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Assessment of Market Practice and Regulatory Policy

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ICMA
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ICMA is the long-established trade association for the international debt capital market. It has almost 500 member firms from 57 countries, including banks, borrowers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market. www.icmagroup.org

Green bonds evolve to serve climate action and COP21 pathway

Foreword by Bertrand de Mazières

A majority of investors have signed up for sustainable investment principles, and large coalitions have articulated their appetite for investments tackling climate change. The green bond market is a cutting edge response to this broader wave of responsible investment momentum. With the agreement sent for ratification by the Paris Climate Conference, COP21, the imperative for climate action has escalated.

The UN Principles for Responsible Investment have attracted signatories accounting for more than US$59 trillion in assets under management. Specific attention to climate change has also grown sharply. In particular, the signatories of the Montréal Carbon Pledge grew to over US$10 trillion from over 120 investors – signatories commit to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis. Going a step further, the Portfolio Decarbonisation Coalition mobilises investors to measure, disclose and reduce the carbon footprint of their portfolios. This coalition gained momentum in late 2015, coinciding with COP21, gaining US$400 billion in adherents to reach US$600 billion.

It is therefore timely that the market approach to green bonds solidified in 2015, delivering a stronger platform for environmental investment and climate action in particular. The evolution of the overall framework for issuance relied extensively on the Green Bond Principles (GBP), a broadly-based capital market initiative administered by ICMA, which has produced the most widely accepted framework for green bond issuance. Today, more than a hundred investors, issuers and underwriters are members of GBP, working together to define standards for the market.

The GBP Executive Committee (currently chaired by EIB) published an updated standard for the issuance of green bonds in March. The updated GBP identified four key areas for the approach to green bonds: the use of proceeds; the process for project evaluation and selection; the management of proceeds; and – last but not least – reporting on the use of proceeds and the temporary investment of unallocated proceeds. A related feature was the emphasis on impact reporting – concerning the environmental impact of investments financed by green bonds.

2015 may be seen as a turning point in addressing investors' call for impact reporting, to enable monitoring of the environmental impact of their investments. This seems crucial to fostering investor confidence and directing money towards demonstrable climate action. The GBP attention to impact reporting added momentum and credibility to this concept. To coincide with the GBP AGM in March, a first proposal for impact reporting was released by a group of 4 IFIs (AfDB, IBRD, IFC and EIB). In time for COP21, a wider coalition of 11 signatories had adopted the proposal and jointly revised it under coordination of the EIB to reflect the needs of a broader spectrum of issuers. Moreover, in 2015 investors welcomed new opportunities to link individual bonds and project impact (launched by EIB), offering a more precise Greenhouse Gas (GHG) calculus. The developmental work continues, as the GBP works to address issues raised during its latest annual market consultation on the Principles.

The green bond market grew and diversified further, despite the challenges of adjusting to crystallizing market standards. Total labelled green bond issuance in 2015 surpassed the 2014 total, reaching US$40 billion in 2015. Supply came from a wider issuer base, increasingly including corporates and private sector financial institutions. This serves the investor interest in building more diversified green bond portfolios. Liquid sizes also became more commonplace, and the market witnessed the buildout of the first green yield curve, an initiative from EIB in the euro (€) market. Investors responded favourably to the improved product offering, with mainstream investors playing a more active role, as they incorporate environmental criteria in their investment approach.

The climate pathway for capital markets is not only influenced by overarching GHG goals marked by COP21. At COP21 there was also much debate of newly minted official sector support for green capital markets, for instance through valuable guidance on what is green. To cite certain examples: the French authorities are preparing mandatory disclosure of portfolio GHG footprints, as well as green labels for portfolios serving the energy transition and broader ESG goals. The Swedish investment fund association proposed that asset managers operating in Sweden disclose the climate impact of their investments. Moreover, China reported plans for important new rules to frame green bond issuance, a move much anticipated by markets.

