International
Capital
Market
Association

Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

(Submitted by e-mail to icbmarketstudy@fca.org.uk)

25 May 2016

Dear Sirs,

FCA – Investment and corporate banking market study Interim report - MS15/1.2

The International Capital Market Association (ICMA) is responding to the above.

Representing a broad range of capital market interests including banks, asset managers, exchanges, central banks, law firms and other professional advisers, ICMA's market conventions and standards have been the pillars of the international debt market for almost 50 years. See: www.icmagroup.org.

ICMA is responding in relation to its primary market constituency that lead-manages syndicated debt securities issues throughout Europe. This constituency deliberates principally through ICMA's Primary Market Practices Committee[1], which gathers the heads and senior members of the syndicate desks of 48 ICMA member banks, and ICMA's Legal and Documentation Committee[2], which gathers the heads and senior members of the legal transaction management teams of 21 ICMA member banks, in each case active in lead-managing syndicated debt securities issues in Europe.

We set out our response in the Annex to this letter and would be pleased to discuss it with you at your convenience.

Yours faithfully,

Ruari Ewing
Senior Director - Primary Markets
ruari.ewing@icmagroup.org
+44 20 7213 0316

[1] http://www.icmagroup.org/About-ICMA/icma-councils-and-committees/Primary-Market-Practices-Sub-committee/.
[2] http://www.icmagroup.org/About-ICMA/icma-councils-and-committees/Legal-and-Documentation-Sub-committee/.

Annex
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Response

General

1. There is much material in the 377 pages of papers (excluding the Discussion Paper on IPO information availability) published by the FCA in the context of the Interim Report. The month and half consultation period in this respect contrasts with the 3-month consultation period allowed regarding the FCA's 42 page July 2014 Call for Inputs in this area.

Allocations

2. The Interim Report concludes that *"Allocations of shares in IPOs are skewed towards buy-side investors from whom banks derive greater revenues from other business lines"* but then notes that the FCA will *"investigate further with individual banks where our analysis raises questions about conflict management in IPO allocations"*. One looks forward to the completed FCA analysis in this respect.

3. The Interim Report notes that FCA focused on IPOs *"because the relevant IPO allocation books were readily available and it was in the context of IPOs where stakeholders raised the greatest concern regarding allocations"* but that FCA *"also considered whether the issues [FCA] have identified in IPOs have any read across into DCM"*, noting FCA *"did not observe any material difference in approach to allocation practices in the context of DCM"*. FCA however specifically welcomes *"views on whether there is any read across of [FCA] findings on IPOs to DCM allocations"*.

4. In respect of any DCM read-across, DCM generally has very different characteristics from ECM (and not just specifically in primary issuance). Some primary DCM aspects are covered in various ICMA materials (including referring to DCM allocation policies and to DCM lead managers seeking to account for the interests of their borrower clients when allocating bonds on new issues): #13-17 of Appendix A12 in the ICMA Primary Market Handbook[3]; #9, 15, 27-29 of the ICMA August 2014 MiFID II consultation paper response[4]; and at #30-35 of the ICMA January 2015 FEMR response[5] (including notably that some large investors benefit from legitimate buying power as borrowers naturally have an interest in such investors being well allocated in their transactions). It is however difficult to provide input meaningfully further beyond the transaction-level DCM data and other DCM input already provided to the FCA (bearing in mind the IPO analysis is still subject to FCA completion as noted above and absent the rationale for the FCA's above view of no material difference in the DCM context).

5. The Interim Report notes *"that in October 2015, the Investment Association issued Guidelines for New Issue Transactions in Fixed Income which included guidelines on disclosure of post-allocation statistics"*. In this respect, initial ICMA staff comments on these Guidelines were shared with Investment Association and FCA staff in October 2015.

6. In terms of the Interim Report's specific questions Q5 and Q6 *("What additional steps should we be taking, consistent with MiFID II, to help address the concerns we have raised?" / "Are there*

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[3] http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Primary-Markets/ipma-handbook-home/
[4] http://www.icmagroup.org/assets/documents/Maket-Practice/Regulatory-Policy/MiFID-Related-Documents/MiFID2---ICMA-Combined-Response-to-ESMA-CP-2014-08-01-(ICMA-Website-version).pdf
[5] http://www.icmagroup.org/assets/documents/Regulatory/ICMA-FEMR-CD-response-14-January-2015.pdf

any barriers to the emergence of other innovative approaches to book-building that we can address?"): (i) MiFID II is indeed quite detailed, (ii) the ongoing work of the FICC Market Standards Board should also be borne in mind and (iii) ICMA and its members are engaged with various initiatives around the book-building process (including electronification and also[6] challenges with auction and retention processes).

League tables / contractual tying

7. ICMA is aware that BBA and AFME are responding on these aspects.

[6] See the FEMR response previously referenced.