AMIC
The buy side voice of ICMA

AMIC Review

MARKET | REGULATION | INVESTORS

Issue 5: March 2020

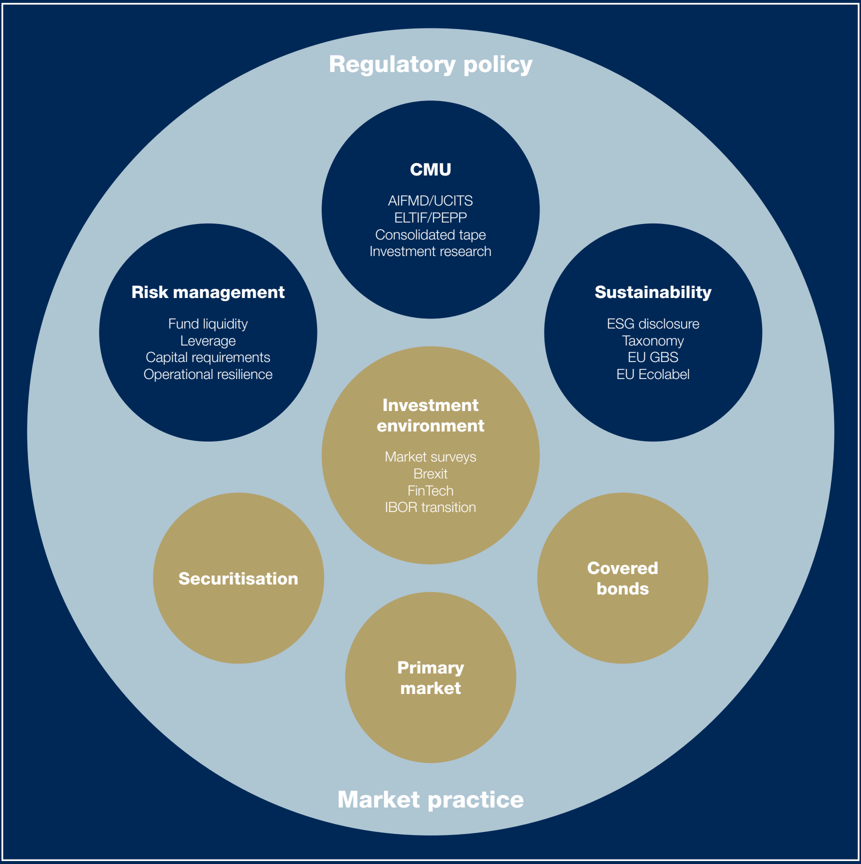
Welcome

We are very pleased to welcome readers to the fifth 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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2020: a year of unexpected risks?

Robert Parker
AMIC Chair

With early 2020 having seen the US drone attack on the Iranian General Suleimani, of the IRGC, and the outbreak from Wuhan of the coronavirus, investors have started to become concerned again about "black swan" events, ie economic or market changing incidents which are difficult to forecast or model. Although Middle Eastern tensions were already elevated and the global economy has been adversely affected by previous virus outbreaks (such as SARS, MERS, Zika and swine flu), neither of these two recent events were expected or discounted in markets. The US drone attack led to a muted Iranian response and therefore the capital market impact was short term, with the rise in Brent oil prices to over US$70 per barrel and in gold to over US$1,600 per ounce being quickly reversed. Although the WHO have praised the Chinese response to the outbreak of the virus, there is significant investor uncertainty over the timing of the curtailment of the outbreak, contagion risks outside China, notably in Asia, and also as to the extent of the consequent economic damage.

Black swan events arguably can be broken down into the following categories:

a) Geopolitical – where geopolitical tensions have an adverse economic and market impact. Events in the Middle East, and more recently the tension between the US and Iran, have had an impact on the oil market. The pressure point in the UK/EU negotiations over Brexit was Sterling, while the relationships between China and the ASEAN countries, and between Russia and the CEE countries, can influence regional equity markets.

b) Domestic politics – when there is a significant change in political power, eg the change in the US from the Obama to the Trump administration, and where the next Presidential election in France and General Election in Germany both pose potentially difficult to model outcomes. Domestic social unrest can also impact on economies and markets, with recent examples being seen in Hong Kong and Chile.

c) Global economics – the trade conflicts between the US and China had a demonstrable impact on global trade in 2018/19 and on corporate behaviour, with lower investment spending. Another example could be an unexpected sharp deceleration in a major economy.

d) Financial – examples would include bank failures, market and investor bubbles, sovereign debt restructuring and corporate defaults. Investors have increasingly become concerned over problems in shadow banking markets and over systemic risks in derivatives or illiquid asset classes and funds.

e) Climate change – recent years have seen a raft of "unusual" climate events, whether they be the recent Australian bush fires, European heatwaves, Asian and Southern US extreme weather events or the risks from rising sea levels.

f) Health – examples in the last 20 years have been SARS, Zika, Ebola, MERS and swine flu, and in most cases are related to poor food chain standards.

In every case, the key questions for investors are to what extent will there be contagion risks across countries, markets and sectors, what will the potential duration and timing of the black swan problem be, and what will be the policy responses. In general, investors will be more concerned over black swan or unpredictable events when valuations are stretched by relative historic standards as was the case in 1999, 2007 and arguably in early 2020. Investor action is typically to run into positions in traditional safe havens, such as US Treasuries, Bunds, JGBs, Swiss Francs, US Dollars, Yen and gold, and to adopt more defensive, value-based, equity positions.

Prior to the outbreak of the coronavirus, the predicted pattern for the global economy in 2020 was intact, ie consumption and the service sectors were holding up, with a gradual improvement in trade, production and investment spending. Examples of recovery were the strong retail sales in the US, the improvement in Eurozone consumption and the strength of consumption in China. Unemployment had stayed at historically low levels and service sector PMIs in most countries had shown expansion. Manufacturing data at the end of 2019 and in early 2020 was demonstrating moderate growth. However, it has to be recognised that, given the restrictions on travel, both within China and on travellers arriving in or leaving China, the extended Lunar year vacation, and with factory and office closures, there has been a significant downturn in Chinese demand and activity in late January and February. Most economists and strategists are revising down their growth forecasts

for 1Q20 for China to between 4% and 5%, and for growth for the year as whole to 5 – 5.5%, with forecast risks to the downside. At present, the central case is that the virus will show signs of being curtailed in 2Q20 and that the Chinese economy will experience a "V" shaped recovery in 2H20; there may, however, be false starts, so that the recovery may rather be "W" shaped. The risk areas globally are the transport sector, countries where the virus emerges and in global supply chains, and notably the tech, consumer, leisure, auto and electronics sectors. In 1H20, working assumptions would be a downgrade in US growth to 1.5 – 2%, in the Eurozone to approximately 1% and in Japan to 0.5%. Amongst emerging economies, commodity dependent economies will suffer from lower commodity prices, with Brazilian and Russian growth each revised down to less than 1.5%. Indian growth may be immune, while other countries, if not directly affected, may benefit from supply chains switching to their economies.

Whereas, in late November 2019, there was clear evidence of investors increasing their exposures to global equity markets, primarily in growth and cyclical sectors, there was offsetting evidence of investors running "barbells", ie their risk exposures were offset by positions in low risk assets, such as gold and US Treasuries. In the second half of January, there has been an increase in "safe haven" positioning, but the most significant declines in equity markets have been in China and Asia. Selling pressure in Europe and the US has not been extreme. However, there has been intense pressure on oil prices and industrial metals, such as copper, with investors assuming that Chinese demand will trend lower. The US Dollar has appreciated slightly against most currencies, but an interesting feature of markets has been the low level of FX volatility.