This convergence of capital markets and policy suggests that the world is gravitating towards a new investment paradigm. ICMA's support for the Green Bond Principles emphasizes its relevance and contribution to a new order where the words "responsible finance" take a fuller meaning. Work will continue in 2016, when the dialogue with public authorities interested in promoting green bonds can be expected to increase in importance, and other dimensions of responsible finance such as "social bonds" will be looked at.

Bertrand de Mazières is Director General Finance, European Investment Bank, and a member of the ICMA Board.

Chief Executive's review of activities and outlook for ICMA

by Martin Scheck

As we enter the New Year, it is time to review briefly ICMA's activities during 2015 and to look ahead to 2016. Some of the priorities are already clear and others will emerge as the year progresses. Our mission however remains the same – to promote resilient and well-functioning international debt capital markets.

At the outset I would like to thank all of the many individuals – well over 700 of you – from our member firms who work with us on our various committees, councils and working groups. They help us set standards of good market practice and provide expert input on the workings of the capital markets, allowing ICMA to work with the authorities to try and help to ensure that the regulatory framework in which we operate is as good as it can be. Your support is invaluable and we are very grateful.

All areas within our core focus, primary markets, secondary markets and short-term markets, in particular repo and collateral, are facing market practice challenges, and are subject to on-going regulatory scrutiny and change, which will affect the business of our members, whether issuers, intermediaries, investors or infrastructure providers, both large and small, located all over the world.

A key achievement last year was the launch of the revised ICMA Primary Market Handbook. This was the culmination of a thorough review over a number of years gathering input from all segments of the market – often via our new issues roundtables where we bring together investors, issuers and primary underwriters to discuss primary market practices. Regulatory scrutiny in the new issue area is intensifying and we have been working with the relevant authorities, notably in connection with the UK's Fair and Effective Markets Review and the subsequent competition review.

Our three issuers' committees, for financial institutions, corporates and sovereign, supranational and sovereign agencies, were all active last year. Additionally we run syndicate manager committees not just in the UK but also in Scandinavia, Switzerland and Asia, supported by legal and documentation committees. Over the years these committees have spearheaded the market's input to regulators on prospectus arrangements for new issues and of course are heavily involved in assessing the proposed new European Prospectus Regulation. In China we published together with NAFMII a comparative review of new issue processes in the international market with those in the Chinese interbank bond market as a means of exploring ways in which common market practices can help to make debt markets more efficient, resilient, and well-governed.

Challenges in secondary markets remain without doubt the concerns most frequently voiced by our members. This time last year we had just produced what turned out to be an early and extremely influential review of the state of secondary bond market liquidity. This was a major strand of work in 2015 and we used the review as a basis for extensive discussions with issuers, intermediaries and investors, with authorities in many different countries and with global bodies to highlight the issues facing the sector.

As the market's focus on electronic trading has increased we have applied more of our resources in this area, producing a mapping study of all of the main electronic platforms in use in Europe to help our members compare and contrast their characteristics. We have seen a greater extent of market engagement in our Secondary Market Practices Committee from both buy- and sell-side members and the substantial enthusiasm to join our newly constituted Electronic Trading Working Group.

In the context of avoiding any further deterioration in secondary liquidity both MiFID II/MiFIR and the CSDR were resource intensive for ICMA last year. However I believe that our work has contributed to more positive outcomes than would otherwise have been the case – in MiFID for the definition and calibration of which bonds are and are not liquid, and on CSDR around the details and timing of the unfortunate mandatory buy-in provisions.

Liquidity is a theme which resonates also in our repo and collateral work. We recently published a report on the current state of the repo markets which highlighted changes in the structure of the repo market and the resultant deterioration in repo liquidity.

The regulatory challenges to repo are keeping us very busy at present – the Leverage Ratio, LCR, NSFR, and transaction reporting amongst others, and we have again spent considerable time with authorities explaining precisely how the repo market works and its crucial role in the capital markets. Repo is a global product; we updated our Guide to Best Practice in the European Repo Market this year and used it as the basis for a new Guide on Repo in Asia.

