

ICMA FinTech Advisory Committee

ICMA's FinTech Advisory Committee (FinAC) held its third virtual meeting on 26 May 2020. Given that regulation plays an important part in driving standardisation and electronification in capital markets, a focus of the meeting was on regulatory developments at global level. The FSB Secretariat presented some of the latest aspects of the FSB's work in relation to FinTech, notably implications of BigTech in finance, the use of RegTech and SupTech, as well as the potential implications of COVID-19.

Electronification in both primary bond markets and repo markets is evolving rapidly. Building on the discussions in previous meetings on data standards and electronic messaging protocols, FinAC members led a discussion on trends, new initiatives and electronification within each area. The purpose was to share views on latest developments, identify gaps in terms of straight-through-processing (STP) and common standards, as well as potential common threads between primary and repo markets.

From an investor's perspective, new issue processes generally remain relatively manual and repetitive. There are a small number of incumbent technology providers and a large number of small players lacking critical mass who target different pain points of investors, issuers, and underwriters. ICMA's primary markets technology mapping directory provides a useful [overview](#) of currently over 30 technology solutions for a range of different functions in the debt issuance process.

Current challenges for investors include, for instance, the limited use of machine-readable deal announcement terms. ICMA's template, which was released in December 2019, has generally improved completeness but does not envisage machine-readability. Efficiency could further be increased if ISINs for new bonds were created more rapidly, which is a topic ICMA continues to address with the ICSDs. Accessing bond prospectuses and relevant documentation on the website of issuers, regulators or exchanges can also be a time-consuming process, which is further discussed in the article *Finding Prospectus Information Online* in this Quarterly Report.

In repo markets in Europe, electronic trading has grown significantly since its introduction two decades ago. Generally, electronic execution has increased in less complex inter-dealer transactions ie short-term, moderate trade sizes, and plain vanilla government bond collateral. Cost and access to CCP clearing were major drivers. Dealer-to-dealer (D2D) platforms have recently expanded to include request-for-quote (RFQ) functionality which allows for negotiation.

Complaints about slow take-up of electronic trading tend to refer to dealer-to-client (D2C) transactions.

Electronic D2D repo trading benefits from almost full STP, except for confirmations of general collateral allocation and CCP novations which require a manual step. As regards electronic D2C trading venues, one of the obstacles to STP is limited automation of collateral management to support tri-party agents, in addition to the more fundamental challenge of constructing widely accepted standard collateral baskets.

Reporting requirements under SFTR have arguably been a key driver of electronification in terms of workflow and communication, which accelerates cost pressures and facilitates greater STP but may not increase electronic execution. In light of diverse communication channels and messaging protocols, the Common Domain Model (CDM) can play an important role as a universal standard and enabler of interoperability. Further information on ICMA's collaboration with ISDA to extend the CDM to repos and bond markets can be found on ICMA's [dedicated CDM webpage](#).

The COVID-19 pandemic and the resulting shift towards working from home has posed obvious challenges for market participants, for example in terms of connectivity but also in terms of compliance, surveillance and privacy. Implementing change seemed to be more challenging given reduced physical interaction, but conditions under COVID-19 can also be a catalyst for innovation, for example, to promote the use of digital signatures.

Further background on the current composition of the FinAC and its mission statement is available on ICMA's [dedicated FinTech webpage](#).

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org