Apart from coronavirus, investors have to be aware of a number of other risk factors in 2020. Economic risk factors include the prospect of trade tensions increasing again, notably between the US and the EU, while the impact of the virus will inevitably delay the implementation of phase 1 of the US/China agreement. Other economic risks are the threat of rising defaults in shadow banking markets, particularly in China and India, the prospect of investors reacting negatively to the increase in the US budget deficit, and the probability of sovereign debt restructuring occurring in a number of stressed countries such as Venezuela, Argentina, Lebanon and South Africa. Geopolitical and domestic political risks are elevated in the Middle East and Libya, between the US and Iran, and between Russia and CEE, and, domestically, European Governments are fragile in Spain, Italy and Germany, while in France the next Presidential election will be difficult. The US Presidential election could be a catalyst for market volatility. Market risks are in the leveraged loan market, fallen angels from investment grade bonds, liquidity risks in bond markets, retail flows in and out of illiquid mutual funds, and liquidity risks in non-traditional ETFs. However, it must be emphasised that, compared with 1999 and 2007, investor positioning is relatively defensive at present, the only caveat being that in most equity and bond markets valuations are stretched.

In summary, the global economy is currently being buffeted by the coronavirus problem and potentially other risk factors, all implying that monetary and fiscal policies will remain easy or be eased further. Therefore, any sell off in bond markets will be delayed until well into late 2020, with FX market volatility staying low and the risk to credit spreads remaining minor. Commodities will, however, only rebound on a clear improvement in growth and, likewise, equities will struggle until there is a trend recovery in earnings against a background of more reasonable valuations. ■

Fund liquidity risk management: which improvements is AMIC proposing to regulators?

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), i.e. the buy-side arm of ICMA bringing together asset managers and institutional investors, has been very active in tackling 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 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.

After publishing a first report on fund liquidity in April 2016 - "*Managing Fund Liquidity Risk in Europe*" - and considering both new fund events in the UK and Switzerland as well as new EU regulatory developments, AMIC decided to publish in January 2020 an updated educational paper on managing fund liquidity risk in Europe, co-signed with the European Fund and Asset Management Association (EFAMA) and aimed at raising the awareness of European policy-makers and regulators. In particular, this updated report, taking account of these recent events and regulatory developments, is proposing four areas of regulatory improvements for managing fund liquidity in Europe.

The four new proposals from AMIC and EFAMA

The updated report shows that since 2016, the EU and international regulatory frameworks have been further enhanced following the adoption of new rules and standards, in particular the EU Regulation on Money Market Funds (2017), IOSCO's Recommendations on Liquidity Risk Management for Collective Investment Schemes (2018) and ESMA's Guidelines on Liquidity Stress Testing (LST) in UCITS, AIFs and MMFs (2019).

In light of recent idiosyncratic events which occurred in the UK and Switzerland, this AMIC/ EFAMA updated report is an opportunity to highlight among other things that the UCITS regulatory framework clearly states that there should be no presumption of liquidity for listed securities and that it allows national competent authorities to oversee where hitherto unlisted securities held by a UCITS fund may be listed.

The report also describes how this new comprehensive framework has been tested under various market conditions and scenarios in a number of recent regulators' publications, which show that, overall, most AIFs and UCITS do not have significant liquidity mismatches and that a one-size-fits-all approach must therefore be avoided.

Ultimately, the report articulates four recommendations for European policy-makers and regulators:

1. **Focus on supervision and enforcement of the current comprehensive EU rules:** after several years dedicated to the development of new rules, the focus should now be on ensuring the effectiveness of the new framework via proper supervision and full enforcement of the rules, to the benefit of investor protection and financial stability. In this context, we support ESMA's intention to ensure an effective and consistent implementation of existing liquidity provisions contained in the UCITS Directive. In addition, in parallel and in cooperation with ESMA, we believe that the European Commission should further investigate and ensure the effectiveness of ongoing application of the AIFM and UCITS directives, making use of its Level 4 institutional powers (i.e. prosecution of Member States by the Commission in case of non-enforcement of EU rules, as for instance evidenced by ESMA enforcement reports) before launching any new legislative initiatives regarding these two Directives. The EU cannot pretend to build a Single Market for funds while ESMA has evidenced in April and December 2019 that regarding UCITS funds and management companies, the majority of National Competent Authorities across the European Economic Area has not taken any single administrative measure or sanction on their territories during the years 2016, 2017 and 2018;
2. **Make all IOSCO-suggested Liquidity Management Tools (LMT) available across the EU:** despite progress being made since our initial request expressed in the AMIC/EFAMA report of 2016, the full series of LMT is not yet fully available across the EU. We are therefore still encouraging ESMA to work with national authorities to make LMT available to fund managers across all jurisdictions. In this context, we also welcome the upcoming assessment in 2020 by IOSCO of the local implementations of its 2018 liquidity risk management recommendations for investment funds:
3. **Improve transparency and managers' knowledge of end-investors, to enhance LST and ease the management of potential redemption shocks:** for fund managers, cost-free access to data from distributors on underlying investors (investor profiles and related proportions of shares/units) would be a great improvement for conducting LST by better anticipating investor behaviour, as required by ESMA Guidelines adopted in September 2019;
4. **Enhance market liquidity for corporate bonds and small & mid-cap stocks:** this involves reactivating the critical function of market-making. Regarding corporate bonds, we call on the European Commission to follow up on the policy recommendations of its expert group on corporate bonds and, in particular, to repeal or at least phase in the implementation of the mandatory buy-in regime under CSDR, which could significantly hinder market liquidity as shown by a recent study released by ICMA.

Conclusion

Thanks to this updated Report on Fund Liquidity initiated by AMIC accompanied by EFAMA, EU policy-makers and regulators have now a better overview of all the regulatory provisions recently adopted, as well as the 4 areas for improvements proposed by the European fund industry.

For AMIC, such pro-active report initiatives are critical, as a practical way to demonstrate that the fund industry itself is keen to be constructive and in positive dialogue with regulators. This is the best way to go forward. ■

How do French institutional investors invest?

Jean-François Boulier
President, Af2i

The size of European institutional portfolios has grown dramatically over the last decades and their influence on the financing of economies and, nowadays, on extra financial characteristics of their issuers are clearly visible. It is therefore useful to gather the actual data on portfolios, analyse how investors invest and how their holdings evolve. Af2i has organised such an annual survey in the French market for more than ten years. This article presents some of the main results of an in-depth analysis of the evolution of institutional portfolios and outlines the future, with a newly launched European project.*

Introduction

In a unique survey, Af2i, the French Institutional Investors Association, tracks the asset allocation of its members for almost 20 years. A database covers the last ten years and enables an in depth look at the differences between nine different investor categories and sizes, providing a rare tool to analyse structural evolution of the investment behaviour of these large players over time. French market size is estimated to be around €3.2 trillion at the end of 2018, the fourth largest market globally behind USA, Japan and the UK.

The goal of this article is to analyse the main differences in asset allocations between categories of investors and their sizes between end of 2009 and end of 2018, a post crisis ten year period. Drawing on the outcomes of the survey, it looks at the evolution of the average allocations and their dispersions. We wanted to check whether different liabilities influence the portfolio composition and if larger entities hold different proportions of asset classes than smaller ones. We also look at the changes in asset allocations during the last ten years, after the great financial crisis. In particular we investigate the consequences of new regulation put in place, specifically Solvency 2, and the impact of the very loose monetary policy of the ECB.

1) French Institutional market and the Af2i survey

The French market has grown in size over the years thanks to a high saving rate among French people. The total amount estimate is €3.2 trillion in market value and is dominated by insurers. Compared to other markets, it ranks second to the UK market in Europe. Most assets are managed under Solvency 2 regulation, making the French Insurance market one of the largest in terms of investments in Europe, and number two in relative terms to Malta, where insurance businesses also dominate the institutional landscape but of course with much lower amounts. On the other hand, the French pension market is very small compared to GDP and to other European markets. In relative terms, it is one of the smallest in Europe.

