indeed. ■

Putting the capital in the European Capital Markets Union (CMU)

Joanna Cound,

Head of Global Public Policy, EMEA, BlackRock and ICMA board member

Building deeper, better-connected capital markets in Europe is an important objective to promote investment, realise the goal of a true Single Market for capital, and help European savers and companies realise their long-term financial objectives.

A more engaged investor base not only represents a growing supply of capital for companies to tap for investment, but equally advances a number of key policy aims: reinforcing the Banking Union and European Monetary Union, underpinning the role of the euro globally, and meeting the European Union's (EU's) ambitious sustainable investment goals.

To date, the CMU has built a policy agenda which, when seen through to completion, will provide a framework for advancing this aim. But important challenges remain, and some of the remaining barriers will be difficult to break down, both technically and politically.

We see the most valuable way to add greater imperative to addressing these challenges is to refresh the CMU agenda so that it can deliver something meaningful and tangible for European citizens. The area of the original CMU agenda which has probably been the least developed is the one where we still believe the greatest dividend for Europe is to be found: a meaningful approach to incentivising savers to invest in capital markets which both brings more capital into European markets and, psychologically more important, delivers long term economic benefits to Europe's citizens as they plan for their futures.

Incentivising citizens to use capital markets as a way of meeting their goals of long-term financial security should be the priority of the next five years which could be achieved by following these three pillars:

Pillar One: Promote retail investor participation by balancing investor protection and investor inclusion

In our annual Global Investor Pulse survey, we look at barriers to investing for European citizens. While some respondents do indeed show great risk-aversion and cite being afraid of losing money as a barrier to investing their savings, far more people cite barriers like access and lack of understandable information. Building off this, we propose five sets of policy principles to make it easier to invest in markets and empower citizens to achieve their long-term savings goals while maintaining enhanced levels of consumer protection.

(1) We suggest simplifying the investment process by minimising the need for repeated know your client and take on procedures and overlapping documents and disclosures, which should be aggregated by the end service provider.

(2) We recommend to promote the use of digital and interactive tools (not PDFs) for the purpose of (a) take on procedures, know your clients and suitability profiles, in order to increase point of sale engagement and education on key concepts; (b) creating a unique financial digital identity for every consumer; and (c) a personalised and portable fact find.

(3) Taking into account recent and upcoming regulatory redevelopments (such as MiFID II and the PEPP), we think standards on suitability must also evolve to recognise the importance of portfolio outcomes, rather than individual product outcomes, allowing a variety of products to be included which meet an individual's long-term risk appetite as well as providing inflation protection.

(4) We call to focus on value for money across the entire chain of distribution with meaningful comparability and transparency of products, advice, and distribution. Cost is only one aspect of value for money, as it needs to be read together with other key drivers of value such as performance, risk, and quality of service.

(5) We encourage Member States' initiatives to drive increased investments, using for instance auto-enrolment to crowd savers into capital markets via diversified, risk-managed portfolios such as those being put in place under the PEPP.

Pillar Two: Maximise investors' utility from capital markets architecture

Today in Europe, once investor capital is invested in markets, it is generally chanelled through market infrastructure which provides sub-optimal efficiency and protection for investors and their agents. An integral part of any reflection on the future of CMU, therefore, should be a consideration of the efficiency, safeguards, and costs of utilising European capital markets' architecture.

(1) One key area is transparency. Since the entry into application of MIFID II in January 2018, there have, from an investor perspective, been several notable improvements regarding the volume and breadth of data reported, but there is still some way to go to turn this data into useful information for investors and regulators alike. An equity consolidated tape would educate retail investors more about the best trade prices and quotes which occurred in the market and create competitive pressures so that retail investors cannot be disadvantaged.

(2) Another area is ensuring that the shift away from bilateral over-the-counter (OTC) markets towards central clearing, where it is viable (such as for certain derivatives, Exchange Traded Funds (ETFs), repo and securities lending transactions), is done in a way that protects the interest of investors participating in the system to the greatest extent possible. Regarding CCP recovery planning, allocating losses to end-investors through haircutting their margin in a process they often do not choose to enter nor over which they have any control, erodes investor confidence and undermines attempts to build CMU.

Pillar Three: Adopt a company-oriented vision for capital raising

As the provision of capital must be a mutually-beneficial exercise for both the investor and the issuer, we believe that the next phase of the CMU should take realistic stock of how companies are turning to markets to raise capital today, and seek to build out a policy agenda acknowledging that, while there is a broader public interest served in having a healthy universe of listed companies, there are also good reasons why some companies – in particular, innovative, high growth companies – are choosing to stay private for longer including additional compliance, regulatory and reporting costs.

On top of this, improvements to the structure of investment vehicles, which help asset owners more efficiently provide capital to companies at different stages of growth, would help grow the investor base. In particular, the ELTIF structure and framework must be further optimised to allow it to play better its role as the vehicle of choice for long-term capital provision.