An additional element last year which required substantial input from ICMA was the imposition, at the request of regulators, of 48 hour resolution stays into repo transactions amongst a group of 21 major banks – this was a complex task which required much internal and external legal work and diplomacy to reach a satisfactory resolution.

The ICMA repo community is one of our most active and steadily saw more engagement from buy-side members throughout the year reflecting their greater involvement in the repo markets. In 2015, we changed the name from the ICMA European Repo Council to the ICMA European Repo and Collateral Council to reflect more accurately the nature of the work undertaken by this group.

The conclusion of the recent COP21 discussions in Paris leads me naturally to the subject of green bonds. This is a fast growing market globally and ICMA is at the forefront of developments in its capacity as secretariat for the Green Bond Principles. Having organised the inaugural AGM and conference for these Principles in spring 2015, we are currently managing the annual revision process to the Principles following a questionnaire to members in the summer and expect the revised Principles to be released in spring 2016. This is a complex and high profile initiative which requires careful handling and an understanding of the different approaches adopted in different countries and regions. In China, as regulations are introduced to promote sustainable finance, ICMA has been appointed to China's Green Finance Committee and green bonds will be a major strand of our involvement in China in 2016.

These are just some of the many initiatives we have been addressing on behalf of members over the past year, and there have been many others, including our work on infrastructure funding, and that undertaken through our Asset Management and Investors Council (AMIC) and its associated working groups – for example on bail-in, private placements, securitisation, fund liquidity etc. All these feature in the Quarterly Report and on our website, www.icmagroup.org.

A major theme unifying many of the work streams above has been the Commission's Capital Markets Union (CMU) initiative. Given that ICMA has been supportive of an integrated capital market for nearly 50 years this is of immense interest to us. The CMU Action Plan is an important document addressing integration at a number of different levels and ICMA is committed to contribute wherever we can.

Complementing our direct market practice and regulatory policy activities, information sharing, education and networking are critical services that ICMA offers to members.

2015 saw a record level of activity as far as events are concerned. Whether roundtables, seminars or full-blown conferences, we held a record number last year based largely on requests from our regional committees. 2015's AGM and Conference in Amsterdam was exceptional – great speakers, full attendance and superb accompanying evening events. 2016's AGM will be in Dublin from 18 to 20 May and it is shaping up well – please join us.

We reported a year ago that we had recently inaugurated an ICMA Women's Network – this has built steadily in 2015 with a number of events and is now pan-European – there are currently over 500 members. In 2015 we started the ICMA Future Leaders group for individuals from members who are in the earlier stages of their careers. This has grown quickly with events in the UK as well as Switzerland and Holland, and many more are planned. For ICMA both of these groups allow us to familiarise a group of capital markets professionals who might not otherwise have known about our work and priorities, while offering them career-enhancing network opportunities, all of which will help to keep ICMA relevant in future years.

Education remains a priority and ICMA Executive Education has seen a record number of delegates. We relaunched the ICMA Fixed Income Certificate in the spring and most of our introductory and core courses are now available as classroom teaching and in on-line format. This has increased the range of participants, and in particular we have seen strong demand for the new on-line Fixed Income Certificate.

Our profile and activities in Asia, spearheaded by our Hong Kong office continued to grow in 2015. The approach has been to leverage the expertise we have built in the international markets into Asia, leading with primary, repo, green bonds and increasingly with secondary markets. We see growing engagement and demand for our services in the region. This is of course a vast area and highly fragmented with capital markets at different stages of development in each country. Accordingly we need to prioritise very carefully to ensure we use our resources fruitfully. China, as it internationalises, remains a core focus and, as mentioned earlier, the initiatives in primary markets and with green bonds are looking particularly promising. We were delighted to welcome Mr Yu Sun from the Bank of China to the ICMA Board during 2015.