Af2i was created 18 years ago to represent institutional investors' interests to the market and to the French authorities. It has developed a number of services for its members who are the asset owning institutions. Guides and workshops help provide the necessary information to institutional investors on various topics like asset classes, e.g. Private Equity, Investment vehicles, e.g. ETF, reporting, e.g. Article 173 reports, etc. A survey was proposed to the members to find out about their holdings, predominantly the asset allocation of their portfolios, benchmark them against peers and to understand their requirements as far as asset management is concerned. The answers of the survey are stored in a database from 2010, with the first data corresponding to the year end of 2009.

There are presently 82 members belonging to the association and 61 of them answered the survey in 2019. The numbers have grown and have now stabilized, despite the concentration in the sector, to about three quarters of the members, which is quite large compared to other surveys. In term of amounts, €2.1 trillion were reported in the last survey which is equivalent to roughly two thirds of the total size of the French institutional market.

A few explanations may be useful for non-French readers. As in many countries, France has specific conditions that have had a great influence on the shape of the institutional landscape. The first to be recalled, is that the pension framework is predominantly pay as you go. A State decision made after WW2 to create a welfare system for French citizens and the pension system is part of it. The 42 schemes, that the Macron government now wants to reform, that were put in place then are almost all pay as you go. So, first and second pillars pensions are almost not funded. That is the reason why the amounts invested by these institutions are so low compared to the Netherlands or the UK.

French people tend to be good savers with a saving rate around 15%. But they tend to favour products they understand, which we cannot blame them for. They thus have piled money into real estate, banking products, the "livret A" (savings account) being the most popular, and in insurance products offering a guarantee on their invested capital. The "contrat en €" with more than €1.2 trillion is a good example of such products. This life insurance product enables you to save with a yearly bonus and a yearly guarantee on the accumulated wealth.

2) Asset allocations and their evolution

Graph 1 depicts the time evolution of the average equity allocations of the three types of institutions, along with the average of all categories weighted by their assets. The insurers are clearly the least exposed to equities, which make up around 9% of their portfolios on average, and their allocations seem to have declined somewhat over the period. The two other types of institutions tend to have much larger exposures to stocks, more than 20%, and these allocations tend to drift over time, especially for long-term provisions. Their country sub-allocations are quite stable, more than 75% in Eurozone markets, about 9% in the rest of European markets, 10% in the US market and the rest in Japan (2%) and emerging markets (3%). The average over categories of institutions is dragged down given the size of the insurers' portfolios.

Allocations to bonds are much larger, given the nature of the insurance products and the capital charge imposed by Solvency 2. But there are probably some tactical elements that we shall consider in the last section. But certainly, the most striking feature of the evolution of bond allocation is its remarkable stability, between 69% at the beginning of the period and 72.5% in the middle of the period. This can be interpreted by the liability driven approach most French investors follow. Given these liabilities have not evolved much over a decade the bond allocations don't move that much, specifically insurers' allocations which weigh more than the others on the average. This stability has a great advantage to the economy, that can rely on a constant financing stream from institutional investors.

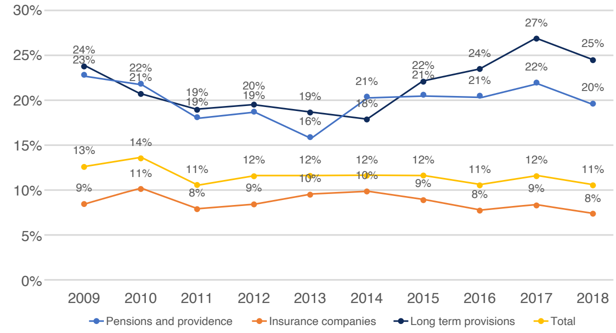
Average cash holdings have fluctuated by around 4% over the period. At the beginning, due to the consequences of the great financial crisis, liquidity was quite limited. The euro debt crisis pushed a number of investors to increase their cash holdings, which went down afterwards given the ultra-loose monetary policy of the ECB. Cash holdings increase again at the end of the period, probably because long-term rates and their anticipated evolution have deterred investors from taking interest rate risk, or because they hold cash while waiting for an allocation into alternative assets.

Given the large exposure to bonds, it is useful to analyse the content of the portfolios in terms of credit quality, type and maturity of the bonds held. Investment grade represents at least 80% on average and can go up to 95% at the end of the period, when spreads of riskier bonds offer less value for the risk. Fixed rate represents roughly 85% of the bond sub-portfolio, diminishing at the end of the period. Average maturities fluctuate between 6.8 and 7.7 years, and are quite stable over time.

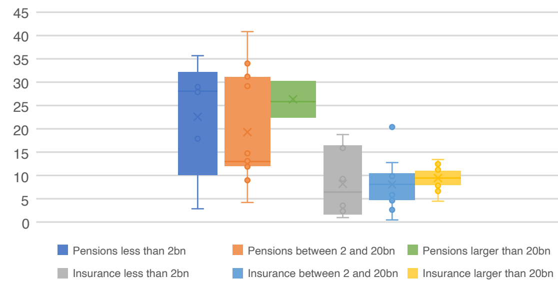
The remaining portions of the portfolios are invested in alternative assets, which are increasing sharply over the period for loans, now more than 2% of the total portfolios, infrastructure (about 1%) and real estate, which grew from 4.5 to 6.5% in the last ten years. The allocation to PE remains around 1% and hedge fund holdings have shrunk to less than 0.4%. The latest movement is probably linked to the bad reputation of hedge funds in the French market after the crisis. The total exposure to alternative assets has risen from 8% to 10.5% which indicates more appetite for yield and risks but remains quite a long way from other foreign institutions also buying into the Eurozone.

Graph 1

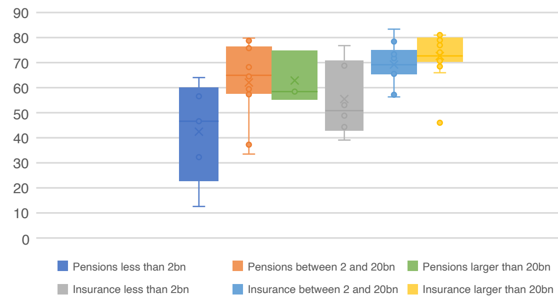
Equities (in proportion of AUM)



Graph 2 (a)



Graph 2 (b)



Finally, we would like to emphasize the effect of the size of the institutions on their asset allocations. Graphs 2 (a) and (b) present the dispersions of stocks' allocations (a) and bonds' allocations (b) for pensions and insurers, given the three size buckets considered in the survey (portfolios less than €2bn, between €2 and 20bn, and larger than €20bn). The data considered here are those of the 2019 survey. The average allocation to stocks seems similar whatever the sizes. But their dispersion is far greater, two to three times, inside the small size segment. When it comes to bonds, the average allocations tend to increase with the size, for pensions and insurers alike. Similar to allocations to equities, the dispersion of bonds' allocations are much larger for smaller institutions.

It seems that not only do insurers tend to follow similar investment strategies but that the larger they are the closer their allocations. Is this due to competition or size of the financial market they operate in or for governance reasons? More analysis of their balance sheet management, notably capital allocations, and their shareholders' structure might be useful. The diversity within the group of smaller institutions may illustrate the specialized nature of these smaller entities. The competition might be less of an issue for regional or sectoral players, at least on the asset portfolios.