We see three main categories of improvements which would be meaningful changes to the ELTIF framework:

(1) Structural: The ELTIF is designed to be an investment vehicle which can provide long-term exposure to a range of long-term assets, but there is often a lack of clarity or too many restrictions in ELTIF rules over investment in "real assets" (e.g. infrastructure, real estate), and financial undertakings (which may be attractive early stage investments).

(2) Distribution: The product was designed to allow retail investors to participate in long-term investment strategies, and indeed we do see appetite and potential for this. However, MiFID (and national) distribution rules do not align with the ELTIF's intended market and a cumbersome cross-border marketing process inhibits the ability to scale products.

(3) Tax: Beyond the challenge of navigating different national tax treatments for ELTIF investors, there is added complexity in the treatment of cross-border investments at the fund level. At the fund level, we continue to raise concerns with the tax implications of the OECD Base Erosion and Profit Shifting (BEPS) framework, as investment funds that invest in real assets on a cross-border basis will lose some of their tax-neutrality by losing access to tax treaties. We believe an EU-level solution for ELTIFs (at least) would be possible and would make such funds more attractive to end-investors. ■

The importance of collaborating with Fintech startups

Charlotte Wood,

Head of Open Innovation and Fintech Alliances, Schroder Investment Management

Fintech has evolved to become an integral part of the financial services (FS) industry, both as disruptors looking to take market share from incumbents, as well as collaborative startups helping corporates to improve their businesses. However, fintech adoption within investment management is still comparatively low despite the opportunities it offers to leverage emerging technologies, gain early insights into potential disruption and explore ways to accelerate company strategy.

Fintech is a broad term that covers a diverse number of areas, ranging from established household names such as PayPal and Kickstarter to less well-understood and more hyped-up technologies like AI and blockchain. Essentially, it refers to the use of innovative technology to improve traditional FS – whether startups working by themselves or with an existing FS firm.

The impact of fintech is undeniable, as it has achieved mass adoption (according to EY's Fintech Adoption Index, 64% of global consumers have adopted fintech solutions, up from 16% in 2015) with steady year-on-year growth in funding. As the sector grows in maturity, with consistent investment, engagement from incumbent firms and the ability to recruit seasoned professionals, its increasing influence over the entire FS landscape looks set to continue.

However, many investment managers are not yet actively engaging with fintech: in 2018 research conducted by Alpha FMC only 15% of asset managers said that they were focused on fintech solutions, with many stating that they aim to "follow fast" in new technologies instead. This is in stark contrast to banking, where EY revealed that all 45 of the global banks analysed were working with fintech startups in one way or another.

In some sense this lag within our industry is understandable. Initially there was little of relevance to investment management, since fintech's impact has not been uniform across FS. Retail banking, payments and lending were the first to be affected, predominantly by disruptive, direct-to-consumer propositions.

But in recent years we have seen the emergence of fintech across other, more complex, verticals including wealth management, as well as B2B propositions to help asset managers make better investment decisions, serve their clients more effectively, and comply with their regulatory obligations. Now, the common approach is to see fintech startups as potential partners, rather than disruptors.

Our industry is under pressure to innovate, faced with falling margins and a difficult market environment. In addition, across general society there is a rapid pace of technological advancement, shifting demographics and the ever-present threat of new entrants to industries. We believe that to respond to these demands, it is critical for asset managers to look externally for solutions as well as to their internal teams.

Advantages of working with startups

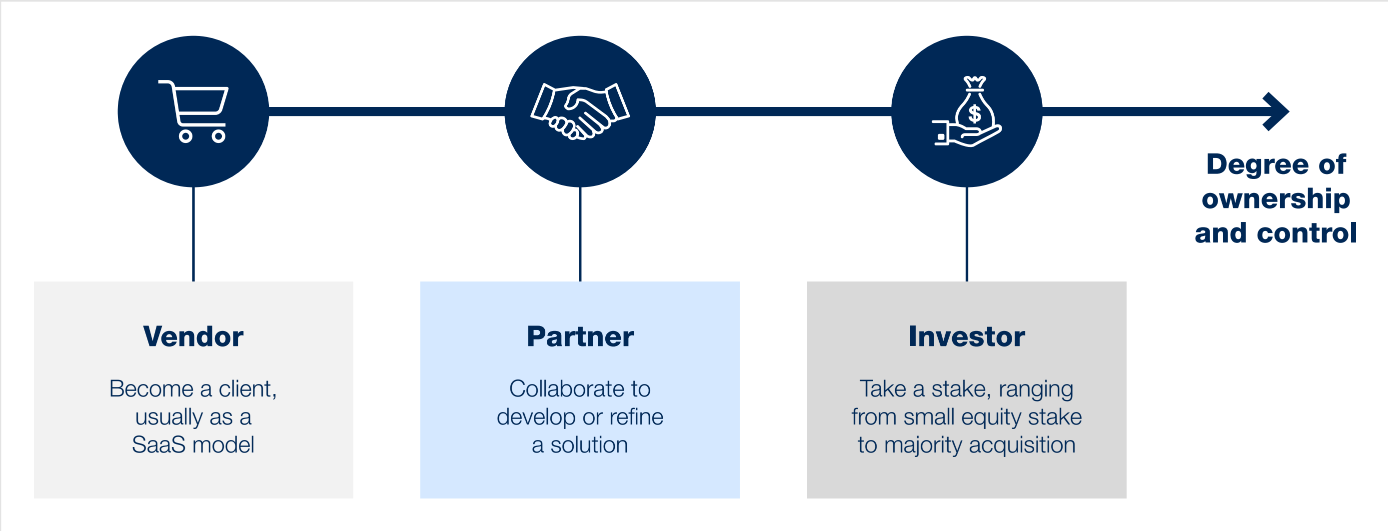
We see the following advantages to collaborating with fintechs:

