



ICMA's engagement on FinTech and market electrification

By Gabriel Callsen

Introduction

FinTech¹ and market electrification² have been focus areas of ICMA for a number of years. Together with member firms, ICMA has undertaken substantive work across primary, secondary, repo and collateral markets. This article highlights how FinTech and market electrification have been addressed through ICMA's different constituencies and provides an overview of current initiatives.

Primary markets electrification

Whilst the uptake of technology solutions in primary markets remains limited in comparison to secondary or repo and collateral markets, it is arguably an area which offers significant potential for further electrification. In primary markets, discussions on FinTech developments, whether "conventional" or new technologies such as distributed ledger technology (DLT), have periodically been on the agenda of the [Primary Market Practices Committee](#) (PMPC), [Corporate Issuer Forum](#) (CIF), [Financial Institution Issuer Forum](#) (FIIF), and [Euro Commercial Paper](#) (ECP) Committee.

How technological developments may potentially impact market practice is a key question for ICMA. For instance, in the ECP Committee the potential evolution of the ECP market process in light of technological solutions has been addressed. Building on distributed ledger technology (DLT), which has been developed in collaboration with ING, ABN and KBC, Commerzbank [completed](#) a proof of concept for issuing ECP together with KfW Banking Group and MEAG last year. A demonstration was subsequently arranged with the ECP Committee, illustrating how DLT could conceptually be utilised to create a more streamlined process for the issuance and redemption of ECP.

Discussions around technology and opportunities to enhance the efficiency of existing ECP market practices continue. Further use cases of technology are being considered.

Secondary markets electrification

In secondary markets, ICMA continues to address electrification and automation, and their role in the evolution of market structure³ in secondary fixed income markets. Under the umbrella of the [Secondary Market Practices Committee](#) (SMPC), the [Electronic Trading Working Group](#) (ETWG) and [Platform Working Group](#) (PWG) have focused on these topics for several years.

In the run-up to the implementation of MiFID II, members of the ETWG and regulatory experts from respective member firms came together as MiFID II Working Group to discuss the implementation of MiFID II and notably the implications for market structure, innovative trading protocols, execution and regulatory reporting requirements. To face many of the challenges of MiFID II and its impact on trading practices, joint meetings with the PWG have been held on a number of occasions.

As a result of this fruitful engagement, the ETWG and PWG are going to be merged to form the Electronic Trading Council (ETC), combining buy-side and sell-side trading representatives, along with representatives from the trading venues and technology providers, as a technical sub-group of the SMPC. As fixed income electronic trading evolves, the primary purpose for the ETC is to provide a centralised platform for dialogue to identify best practice or standards and address technical issues. The first meeting is scheduled for the second half of April 2018. The ETC is expected to inform the broader work of the SMPC and is intended to ensure that FinTech is mainstreamed into ICMA's secondary market focus and workstreams.

1. A term broadly used to describe innovation in financial services enabled by technology.

2. The rising use of technology across the securities lifecycle.

3. Here we use the term 'market structure' in the macro sense of how markets are organised and operate.

Furthermore, in light of the evolving market structure resulting from MiFID II, ICMA is in the process of reviewing and updating the [mapping directory](#) of electronic trading platforms (ETPs) and information networks. The revised version of the directory is expected to be published in Q2 2018. The ICMA ETP mapping directory remains a unique resource for the European fixed income markets.

Electronification in repo and collateral markets

The use of technology solutions for repo and collateral management operations is widespread, which is reflected in ICMA's engagement through dedicated working groups under the umbrella of the [European Repo and Collateral Council](#) (ERCC).

The [ERCC Ops FinTech Working Group](#) (WG) focuses precisely on technology solutions for repo and collateral management operations. Having launched a mapping exercise in late 2016, the Ops FinTech WG carried out the mapping throughout 2017 and published the ICMA Ops [FinTech mapping directory for repo and cash bond operations](#) in November 2017. The directory is available on ICMA's website and provides a (non-exhaustive) overview of over 100 applications across 10 categories including collateral management, intraday liquidity monitoring and reconciliation.

Based on the FinTech mapping directory, a survey is being conducted amongst members of the Working Group and the ERCC Operations Group to help determine common priorities, shared concerns or suggestions and, if required, engage with vendor firms to address operational inefficiencies in the market.

It is furthermore anticipated that the reporting obligation of repos and other types of securities financing transactions (SFTs) under the upcoming SFT Regulation will further drive electronification. ICMA's [SFTR Task Force](#) has engaged and will continue to engage with relevant stakeholders to prepare for the implementation of the reporting regime from 2019, address technology-related challenges, and allow for interoperability between technology solutions.

Electronification from a cross-cutting perspective

A consolidated view of ICMA's engagement and resources related to technology in fixed income markets can be found on ICMA's dedicated [webpage](#), including relevant committees, working groups, and the above-mentioned ETP and FinTech mapping directories. ICMA papers and further key contributions on DLT and other FinTech developments are also available on this page.

Furthermore, the [ICMA Future Leaders \(IFL\) Committee](#), which brings together individuals of ICMA member firms in the early stages of their career, has set up a dedicated IFL FinTech Working Group to complement ICMA's overall engagement in areas that have not been explored sufficiently.

Conclusion

FinTech and market electronification are themes which cut across all of ICMA's member firms and committees. Even though the level of adoption of technology varies, it is anticipated that technology will play an ever-increasing role and impact capital markets and member firms' business models.

A considerable amount of thorough work has been done and ICMA continues to work closely with members. ICMA seeks to mainstream relevant FinTech developments through all of its initiatives, activities and fora. This means identifying technology trends and anticipating the impact of technological innovation more broadly on capital markets, whilst monitoring relevant regulatory and legislative initiatives.

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