3) Impact of major developments on portfolios

The decade after the great financial crisis has witnessed a number of major changes which may have an influence on the asset allocation of investors. As regulation is critical to institutions, we shall first have a look at the effect of the implementation of Solvency 2 on the insurers' portfolios. Then we shall analyse the impact of the ultra-low interest rate policy, that started with the announcement of quantitative easing by the ECB, on all institutional investors.

In each case we use the same statistical approach: we split the whole sample of respondents under review in two parts, before and after the event. We then test to see if the answers are statistically different. Let's start with the changes in asset allocation around 2015, when Solvency 2 was enforced. No significant differences appear between the allocations during the two periods pre- and post-enforcement, although the difference is more noticeable for equities' allocations which have gone down somewhat.

Turning now to the influence of ECB monetary policy on asset allocations, we look at pensions, insurers, and other institutions portfolios before and after 2014, when the QE was initiated. No significant effect is seen either on bond or cash portfolios. Only large institutions have increased significantly (at a 5% probability level) their real estate allocations after QE. These results are again somewhat surprising and show how stable the asset allocation distributions remain, even when monetary policy evolves dramatically.

Conclusions and future work

A better knowledge and understanding of institutional investors' asset allocation is critical for many reasons. It allows better reflection on potential outcomes for users and clients. It provides some clues on the financing of the economy by the market, a channel which has grown in importance over the years in Europe. Behaviour of institutional investors over a decade gives also some indications on how they adapt to a changing environment.

A few conclusions can be drawn from the analysis of the Af2i survey over the last 10 years. The allocations to bonds dominate, especially in insurers portfolios. The average allocations remain very stable over the years and even Solvency 2, for insurers, or QE for all respondents, have had very little effects on their portfolio structure. There are clear differences in asset allocations between the various types of institutions and also some variation when it comes to their sizes. The most notable difference being a much larger dispersion of portfolio allocations for smaller institutions than for larger ones.

These results depend of course on the quality and stability of the responses to the Af2i survey and are in respect of the French market. It would thus be of great value to compare the asset allocation of similar types of investors across various countries. This is the goal of the Louvre project that has been launched recently. It aims at gathering asset allocations of Institutional investors in Europe, relying on investors' associations, where they exist, and are willing to share that critical information. The first year, 2020, the project will focus on pension assets and, if successful, will then enlarge the scope to insurers and other longer-term provisions all over Europe.

The stability of investment policies shows the critical importance of the goals and the liabilities of institutional investors. Tactical choices may exist but are not visible on the averages. Other characteristics of the institutional investors would be of interest: their shareholders, their governance set up, the amount delegated to asset managers, and the influence of potential advisers, like consultants. Also, competition could be considered, especially for life cover and savings. Comparison with other European markets would also shed light on specific aspects of the French institutions and show commonalities across the continent. ■

What can be done about primary markets? A buy-side view

Chetna Mistry

Senior Trader, Western Asset Management

For as long as we can remember primary markets for European Investment Grade securities have never had a standardised process. This has often led to anguish regarding information dissemination on book size, security set ups, obtaining a prospectus, ISINs, and others.

One of the biggest hurdles the buy-side faces when it comes to primary deals is the setting up of new securities within their respective Order Management System ("OMS"). This can be time consuming especially when multiple deals hit the market at the same time. We, as the buy-side professionals, fast came to realise that information is not standardised between deals and can lack consistency. A lot of time and effort can be spent by the investment desk tracking down information to complete security set-ups. There are also regulatory checks that need to be carried out based on where the underlying investor client is domiciled. All of this takes valuable time and can be a distraction. Obtaining pre-trade compliance approval before a book closes can be a tall order as well, especially when there are approximately 10 - 15 deals a day at certain times of the year.

A book update is always sought-after information and can indicate how much momentum any given deal has. Fortunately, we have come a long way in Europe with regards to how book updates are communicated. There was a time when you called up your sales contact or the syndicate desk and got the book size, while your peers did not necessarily have that same information. All of this changed quite a few years ago and now there are book updates where all participants are given the same information at the same time. However, this does not always mean that a book update is provided. We have seen deals, especially in Sterling, where no book update is released prior to the deal being closed. Communicating book size prior to a deal closing has always been a bone of contention between the syndicate desks and the buy-side. This may be one point that we will never be able to agree on. As a potential buyer of bonds, the buy-side views this as critical information.

In discussions with investors, one of the popular topics is the initial price talk ("IPT"). As syndicate desks are aligned with the issuers, the initial pricing is set mindful of the preferred level for the issuer. More often than not, a hefty premium (typically 20 - 25bps) is then taken out of the IPT, resulting in a deal launching with little or close to zero premium. We have seen this happen more frequently, especially over the last year. This has an effect on the book size when certain investors pull their orders if the spread goes below their target. That being said, we are all familiar with the counterargument that investors indicate that they will pull their order if it goes below a certain spread but sometimes this never materialises – so how can the syndicate desk view us, the buy-side, as credible in these cases? I concede that there will be a small percentage of the investor base that may engage in this type of behaviour. However, what would help stabilise book sizes is not to show an IPT that is too far from reality. It is like being shown a diamond ring and ending up with a cubic zirconia! This is very evident in how some bonds trade in the secondary market after aggressive tightening in the primary market. It would also save a lot of time for investors when setting up a security for which an order is pulled after the IPT is squeezed too tight.

Book statistics that are released after the fact are another source of information that investors like to focus on. Although the information given is very generic, as investors we value understanding how the bonds were distributed, both geographically and by investor type. We even acknowledge that no two analyses of book statistics have the same groupings. This may be acceptable, but what is unclear is why suitably aggregated book statistics are not released for each and every deal, even if the release is a week later.

The easy part is pointing out critical inefficiencies in the primary market, but let us also outline some possible solutions that we as an industry can work towards. In 2018, ICMA created a Primary Markets Working Group, whereby all parties could come together – the buy-side, syndicate and issuers – to talk about the challenges we all face and how we can work towards a common solution. While this initiative has taken some time to gather traction, we believe the changes we have implemented so far do make a difference. By no means should we be complacent about the challenge. This is going to be a long, uphill struggle and all parties will require different things.

In January of this year we saw the standardisation of information for the announcement of fixed income primary deals in European Investment Grade, where 24 set fields now must be populated. This was a huge step for the industry. All deal information now includes a Legal Entity Identifier ("LEI") which will determine the hierarchy of the issuing entity in their respective capital structure. With changes being introduced to the prospectus regime we now see either a link to a prospectus or a preliminary prospectus attached. This has significantly reduced the time it takes the investment desk to get specific answers it needs, either during the security set-up or even during the compliance pre-clearance process.

We have also seen the emergence of electronic platforms for the primary market. Some are established, whilst others are in the testing phase. The information provided on these platforms is gradually aligning with the 24 fields mentioned earlier, but are not yet fully there. From what we have seen to date, there is an option to consume a machine-readable security set up on some of these platforms. This would obviously require a fixed link between the platform and the OMS. As a result, however, it poses a new issue given the increase in costs due to new regulations being introduced: are investors going to spend money to build this link and if so how much of a priority is this for an off the shelf OMS? We may see other technological entrants coming to the market in the future and they may be sufficiently innovative to provide the solutions the industry has been searching for.

Compromises will have to be made on all sides if we are to create a more standardised framework for the primary market. All parties readily acknowledge that we may have different priorities, but what we can all agree on is that we need to improve the process. Perhaps the two biggest negotiations we face will be the communication of book updates and a realistic IPT. These are both sensitive topics and the room for manoeuvre is limited from all sides. The good news is that we have made a great start. There is hope that by working together, through the representative forum that ICMA has established, we can eventually introduce a framework in Europe that one day may be replicated in other primary markets across the world. ■

CMU 2.0: how to reboot the capital market union?