Internal innovation is difficult and can be limiting, since large companies' cultures and decision processes are rarely set up to act quickly on internal ideas, and they tend to be incremental. Teams can struggle to create capacity outside of their core delivery functions, resulting in projects having long timeframes.

Startups are creating innovative products that asset managers do not have the appetite or expertise to develop themselves, which are nonetheless valuable. In fast-moving areas such as cybersecurity and data analytics, engaging with early-stage companies is the only way to be at the cutting edge and gain competitive advantage.

Fintech startups are running experiments we can learn from, testing new customer segments, markets, business models and ways of doing things. At the very least incumbents can observe these, learning from the failures as much as the successes. Of course, asset managers stand to benefit much more by actively engaging with startups aligned with their strategic objectives, and steering the collaboration to have a greater likelihood of success.

Startups can operate and adapt more quickly, at lower cost and with more flexibility, by utilising cloud services, APIs and other new technologies, unencumbered by legacy systems and skillsets. By partnering to bring their resources and expertise to the table, investment managers can benefit from these advantages, along with their clients.



Fintech engagement mechanisms

There are various options for engaging with startups, and companies may pursue multiple of these. The decision factors to choose between them include the maturity of the product and the level of ownership and control desired by the corporate:

- **Vendor** – become a client, usually as a Software as a Service "SaaS" model. This is the most common engagement type and is used when there is little product customisation required.
- **Partner** – collaborate to develop or refine a solution. Particularly relevant with new or niche use cases, or where the corporate's assets are required as input e.g. testing with internal data. However, it can introduce complexities such as shared intellectual property.
- **Investment** – take a stake in the startup, ranging from a small equity stake to majority acquisition, dependent on factors including strategic drivers and capital outlay required.

Corporate Venture Capital (CVC)

The increasing appetite to work with startups is demonstrated by the fact that there are more CVC arms now than ever in history. Most of these stick to their own vertical, for example banks' CVCs tend to focus on investing in fintech, which brings advantages such as domain expertise and the opportunity for the parent company to utilise the technology, as well as increased ability to influence their investments' success. However, it can mean that incremental innovation is favoured over disruptive business models, either through investors being too close to the industry, or consciously protecting the core business.

Accelerators and incubators

Many financial institutions have launched engagement programmes, with a range of different models and incentives. For example, some advertise "problem statements" for startups to address, while others provide mentorship to help founders develop their product. The key benefit is that they offer startups a path to commercial partnership, while giving them more time and input to develop the solution before the corporate decides whether to purchase it. Care should be taken to ensure that the incubator is not too separate from the core business, so that it can help the relevant areas to interact with the startups on the programme.

Schroders' Cobalt programme, established in March 2018, is an example of an accelerator within asset management and has improved our collaboration with early-stage companies.

We select startups with relevant propositions, which need more work either in terms of the product or the company's maturity (such as having various legal, procurement and HR policies and structures in place). The fintech is given access to our offices, and our teams work with them to accelerate to a commercial engagement. The benefit to us is that we are able to influence the final product, and also learn from the startup's culture, methods of working and skillsets.

Good practices

Working with startups is new for corporates, and the differences in size, speed and internal culture and processes can cause issues on both sides. These are three tips we have found helpful in addressing these challenges.

- **Transparency** – setting expectations by sharing information regarding standards the startup must meet (e.g. data security), realistic timeframes for the sales cycle and the steps / people involved in the decision-making process.
- **Funding** – both sides are more likely to dedicate appropriate time and resource to a pilot if it is paid for, rather than free, with agreed milestones.
- **Relevance** – bringing in the appropriate business area as early as possible to ensure that the startup is the right strategic fit.

The commercial benefits of working with fintechs should not be underestimated. In 2018, asset management firms identified as digital leaders reported stronger financial performance than their peers in terms of growth, operations and technology costs, and profit margins (51% vs 30%). Fintech collaboration should form a key part of digital strategy; and could deliver significant competitive advantage for companies willing to invest time and resource in this space. ■

Making derivatives regulation work for pension funds

Vanaja Indra,
Market and Regulatory Reform Director, Insight Investment

Anniversaries are a good time to celebrate. Ten years on from the G20 summit in Pittsburgh, global policymakers have much to revel in: the proportion of derivatives exposure in clearing has increased significantly, and bank capital rules provide a strong incentive for derivatives to be cleared as intended.

However, anniversaries are also a good time to reflect. While reforms have led to clear benefits, there have been winners and losers.

The reforms work well for users of derivatives with lower credit quality, as counterparties are more likely to trade with them via a clearing house. Longer maturity trades require greater capital, leaving banks with a preference for shorter, high turnover trades.

For European pension funds, this potentially increases both costs and risk. Pension funds typically hold long-dated, one-directional derivatives to maturity in order to help offset structural risk, such as liability exposure to interest rates and inflation.

Specifically, the reforms mean investors must post cash as variation margin on cleared derivatives. But this requires European pension funds to either hold more cash – potentially amounting to hundreds of billions of euros – or to rely on repo markets to access cash when required – both of which introduce significant risks to their long-term investment strategies.

As a result, some of the best counterparties in the market from both a credit quality and time horizon perspective are the hardest hit.

Ultimately, these issues could cost European pensioners billions of euros a year.

The concerns above highlight an opportunity for policymakers to refine policy and fulfil their overall objectives. We would highlight three areas of focus, in order of priority:

- clearing solution for European pension funds to the cash variation margin issue that is reliable even in stressed markets;
- a re-calibration of certain bank capital rules to ensure pension funds do not take on inappropriate costs or risks; and
- solutions to second-order structural issues regarding client clearing.

Cash variation margin issue

Pension fund assets need to grow at least in line with the expected increase in liabilities to meet pensioners' retirement income. This means they hold relatively little in cash, preferring instead to hold high-quality government bonds, because:

- cash is not a good match for pension fund liabilities;
- cash typically generates lower returns potentially eroding financial solvency; and
- cash instruments (such as bank deposits and commercial deposits) typically introduce non-sovereign risk.

However, clearing house operational models only accept cash as variation margin, because physical assets cannot be passed through the system easily.

This situation resulted in the temporary exemption from clearing for European pension funds under the European Market Infrastructure Regulation (EMIR). This has recently been extended as part of EMIR Refit, from August 2018 to June 2021, with the possibility for further extensions up to June 2023.

This exemption means pension funds can access the non-cleared markets for their derivatives exposure, allowing them to post high-quality government bonds as variation margin – thereby avoiding the issues outlined above.

The problem is that even in non-cleared markets, banks increasingly request cash for variation margin. This is a direct consequence of the leverage ratio rules, which only recognise variation margin posted in cash as reducing risk on a bank's balance sheet. In other words, only cash offsets the replacement cost of a bank's derivative exposure.

This effectively undermines the EMIR pension fund exemption and increases the urgency for pension funds to have a long-term solution to clearing.

Seeking a long-term clearing solution

In theory, pension funds could use the repo markets to meet their cash variation margin calls over and above any cash buffers held.

But repo markets cannot necessarily be relied upon in all circumstances. This was evident in September 2019, when US overnight repo rates spiked to intra-day highs of c.8.75% pa, illustrating that an imbalance in repo markets can occur even in relatively normal conditions.

If there is a 1% move in rates, pension funds might need to post over €200 billion of cash collateral, according to one estimate. This may be difficult for repo markets to accommodate, especially in stressed market conditions. Given the potentially large and unpredictable amounts of collateral that could be required, it would be imprudent for pension funds to rely on the repo market as a liquidity provider of last resort.

Central banks are the only entities able to manage liquidity risk in stressed market conditions, and could potentially form part of a workable solution. Pension funds are keen to work together with policymakers and stakeholders, including central banks, to explore this possibility.

The European Commission has taken a leading role on this issue, hosting regular discussions with pension funds, clearing houses, central banks and members of the European parliament.

Insight, along with Dutch and Danish pension fund stakeholder peers – APG, ATP, MN, PGGM and PKA – has been working closely with policymakers on this topic over a number of years, acting as one voice representing over €1 trillion of pension fund assets under management. We are keen to find a robust long-term solution to clearing that is reliable in all market conditions.

Bank capital rules

The indirect impact of bank capital rules on pension funds and other end-users of derivatives can be complex and is not always well understood.

We believe the rules need to be consistent with the policy intentions of other regulations, and fully consider the indirect impact on all market participants. Quantitative impact studies aimed at this typically only have input from the banking sector.

We believe bank capital rules should reflect the following:

- **The credit valuation adjustment (CVA) exemption within the bank capital rules, provided on trades with pension funds and corporates, must be maintained as the CVA regime is overhauled.** Without this, the cost of trading derivatives in non-cleared markets for pension funds could increase significantly, undermining the EMIR clearing exemption.
- **Leverage ratio rules for non-cleared trades with pension funds should permit Level 1 high quality liquid assets (HQLA) posted as variation margin in order to offset the replacement cost of derivatives.** Only recognising cash variation margin undermines the purpose of the temporary clearing exemption under EMIR.
- **The impact of the new counterparty risk calculation, the standardised approach to counterparty credit risk (SA-CCR), on pension fund portfolios needs to be reconsidered.** SA-CCR is more risk-sensitive and therefore benefits netted portfolios when compared with the existing, current exposure method (CEM). Our analysis found SA-CCR calculations could be several times greater than CEM when applied to a simple illustrative pension fund portfolio, because its exposures are one-directional. Furthermore, in Europe, SA-CCR places interest rate and inflation swaps in different hedging sets, meaning they do not offset each other fully within the counterparty risk calculation, which is also likely to penalise pension fund portfolios further.