Arthur Carabia
Director, ICMA

The Capital Markets Union (CMU) has been a major initiative of the outgoing European Commission. There is a significant degree of consistency between ICMA's mission and the objectives of CMU, given which ICMA has supported CMU from the outset and continues to see significant value in the further development of the CMU concept.

More than four years since the launch of the Commission's CMU Action Plan there is a sense that it has been prolific in terms of legislation, but not yet efficient in terms of impact on markets, which remain too fragmented. The Commission has set up a High-Level Forum on CMU, to collect more ideas to boost this project, and is expected to announce a new action plan in Q3 2020 (i.e. CMU 2.0).

Now is the opportunity to reflect on what should be done, or avoided, when moving CMU forward.

Post-crisis regulation

We understand and support efforts which have been made to achieve financial stability, which in overall terms is in everybody's interest. Nevertheless, there is still a concern that the regulatory response to the crisis has comprised a series of individually designed measures, without there being an overall understanding of the way in which the pieces would fit together. Accordingly, it is very welcome that ongoing efforts are being made to evaluate impacts and is important that there be a willingness to recalibrate elements in order to try and address unintended consequences.

ICMA's studies have shown the importance of fixed income markets as a financing channel and drawn attention to the fact that increasing regulatory burdens, in particular tighter capital constraints on banks and insurance companies, have put market making activities, in both cash bonds and repos, under significant strain. In that context we would hope that consultations regarding the implementation of Basel III and Solvency II and their respective impacts on the functioning of capital markets will be thoroughly assessed. Although not foreseen at this stage, we also hope, that under the CMU agenda, the CSDR review (which was due by 18 September 2019) will reappraise the mandatory buy-in regime and its expected negative impact on market liquidity, as already flagged in 2017 by the Commission's own expert group on corporate bonds. The MIFID II/MIFIR review also provides a useful opportunity to assess the impact of the research unbundling provision on SMEs' research coverage and, even more importantly, to create EU consolidated tapes for bonds and equities.

- See the below dedicated article on the impact of mandatory buy-ins under CSDR
- See ICMA paper calling for an EU consolidated tape for bonds

CMU initiatives

Although all of the 13 proposals identified by the last Commission as the key CMU building blocks have now been adopted, important Level 2 measures for many of the agreed initiatives have either been delivered late or are still pending – including on flagship files such as STS securitization and the Pan-European Personal Pension (PEPP) product. However, the initial observation is that the potential of key measures is hampered by the introduction of too many detailed constraints, leaving it likely that the key CMU initiatives will fall far short of the desired level.

For example, despite a favourable political context (i.e. Investment Plan for Europe) and the fact that the industry had welcomed this initiative, only a very limited number of ELTIFs were launched so far, leading AMIC to issue a series of recommendations for a review of this regulation. Likewise, only a limited volume of STS securitisation transactions have happened since the entry into application of their regulation and this has not really contributed to a revival of European securitisation markets (especially that for ABCP). And, while the renewed prospectus regulation may be significant for EU capital markets, when placed alongside the constraints imposed by MiFID and PRIIPS it will not do anything to boost meaningfully the development of retail fixed income markets, albeit that bonds should in principle be more retail-friendly than (first-loss exposed) equities. Meanwhile, if the Level 2 measures are not well-calibrated for the PEPP it could be another example of a missed opportunity (e.g. restrictive fee cap).

- See AMIC discussion paper on ELTIF review
- See dedicated article on STS securitisation below

Sustainable finance

In parallel, the Commission has put in motion its sustainable finance action plan (e.g. adoption of the EU taxonomy, EU Climate benchmarks, ESG disclosures) which strongly participate to the objectives of the CMU. There is indeed a need to address the risk of fragmentation that could emerge as a result of pushes, for example, for national sustainability standards; labels for financial products (such as for green bonds or green funds); national taxonomies; or delegated national interpretation of the future EU Taxonomy. It is in these areas that efforts should be focused, to avoid diverging practices which would also undermine the objectives of CMU.

Moving forward (e.g. EU label for investment funds, EU green bond standard) we strongly believe that policymakers can and should allow – and even encourage – a diversity of sustainable products, providing a range of different approaches to sustainable investment to suit an array of asset owner needs and motivations. Some flexibility will be needed to allow for new products which may achieve sustainability goals by different routes and meet different needs and preferences from investors.

- See dedicated article on sustainable finance below

FinTech

Alongside this, at the same time as technological development holds the potential to boost economic productivity in most fields of human endeavour, FinTech offers a way in which to potentially rise to many of the challenges of formulating and regulating better markets. By thinking ahead, rather than looking back, the EU can seize this opportunity to build and develop its market capability in ways which already integrate and capitalise upon the potential which digitalisation offers, while simultaneously instigating safeguards in respect of associated technological risks. The prospect of tokenization making tangible assets (e.g. real estate) more liquid, transparent, and accessible is one example of how FinTech could support the CMU. Given the challenging legal and compliance issues implicit in this innovation, the Commission can play a facilitative central role, and the recent consultation on crypto-assets is a welcome first step.

Avoiding fragmentation

Brexit adds a significant further layer of complexity, exacerbating the risk of market fragmentation and ICMA has contributed to efforts to avoid or mitigate cliff-edge risks. The EU27 continue to anticipate wishing to develop capital market capabilities (i.e. CMU 2.0) but greater clarity is needed about how best to do this in a way which maximises the opportunity to attract investment to Europe through open and integrated capital markets. The coming debate about the EU/UK relationship and the extent to which a model of regulatory equivalence can facilitate market access, suitably respecting the importance of safeguarding EU markets and their users while also facilitating their abilities to benefit from UK financial market capabilities, will prove important.

- See ICMA paper Brexit: can capital market fragmentation be avoided? ■

EU sustainable finance action plan: taking stock and moving forward

Carey Evans

Managing Director, Public Policy, BlackRock and co-Chair of AMIC Sustainable Finance Working Group

Patrick Simion

CEO Chief of Staff and Head of Public Affairs, BNP Paribas Asset Management and co-Chair of AMIC Sustainable Finance Working Group

During 2019, AMIC created a dedicated working group on sustainable finance, reflective of the fact that both investors' and policymakers' interest in sustainable investment products has considerably increased at EU and international levels.

In 2020, there is no doubt that the sustainable finance initiatives initially launched under European Commission President Juncker will continue to be on top of EU's agenda, especially now that his successor, President Ursula von der Leyen, has announced a Green Deal, which has the objective of unlocking €1 trillion of sustainable investment over the next decade.

Commission Executive Vice President Valdis Dombrovskis has already expressed several times his wish to press ahead with the finalization of the EU taxonomy, which defines what activities are to be considered sustainable, and we are still looking ahead to the important level 2 provisions, aiming at establishing applicable quantitative and qualitative criteria for the sustainable disclosures that will be required for all EU investment products from March 2021.

With the Commission unlikely to support any implementation delay for the new entity- and product-level sustainability disclosure requirements despite the extremely short timeframe to design and implement provisions, further discussions will most likely be necessary with national regulators to ensure that market participants and supervisors alike will be able to meet the implementation deadline. In this context, we are expecting ESMA to release, as soon as possible, a consultation on the necessary level 2 measures, which AMIC will respond to.

The Commission will also develop delegated acts setting minimum requirements (e.g. decarbonization target, underlying investment universe) for the voluntary benchmark labels recently adopted in the EU acquis (i.e. the EU climate-transition benchmarks and the EU Paris-aligned benchmarks), which are designed to provide added transparency and regulatory certainty to investors who wish to adopt investment strategies in line with these climate aims.

Regarding the anticipated EU Green Bonds Standard, the Commission needs to decide how best to take forward the proposal of its Technical Expert Group, which consists of a voluntary, non-legislative EU Green Bond Standard, to enhance the effectiveness, transparency, comparability and credibility of the green bond market.