Although finding a robust long-term clearing solution is most important for European pension funds, not all derivatives in their portfolios will be mandated for clearing. It is therefore still important to ensure that the non-cleared markets remain workable for any non-mandated derivatives.

Structural issues with client clearing

Once a solution is developed for the cash variation margin issue, European pension funds are likely to start clearing in greater volume.

A 2018 ISDA and Pensions Europe paper estimated that demand from European pension fund for clearing could, over time, increase initial margin held by clearing houses globally for interest rates derivatives from €130bn up to a range of €190bn to €240bn, highlighting the question of capacity.

Attention is likely to turn to improving second-order, but still important, structural concerns such as:

- clearing member capacity;
- concerns around the ability to port positions at short notice;
- insufficient competition leading to end-users having little negotiation power; and
- insufficient transparency during the clearing house default-management process.

We welcome the focus of the Financial Stability Board, Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) on these issues.

Conclusion

The challenges left to resolve are still complex and cannot be solved by the industry alone. Close co-ordination between the industry and policymakers is the only way in which viable solutions can be developed.

If these issues can be successfully managed, we believe the next ten-year anniversary could herald a regulatory environment that would not only meet the wider goals of the G20, but also a system that works in the best interests of all stakeholders, including European pension funds. ■

The transition from LIBOR to risk-free rates in the bond market

David Hiscock,
Managing Director, ICMA

Background

In July 2017, Andrew Bailey, the Chief Executive of the FCA which regulates LIBOR, said that the FCA would no longer intend to persuade or compel banks to submit contributions for LIBOR after the end of 2021. Accordingly, the authorities want financial markets to transition away from LIBOR and the other IBORs to near risk-free rates. In all the main jurisdictions, the chosen risk-free rates are overnight rates: i.e. SONIA in the UK; SOFR in the US; STR in the euro area; SARON in Switzerland; and TONA in Japan. A common objective is to make risk-free rates as robust as possible, with robustness measured primarily by the volume of underlying observable transactions.

The focus in this article is on the transition from sterling LIBOR to SONIA in the sterling bond market.

Adoption of overnight rates

In the sterling bond market, considerable progress has already been made with adoption of SONIA in new public issues of FRNs since the middle of last year. As at 4 November 2019:

- £39.5 billion approx. has been issued in total, of which £31 billion approx. has been issued this year, and
- there have been 79 new FRN transactions referencing SONIA in total of which 67 have been completed this year.

This encompasses a wide range of SSA, bank and building society issuers, and now also the first corporate issuer, and over 180 investors. As a result, new public issues of FRNs referencing sterling LIBOR maturing beyond the end of 2021 have all but ceased.

The market in securitisations referencing SONIA has also made a useful start. In April this year, Nationwide launched the first securitisation referencing SONIA distributed to investors. As at the end of September 2019, there have been over 25 distributed securitisations issued, amounting to over £10 billion approx. in total.

Encouragingly, the same market conventions have been used in all bond market transactions referencing SONIA so far: overnight SONIA compounded over the interest period, with the margin added, and with a five-day lag before the end of each interest period.“

Term rates

Compounded SONIA is a backward-looking overnight rate directly linked to the risk-free rate. In the UK, the Risk-Free Rate Working Group encourages market participants not to delay preparations to conduct new business using overnight rates. But one of its priorities is also to encourage the development of a robust forward-looking term SONIA rate. This would incorporate a derivative of the risk-free rate. As with term LIBOR, and unlike compounded SONIA, each interest payment referencing term SONIA would be known at the beginning of the interest period.

Given the progress already made using compounded SONIA, it is not yet clear whether there is still demand for term SONIA for new transactions in the sterling bond market, and there are some concerns about a potential split of liquidity if a term rate develops alongside compounded SONIA.

Legacy bonds

The adoption of SONIA instead of LIBOR in new bond issues helps to cap the scale of the legacy sterling LIBOR bond problem but does not solve it. Market estimates from RBC indicate that legacy bonds referencing LIBOR with at least $864 billion globally due to mature beyond the end of 2021: around 80% denominated in US dollars and 9% in sterling. Maturing bonds will reduce the scale of the problem in time, but there is a significant volume of maturities beyond 2030, and some bonds are perpetual, with no maturity date. And the bond contracts are difficult to change.

One way of addressing the legacy sterling LIBOR bond problem is to amend the interest rate provisions in bond contracts through a process of consent solicitation. This is an existing market practice for individual bonds. Issuers can propose to undertake consent solicitations if and when they wish. The first couple of examples of consent solicitations involving the replacement of LIBOR by compounded SONIA plus a fixed spread have been approved by noteholders. Successful consent solicitations or other liability management exercises – such as bond exchanges or buy-backs – reduce the amount of legacy LIBOR bonds outstanding.

Even so, the use of consent solicitations to transition the whole of the legacy bond market – involving FRNs, covered bonds, capital securities and securitisations – would be a long, complex and costly process and would not necessarily be successful. This is because individual bonds – which are freely transferable – are often held by many investors, and consent thresholds are generally high (and commonly 100% in the US). Hence, despite progress with consent solicitations, there is a risk that a rump of unconverted bonds still referencing LIBOR will remain outstanding at the end of 2021.

If and when the FCA declares LIBOR to be no longer representative of its underlying market, LIBOR will no longer be expected to be used for new transactions. The FCA has stated that "the potential solution of allowing continued publication of LIBOR for use in legacy instruments that do not have mechanisms to remove their dependence on LIBOR could help to prevent otherwise unavoidable disruption in cash markets."

Andrew Bailey, Chief Executive of the FCA, spoke about tough legacy contracts in New York on 15 July: "Market participants will also ask whether legislation could help. For example, could legislators redefine LIBOR as RFRs plus fixed spreads for those tough legacy contracts? Or could they create safe harbours for those adopting consensus industry solutions which enjoy authorities' support such as compounded RFRs and fixed spreads? These measures are not in the gift of regulators, but it is sensible to consider their pros and cons. He also said: "I want to be very clear – none of the options except that of cessation can be relied upon to be deliverable. Those who can transition should do so."

Other issues affecting the transition in the bond market

There are several other issues that need to be considered affecting the transition in the sterling bond market:

- First, if LIBOR is replaced by SONIA for outstanding legacy bonds, a credit market adjustment spread will be needed to address the differences between LIBOR and SONIA.
- Second, where derivatives are used to hedge legacy bond contracts which fall back to a fixed rate when LIBOR is permanently discontinued, there may be a hedging mismatch, as derivatives will fall back to an alternative rate in accordance with their own terms.
- Third, there are also regulatory issues that arise. In the case of prudential regulation, it is important that the change of benchmark from LIBOR to SONIA does not itself have regulatory consequences; or, if there are regulatory consequences, that these can be addressed.
- Fourth, in the case of conduct regulation, it is important that the change of benchmark does not give rise to mis-selling or other conduct risks.
- Fifth, supervisors have an important role to play. The role of supervisors is to check on a regular basis that the firms they supervise are identifying and quantifying their LIBOR exposure and planning ways to reduce it by transitioning to risk-free rates. This is the background to the "Dear CEO" letter last autumn from the PRA and FCA in the UK to the chief executives of the banking and insurance firms they supervise. There have been similar initiatives by authorities in other jurisdictions. Firms also have a responsibility to train their staff and communicate with their clients.

International coordination

International coordination of the transition to risk-free rates is being overseen by the FSB Official Sector Steering Group, chaired by Andrew Bailey, as Chief Executive of the FCA, and John Williams, President of the Federal Reserve Bank of New York. This is of great importance for international market firms and their clients, many of whom have operations in all the major IBOR jurisdictions. There is not a "one-size-fits-all" approach to the transition in different national jurisdictions, but the direction of travel towards risk-free rates is much the same.

This article is based on an ICMA briefing call for members, on 16 September 2019. ■

A cash bond consolidated tape in Europe

Elizabeth Brooks Callaghan,

Director, Secondary Markets, ICMA

An EU cash bond consolidated tape is important – why?

This summer ESMA published a consultation paper (CP) asking for responses to questions surrounding market data costs and consolidated tape (CT).

ICMA's consolidated tape taskforce (Taskforce), including members from the buy-side, sell-side, trading venue and data provider communities, welcomed the efforts of ESMA to investigate how a CT may look in the future with respect to its governance and the model used, and the opportunities a CT could present for the markets and the CMU initiative.

While the ESMA CP primarily focused on equities, ICMA's Taskforce responded solely in relation to cash bonds and focused on questions relating to CT scope, governance, operation and model, data quality, venues' obligation to provide post-trade data, and finally the fact that the cash bond CT should be viewed as the "golden source" for post-trade raw bond data. The Taskforce did not address any MiFID II transparency issues in the response as the view was, any CT cash bond solution should abide by appropriate MiFID II post-trade deferrals as set out in the regulation.

Fixed income and equities: different market structures and different challenges.

While equity and bond markets share a few challenges – such as fragmentation of infrastructure and an unlevel playing field, benefitting only those who can afford to pay for data – it is widely understood that their ecosystems are profoundly different. One only has to view the asset classes' market structure and protocols to see the differences: order book vs RFQ, OTC or MTF/OTF vs local exchanges and the fact that there are approximately thirty-three times more listed bonds than listed equities. These differences mean that the drivers for a CT in these markets are also different due to different market structures (e.g. equity exchanges).

A CT for equities addresses speed issues, preventing arbitrage opportunities. While in fixed income a CT would provide transparency and an overview of the market. Cash bond market participants need a true consolidated picture of the market that is reliable, accessible and trustworthy. This reliable post-trade data provides the tools by which professional and retail market participants can make informed and therefore better decisions, enabling best execution. It is not a case of either one or the other, both are important.