The Commission has also expressed its desire to put forward an Ecolabel for investment funds, in respect of which a consultation is open until 3 April. This optional label, which will add a pan-EU framework to an increasing range of existing national labels, is likely to screen out certain activities and require a minimum portfolio exposure to sustainable activities, as defined by the EU taxonomy.

Finally, the Commission has just opened a consultation on a potential review of the Non-Financial Reporting Directive (NFRD), in order to enhance sustainability-related disclosures from issuers and provide all stakeholders with more comparable and relevant information on sustainable business activities.

This latter initiative is likely to be part of a renewed sustainable finance action plan presenting potential additional policy measures, which is an opportunity for us to take stock of progress made and formulate a few recommendations moving forward. We see three critical areas that the combined regulatory framework will need to address:

1. **Bringing clarity to the sustainable investment product landscape:** The most positive impact for end-investors from the emerging regulatory framework will be clearer standards for marketing investment products and portfolio strategies. End-investors have a wide range of different investment and sustainability objectives when selecting products and the existing variety of investment strategies responds to this variety of end-investor needs. However, the way products are described and marketed should be improved, to help investors better ascertain which products meet their needs.

    a. We see a need to build a clearer investment category nomenclature (e.g. Screened or Exclusion investments, ESG investments, and Impact investments, and clarity over the detailed portfolio strategies that might meet those aims). This should be a critical focus for the Level 2 process for the Sustainability

Disclosures Regulation; though it is not clear that the ambitious timeframe will allow for this additional objective to be met alongside the disclosure rules themselves, so it may need further focus from industry and regulators.

b. The multiplication of national ESG labels is creating confusion for investors and difficulties for asset managers. In order to market a fund in several European countries, asset managers have to apply for different labels, which have very different philosophies. This leads to additional costs for investors (cumulative label licensing and lack of scale) as well as incoherent investment strategies.

2. **Encouraging a taxonomy for economic activities that promotes investor choice:** We strongly believe that policymakers can and should allow – and even encourage – a diversity of sustainable products, providing a range of different approaches to sustainable investment to suit an array of asset owner needs and motivations. As the EU taxonomy is built and put into place in the coming years, it is important to recognize that the way in which different products use the taxonomy will need to be adapted to the investment approaches themselves. For example, some investment approaches can be appropriately analyzed with quantitative taxonomy-alignment metrics (e.g. green bond portfolios, or certain impact strategies), whereas others can not (e.g. screen-based strategies or many ESG weighted, optimized or best-in-class approaches). The taxonomy is extremely valuable as a reference framework, but it has shortcomings as a product disclosure framework that is additive to investor decision-making in all instances. Flexibility will be needed to allow for more qualitative uses of the taxonomy for products that may achieve sustainability goals by different routes and meet different investor needs and preferences.

3. **Promoting standardised and enhanced corporate issuer disclosures:** The continued growth of the EU sustainable investment landscape rests on the need for clear, publicly available and legally reliable corporate issuer disclosure. The myriad of reporting frameworks that exist today offer valuable insights onto a range of different ESG data. However, work should focus on reducing issuer reporting burdens while at the same time providing robust and comparable sustainability related information to investors and the general public. We see growing investor support for best-in-class frameworks like SASB and TCFD, and see the potential to encourage further uptake of these given the significant effort and progress that has already been made in developing them. We also see a clear role for technology to help minimize administrative reporting burdens on companies – for example by creating online portals where companies can provide information in a single place, which can then be analyzed and processed by third party ESG data providers and analysts/scoring systems. ■

CSDR impact study on mandatory buy-ins

Andy Hill
Senior Director, ICMA

Background

In 2015, mainly in response to concerns raised by sell-side members, ICMA undertook an impact study of the projected CSDR mandatory buy-in provisions on European bond markets.[1] A controversial piece of market regulation buried in legislation focused on settlement systems, the CSDR buy-in framework is a radical reinterpretation of how contractual buy-ins work in the non-cleared securities markets: legally, structurally, and potentially economically. Most significantly, the regulatory provisions would increase the market risk of liquidity providers considerably.

Implementation issues for the buy-side were already flagged in the AMIC review of November 2018.

In September 2019, ICMA launched a second impact study. Similar to the previous study, this set out to ascertain the potential impacts on liquidity and pricing across a range of fixed income sub-classes. This time, the surveys also focused on three main constituencies: sell-side market-makers, buy-sides, and repo and securities lending desks. [2] It also sought to establish market preparedness and expectations, as well as assessing potential modifications intended to lessen the undesirable consequences of the buy-in framework. The final report of the impact study was published in November 2019.

Market impact

Overall, the mandatory buy-in regime is expected to have significant negative impacts for bond market liquidity and efficiency. In terms of price impacts of the Regulation, bid-ask spreads of all bond sub-classes are expected to more than double, with covered bonds and illiquid IG credit seeing the biggest impact. In absolute price terms, the impact is most notable at the lower end of the credit spectrum, with significant increases for emerging market, high yield, and illiquid IG credit bonds. The new buy-in regime is further expected to impact the capacity of market-makers to show offers across all bond sub-classes, with core sovereign markets the least affected. Again, it is the lower end of the credit spectrum that is most impacted, in particular illiquid IG credit and high yield.

1 ICMA Impact Study for CSDR Mandatory Buy-ins (2015)
2 In total, there were 44 responses to the survey, representing buy-side firms (16), sell-side firms (16), and repo and securities lending desks (12).

Buy-side expectations

Buy-side expectations for the impact on pricing are largely consistent with the indications of price adjustment from sell sides. While they expect a general worsening of offer-side pricing across all sub-classes, there is a realisation that the biggest impact will be at the lower end of the credit spectrum.

Repo and securities lending

The survey responses suggest that, for the most part, lending and repo activity will continue as normal for SSAs. For other sub-classes of bonds, however, the indication is that borrowing securities will become both more expensive and more difficult.

Preparedness

More than half of respondent firms have plans to adapt their operational processes as well as their approaches to trading and risk management, with repo and securities lending businesses leading the field. However, the general view across all constituents is that there is limited or little market awareness of the regulatory requirements and likely impacts.

Summary of the survey

The survey results support the broad market view that the CSDR mandatory buy-in regime is likely to have a significant impact on European bond market pricing and liquidity across all bond sub-classes, but most acutely at the less liquid end of the credit spectrum. There is also a wide perception of a general lack of awareness of the regulatory requirements and likely impacts across the market.

While many respondent firms are beginning to adapt both their operational processes and trading and risk management approaches, there are still a number of uncertainties that would benefit from clarification, such as the ability to solve for the payment asymmetry, the possibility of a pass-on mechanism, and the scope of application to SFTs.

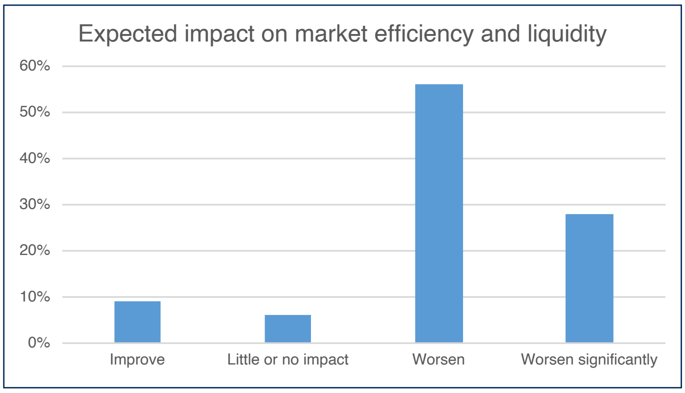
However, what the study highlights quite clearly is that, to avoid the potentially significant negative impacts on bond market liquidity and pricing, the regulators should consider more intrinsic modifications to the Regulation, such as applying a much longer extension period, or exempting less liquid (or all) bond asset classes.

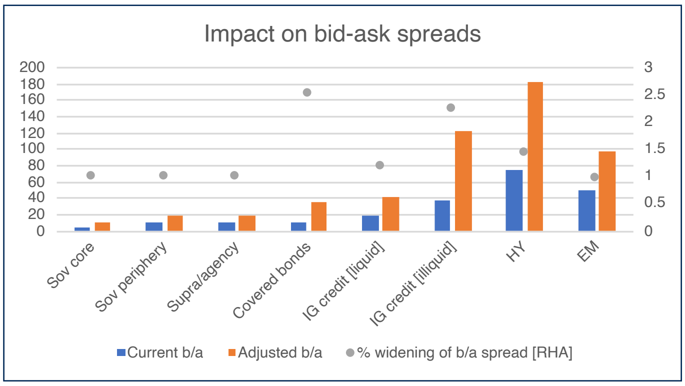
Finally, if the intention of the CSDR mandatory buy-in regime is to improve investor protection, there is little confidence or expectation among respondents that it will achieve this objective.

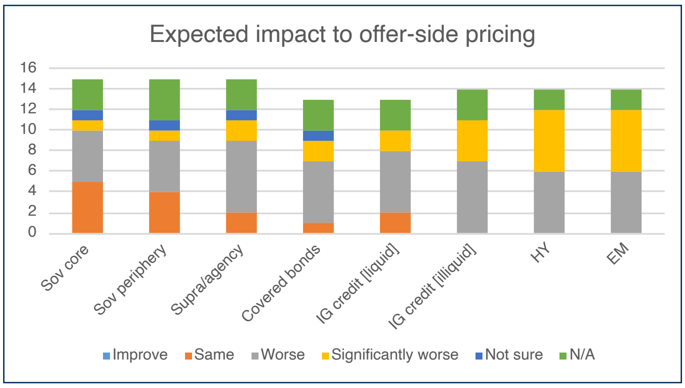
What is ICMA doing about it?

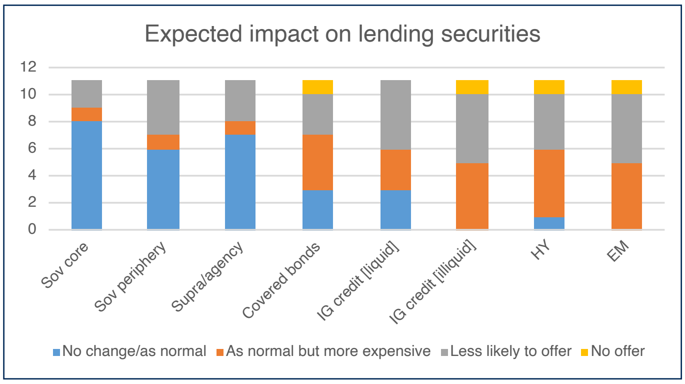
From the outset, ICMA has been advocating in favour of an alternative regulatory approach. Most recently, ICMA's AMIC and the IA wrote, on 30 January 30, to Executive Vice-President Dombrovskis of the European Commission, on behalf of their members, expressing concerns about the potential bond market impacts of the CSDR mandatory buy-in provisions. Representing European and global buy-side institutions, the AMIC and the IA encourage the Commission to undertake a robust market impact assessment of the mandatory buy-in provisions before attempting implementation. In the absence of such an analysis, as a minimum, the associations request a cautious, phased-in approach to minimize potential disruption to the European markets. ICMA has also recently co-signed a broader industry letter addressed to the Commission.

On 4 February 4, ESMA published a Final Report providing official confirmation of an anticipated further delay to the implementation of the CSDR Settlement Discipline measures, comprising both cash penalties and mandatory buy-ins. These are now set to go





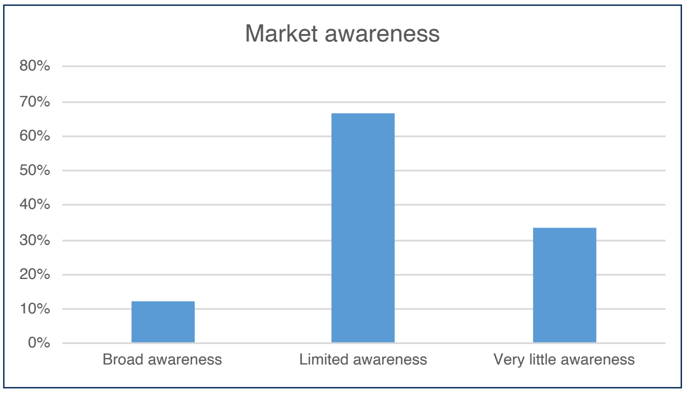


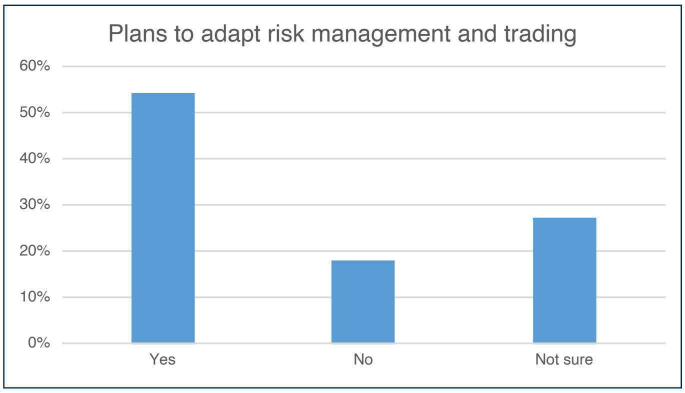


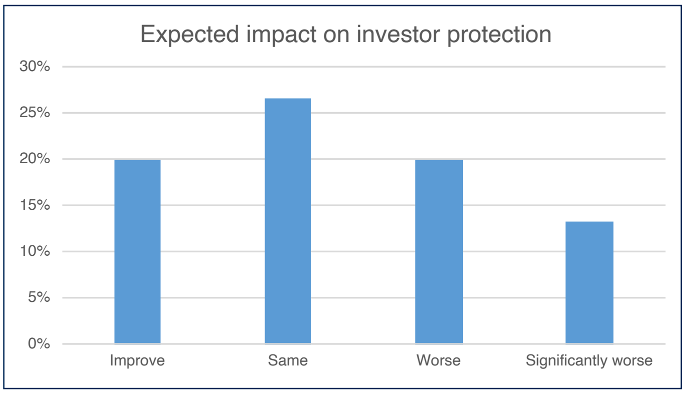
live on 1 February 2021. In this Final Report, ESMA outlines the technical reasons for the further short delay, which essentially relate to the timing of the ISO messaging update required to support the implementation of the penalty mechanism in T2S. The additional time required for CSDs to update their processes, and for firms to revise their practices and contractual arrangements, are also cited. This limited technical postponement should not be conflated with the more material continued delay being requested by the industry.

However, it should be noted that the delay is subject to endorsement by the Commission and a non-objection period for the European Parliament and Council. Although this is expected to be a formality this scrutiny period provides an opportunity to re-alert co-legislators as to the anticipated adverse unintended consequences of mandatory buy-ins and the need to reassess this specific provision of CSDR.

In parallel, ICMA is asking ESMA to allow, under a Level 3 ‘Q&A’ guidance, that where a receiving trading party has a failing settlement of the receipt of securities and a contingent (linked) failing onward delivery of the same securities, the receiving trading party may ‘pass-on’ the buy-in notice to its failing delivery trading party. This pass-on should be considered as equivalent to and complying with the regulatory obligation to execute a buy-in against the failing delivery party. This is intended to reduce the number of buy-ins required to remedy settlement fails, particularly where multiple settlements are contingent on a single (failing) settlement. ICMA is also assessing other ways in which to best manage the practicalities of mandatory buy-ins, including through potential changes to its own rules and best practice guidance.