Highlights from ICMA's Taskforce response to ESMA's CT CP:

Scope: The purpose of a CT is to have a meaningful view of where, when and how all price-forming and non-price forming (e.g. constituent of a package trade), trades occurred. Scope is critical. The CT should be a centralised source of consolidated raw data: price, direction, venue, date, time of execution, reported date & time (taking into account current publication and deferral obligations under MiFID II), cancel or correction. Once there is a consolidated view of prices in the CT, the CT provider (CTP) could then derive yields which are fundamental data points in the relative valuation of bonds and comparative analysis of best execution.

Governance: Governance is key if the CT is to be managed effectively. The CTP contract should be awarded by either the Commission or ESMA to a third party. The CTP should then be supervised by a "governance panel" made up from member's from: ESMA and/or the Commission, investors, liquidity providers, trading venues, non-trading venue data vendors and the retail community. This is to enable the CT to have industry expertise working alongside regulatory know-how, to the benefit of Europe's cash bond markets. The CT fee model should be low or minimum cost to industry participants.

Operation & model: The Taskforce believed the CTP day-to-day operations should be awarded to a firm with a high level of data management experience, as well as related knowledge of the asset class (e.g. cash bonds). The CTP contract should be awarded for no less than five years. This is to allow whoever is awarded the contract, sufficient time to recoup any development costs. The firm awarded the contract should also have robust conflict-of-interest rules in place.

Publication of trades should be as soon as technically viable (as set out in the regulation/RTS), unless the trade qualifies for a deferral of publication under MiFID II's post-trade transparency obligations. In addition, it is essential that the responsibility for data feed provision be changed from the "CTP's obligation to obtain", to "venue's obligation to provide to the CTP". However, ESMA may find it useful to consider commercial incentives for the various data contributors, which are providing data to the CT.

Of note, the CT must not be structured in a way that prevents other market participants including venues, investors, and data vendors from offering third-party commercial services around data reporting or using the CT data to offer third party commercial services. Innovation should be rewarded.

Data quality: The Taskforce believed the CP response process provided an opportunity to assess how existing data standard choices may be contributing to data quality issues and impacting the necessary actions to fix the problems. This includes issues in ESMA's own data services, such as FIRDS and FITRS. Further suggestions were cited in the response.

The Taskforce also considered it may be useful for ESMA to explore and analyse FINRA's bond CT in the US, TRACE. Experience with TRACE in the US shows the benefits of a CT for the cash bond market, being an example of how available data, with a process that is clearly set out, can be delivered for market participants, resulting in a better overview and understanding of trading activity and execution costs across the US market.

Brexit: After Brexit, a cash bond CT is still valuable as a tape of record. The Taskforce preference was and is, to encourage an industry (virtual) "trading time zone-dependent" CT, comprising non-EEA and UK bonds with appropriate country flags [Swiss flag, UK flag etc]. The taskforce would like to stipulate, even if a (virtual) "trading time zone-dependent" CT was not feasible and the CT only consolidated EU27 transactions (where firms would have to separately bolt on UK transactions), given the fragmentation across the EU27, an EU27 CT would be valuable to the market.

ICMA and next steps for an EU cash bond CT

While ESMA's consultation addressed equities, the Taskforce believed it was important to present how a CT would clearly benefit cash bond markets. The Taskforce went further to suggest that CT development paths and teams should be in parallel and not sequential. The "starting gun" for CT technology development and construction should be the same for a fixed income CT as for an equity CT. It is also important that ESMA understands to not use an equity CT (which is solving for different problems and has a different operational market structure) as a precedent for a cash bond CT. Instead, the EU should look to the US for lessons learnt from TRACE's implementation and construction. Bond trading US market participant views are more relevant to any proposed EU cash bond CT.

With this in mind, ICMA's CT Working Group has appointed a Taskforce to draft a discussion paper. This Taskforce is currently actively carrying out an in-depth study on a potential future model for a cash bond CT in Europe. Included in this study, is more detail on possible scope, governance and the desired data quality and standards necessary for a CT to emerge in Europe. An in-depth study of FINRA's TRACE US CT will also feature prominently in the discussion paper. The analysis will consider which aspects of TRACE should and shouldn't be borrowed as potential attributes for any future EU cash bond CT. ■

SFTR implementation

Alexander Westphal,
Director, ICMA

Bogdan Pop,
Associate, ICMA

Helping members to implement the extensive dual-sided reporting requirements under the EU's Securities Financing Transactions Regulation (SFTR) continues to be a key priority for ICMA's European Repo and Collateral Council (ERCC) and its members, who are heavily engaged in the ERCC's dedicated SFTR Task Force which brings together representatives from over 120 firms across the whole market spectrum. As the initial reporting go-live in April 2020 is approaching (with buy-side financials to go-live six months later), much time and effort is being spent to get firms ready for the reporting go-live, both within the industry and the regulatory community. And this work is making steady progress.

Following the finalisation of the SFTR technical standards earlier this year, ESMA is now fully focused on important additional implementation guidance which they are mandated to provide, the so-called level 3 measures. This includes detailed Reporting Guidelines and Q&As. On 27 May, ESMA published a first draft of the Guidelines for public consultation. This consultation was obviously a key focus for the SFTR Task Force over the summer. The final ERCC response was submitted to ESMA by the deadline on 29 July, following extensive discussion with members. Alongside the detailed response, the ERCC also shared with ESMA an overview for the reporting of repo lifecycle events and the latest version of SFTR sample reports which the group has been developing over the past months.

In its response, the ERCC provided feedback on a number of critical questions. One issue that has raised particular concerns is ESMA's proposed approach in relation to issuer Legal Entity Identifiers (LEIs). The issuer LEI is a mandatory reporting field under SFTR, despite the fact that at a global level there are still significant gaps in the availability of issuer LEIs. The issue has been highlighted by the FSB itself in the recent Thematic Review on Implementation of the Legal Entity Identifier, which found that in aggregate only 55% of securities issued in FSB jurisdictions currently have an LEI code. Analysis from member firms based on their internal systems indicates a similar gap. Given these figures, it is clear that a fallback solution is needed. However, so far ESMA has been very reluctant to provide any relief, also encouraged by the MiFIR precedent where the strict "no LEI, no trade" approach led to a last-minute rush by market participants to obtain LEIs. The ERCC and other stakeholders have clearly stressed the fundamental differences between both regimes (issuers are not SFT counterparties) and the potentially severe market implications, in terms of availability of collateral and market liquidity, of a strict approach on this question.

In terms of next steps, ESMA is currently reviewing the draft Guidelines in light of the consultation feedback received and is expected to deliver the final Guidelines in December 2019. From an industry perspective, timing remains a key challenge. With only few months left until reporting go-live firms are under pressure to conclude the necessary IT system developments and start industry testing as soon as possible, in order to get ready in time for the April 2020 deadline. Helpfully, ESMA published its updated SFTR validation rules, along with the XML schemas on 31 October 2019, which were initially expected to be published with the final Guidelines.

While waiting for the Guidelines, the ERCC continues to develop its detailed industry best practices which will complement the regulatory framework. Together with members of the SFTR Task Force, the ERCC has developed over the past months an extensive ERCC SFTR Best Practice Guide. The Guide is complemented by further best practice documents which aim to guide firms and ensure consistency across the industry. The Guide is expected to remain a living document and be updated constantly, even after the April 2020 go-live date. The Guide is expected to be made public shortly after the final ESMA Guidelines are issued later this year.

Another important aspect is education. Since July, ICMA has held a number of technical workshops on SFTR. The full-day workshops aim to provide participants with an in-depth understanding of the practicalities of SFTR reporting, including the key SFTR requirements as well as the ERCC's best practice recommendations. For more information on the ERCC's work in relation to SFTR please visit ICMA's SFTR webpage or contact us by email. ■

The Asset Management and Investors Council

AMIC is an additional service which ICMA provides to its buy-side membership. It represents the interests of the buy-side and serves its members by providing a platform for communication between member firms on topical debt capital market buy-side policy and regulatory issues. AMIC offers a platform for member firms to (1) jointly respond to consultation papers and regulatory initiatives, (2) engage with regulators, and (3) identify and suggest solutions to practical issues for members at a technical level, via its various specialised working groups.

AMIC's objective is to focus on debt capital market developments which are not covered by other buy-side trade associations while cooperating with such associations when overlaps arise.

AMIC Executive Committee

The AMIC Executive Committee is effectively the executive arm of AMIC. The Executive Committee is responsible for setting the direction and objectives of AMIC while also being responsible for its public output, such as opinions on regulatory and market practice developments and responses to consultation papers. The Executive Committee is led by its Chairman, Robert Parker, who is assisted by two Vice-Chairs and the AMIC Secretariat team.

AMIC Conferences

AMIC holds two conferences a year – one organised in the spring in a continental European city and the other in the autumn in London. The conferences offer an opportunity for buy-side members to meet to discuss topics of interest and to hear from specialist panels and keynote speakers. The conferences serve as an opportunity for the AMIC Secretariat to find out more about the priorities of its members and to guide its future work in order to best serve the interests of its membership.

We would like to encourage all buy-side member firms to get engaged with AMIC and its working groups and to sign up to the weekly update to keep abreast of our current activities and priorities.

The AMIC Secretariat

David Hiscock, Managing Director
David.Hiscock@icmagroup.org

Arthur Carabia, Director
Arthur.Carabia@icmagroup.org

Bogdan Pop, Associate
Bogdan.Pop@icmagroup.org

ICMA

International
Capital
Market
Association

ICMA Zurich
T: +41 44 363 4222
Dreikönigstrasse 8
CH-8002 Zurich

ICMA London
T: +44 20 7213 0310
23 College Hill
London EC4R 2RP

ICMA Paris
T: +33 1 70 17 64 72
62 rue la Boétie
75008 Paris

ICMA Hong Kong
T: +852 2531 6592
Unit 3603, Tower 2,
Lippo Centre
89 Queensway Admiralty
Hong Kong

www.icmagroup.org