STS securitisation: one year on

Rob Ford

Founding Partner, Portfolio Manager, TwentyFour Asset Management

At the beginning of 2019, the long awaited, and even longer in the making, new European regulatory framework for securitisation finally came into force, including the new flagship Simple, Transparent and Standardised (STS) designation.

Whilst European securitisations had actually performed extremely well through the financial crisis, with only minimal losses, regulators and policymakers felt that they had been tarnished with the same "toxic" reputation attributed to the US sub-prime mortgage market. They therefore set out to create a new, prudent regulatory framework designed to help restore confidence in securitisation. This seeks to allow both issuance and the investor base to begin to grow again, therefore helping securitisation to become a core part of funding the real economy.

At the heart of the new regulation was STS. Whilst the main framework contained a number of overarching rules such as due diligence requirements for investors, risk retention and asset reporting, the new STS designation would allow deals from certain asset classes such as mortgages and consumer assets like car loans and credit cards, which meet a number of minimum asset quality and best practice standards to also achieve the STS label. The quality of STS deals would be recognised by allowing more beneficial capital treatment for capital constrained investors, such as banks and insurance companies.

The regulations were structured so that originators or sponsors would attest to STS qualification at the time of issuance, although investors are also expected to satisfy themselves that deals qualify. However, the penalty for misrepresenting qualification is extremely harsh, with originators potentially liable for a fine of up to 10% of their total annual net turnover! To give both issuers and investors some comfort, an optional third-party verification process was introduced. Whilst the onus of attestation still lies with the originator/sponsor, the third-party verifier – a regulated entity itself – can help the issuer ensure its deal meets the numerous qualification criteria and also provide investors with an additional reference resource for their own analysis.

As it has turned out, the introduction of the new rules proved to be something of a damp squib.

Whilst the main framework of the regulations had been finalized a full year beforehand, a number of smaller but nevertheless important technical points still needed to be clarified. These included the reporting standards and templates that issuers would be expected to meet.

When the first version of these standards was released in mid-2018 market participants were somewhat horrified to discover that they included whole areas which they had previously been led to believe were out of scope and furthermore that the required level of mandatory

data completeness was far beyond that originally expected, encompassing data that for some existing loan pools had simply not been collected - as there was no inkling at the time the loans were originated that such data might be required.

Thankfully, after some significant industry lobbying, the European Commission recognised these difficulties and asked ESMA to reconsider how some of the requirements should be implemented. By this time however, it was only a few weeks before the new rules came into force and the reconsideration was going to take somewhat longer to complete. As a result, when the new rules went live last January, they were essentially unfinished, and therefore to a certain extent unusable.

Given the highly penal sanctions regime, it's not surprising that issuers were somewhat reluctant to take a leap of faith and attest that their transactions would meet the STS requirements whilst not actually knowing exactly what they were!

As a result, there were no publicly placed deals at all in January 2019, and only a handful of deals in the following 6 or 7 weeks. Most of these were from non-STS eligible asset classes although one or two potentially eligible issuers whose funding plans didn't allow them the luxury of waiting for confirmation did come to the market without the label.

Finally, in March, a new set of draft templates were published, along with more usable implementation guidelines. Whilst these were still only in draft form (and in fact have still not been finalized almost a year later) they gave enough comfort for some issuers to finally take the extremely brave step and launch deals with the STS attestation.

First out of the blocks was Volkswagen, a regular issuer in the auto loan market, with the 28th deal from their VCL German car loan programme, but notably the first ever STS deal. This was followed a couple of weeks later by Obvion, another regular issuer with the latest deal from their Storm programme of Dutch residential mortgages, and the first STS deal in the RMBS market.

By the end of April there had been four STS deals in total, including the first UK deal which was also the first master trust deal from Nationwide Building Society via its Silverstone vehicle. This deal was also notable for being the first securitisation to use the Sonia benchmark, in the transition away from Libor.

This tentative but positive start continued for the rest of the first half of the year, but after the summer things finally took off. By the end of the year there had been 49 placed deals with the STS label from a broad spectrum of issuers, asset classes and geographies, totalling over €30bn equivalent, from a total placed European ABS market in 2019 of around £100bn – a very similar amount to the previous year, and an excellent achievement given the almost total hiatus during the first quarter. At the time of writing, in mid-February 2020, a further 5 deals had been completed and a very healthy pipeline is expected for the rest of the year.

Asset Class	No. Deals	€bn Equiv.	Geography	No. Deals	€bn Equiv.
Auto Prime	19	13.9	Netherlands	9	5.9
RMBS	21	14.1	Germany	13	9.9
Consumer	7	3.6	UK	18	9.7
SME	1	0.26	France	5	3.3
Leases	2	1.2	Italy	4	2.6
Credit Cards	2	0.97	Spain	4	3.3
Auto Leases	2	1.4	Finland	1	0.80
Total	**54**	**35.5**	**Total**	**54**	**35,517**

Data from JP Morgan

There remains some question as to whether STS has yet achieved all of its aims, but it is still relatively early days. Certainly, there is no doubt that the deals carrying the designation have met the objective of being issued within a sound issuance framework, that should over time help to restore the confidence that policymakers hoped for.

The emergence of new investors is difficult to gauge. The new investor due diligence requirements are a high barrier to entry, albeit some may choose to ease that burden by using an expert asset manager to fulfil that role for them. There are definitely some signs at the senior end of the market that bank treasuries, for example, are slowly returning to the market, with STS being a core requirement for deals to meet their Liquidity Capital Ratio eligibility. It's also difficult to ascertain whether much of a pricing differential has yet been achieved, especially as eligibility is fairly black and white. There are no "nearly" deals. Non-eligible deals definitely trade wider than eligible deals, but this is typically because they are from different, non-eligible, asset classes and so are not easily comparable.

The rules are not perfect – far from it in fact – and industry participants are already petitioning regulators to review certain aspects in light of the first year's experience. Whether this will bring more practical changes remains to be seen.

What is clear though is that STS is here to stay and is being embraced by issuers of eligible assets. An STS designation opens a deal up to the widest possible investor base, and therefore if it's possible to achieve, then there should be no reason why an issuer would choose to do a deal without it. As such, it would be reasonable to expect further growth in issuance going forward and further steps towards the healthy marketplace, restored in confidence, which regulators and policymakers set out to achieve. ■

ICMA

International
Capital
Market
Association

Setting standards in the **international capital market**

The International Capital Market Association (ICMA) has made a significant contribution to the development of the international capital market for over 50 years by encouraging interaction between all market participants: issuers, lead managers, dealers and investors.

ICMA is a trade association, representing members globally, who are active in the international capital market on a cross border basis. It is also distinctive amongst trade associations in representing both the buy-side and the sell-side of the industry.

ICMA works to maintain the framework of cross-border issuing, trading and investing through development of internationally accepted standard market practices. It liaises closely with governments, regulators, central banks and stock exchanges, helping to ensure that financial regulation promotes the efficiency and cost effectiveness of the international capital market.

ICMA supports the growth of green, social and sustainability bond markets through its management of the Green Bond Principles (GBP) and Social Bond Principles (SBP), as well as the Sustainability Bond Guidelines (SBG), the leading framework globally for issuance of green, social and sustainability bonds.

Join the ICMA community of around 600 institutions in 63 countries who are already experiencing the benefits of ICMA membership.

membership@icmagroup.org

www.icmagroup.org

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 ICMA's 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.

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