In Africa, our newly constituted regional committee is providing valuable guidance as to where we can be most relevant – this is an exciting region with a growing membership and again the demand for the expertise we have built in repo, primary and secondary markets is high. We look forward to selectively building relationships in the region to help them in achieving some real benefits.

Membership continues to grow and we closed the year with some 500 full and associate members – which is a record over the last 14 years. This is very gratifying and we were delighted to welcome so many new members in 2015.

Looking ahead to 2016 a number of themes are already clear:

- ICMA's work on the European Capital Markets Union Action Plan has already started in earnest and will certainly continue for the next few years.
- The primary markets as the starting point for debt securities are the interface of capital markets finance with the real economy. In support of this essential funding activity we will continue to devote our efforts to ensuring that the markets are robust and fair for all parties, by keeping the ICMA Primary Market Handbook up-to-date and working with our primary market constituency around the world. In Europe the Prospectus Regulation will remain an important topic for 2016.
- Secondary liquidity in bond markets will remain a huge and overarching topic for both the buy- and sell-side. We will continue to work with all market sectors and the authorities to see how we can help mitigate the problems. We also expect to devote more resource to work streams on electronification and automation of the market.
- Repo is a major theme every year and is likely to be even more so in 2016. Liquidity and collateral issues loom large and will require continuous attention as well as the post-trade space and the final removal of the barriers to interoperability.
- Momentum in the green bond market is growing fast – as is the demand for standards, definition and regulation. This remains an area of intense interest for ICMA and its members and we will continue to try to balance the interests of all participants to ensure that the market is orderly, predictable and accessible to a broad range of issuers. We will also consider how we can apply the expertise from this segment to social bonds more generally.
- Our buy side, represented by the AMIC, will continue to be an important feature of our work in 2016. We will continue to bring our buy-side and sell-side members together to address common issues wherever we can.

It remains to thank you all again for your support and engagement throughout 2015 and to wish you all the very best for 2016.

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Assessing Capital Markets Union

Quarterly Assessment by Paul Richards

Summary

It is too early to make an assessment of Capital Markets Union, but not too early to give a market view of the tests by which Capital Markets Union should in future be assessed. There are a number of potential tests for assessing its impact in future. The main tests at a *macroeconomic* level relate to the impact of Capital Markets Union on economic growth in the EU and the EU's international competitiveness. Capital Markets Union may also have a *microeconomic* impact through its reforms of the structure of capital markets: eg on secondary market liquidity, infrastructure investment, product development, the balance between wholesale and retail markets, and between debt and equity. Finally, there is a question about the timescale over which the impact of Capital Markets Union can be assessed.

Introduction

1 The European Commission's initiative on Capital Markets Union is intended to encourage sustainable economic growth in the EU by using the capital markets to channel savings into investment. Capital Markets Union is an initiative relating to the EU as a whole. It is distinct from – but designed to be complementary to – Banking Union in the euro area. Following consultation on a Green Paper earlier this year, on 30 September the Commission launched an Action Plan on *Building a Capital Markets Union*. There is no single solution. The Action Plan proposes a series of 33 steps for delivering Capital Markets Union under the following heads:

- providing more funding choices for Europe's businesses and SMEs;
- ensuring an appropriate regulatory environment for long-term and sustainable investment and financing of Europe's infrastructure;
- increasing investment and choices for retail and institutional investors;
- enhancing the capacity of banks to lend; and
- bringing down cross-border barriers and developing capital markets for all 28 EU Member States.

2 This Quarterly Assessment considers those steps in the Commission's Action Plan on Capital Markets Union that are most relevant to the international cross-border securities markets in which ICMA members are involved. It is too early to make an assessment of Capital Markets Union, but not too early to give a market view of the tests by which Capital Markets Union should in future be assessed. There are a number of potential tests for assessing its impact in future. The main tests at a *macroeconomic* level relate to the impact of Capital Markets Union on economic growth in the EU and the EU's international competitiveness. Capital Markets Union may also have a *microeconomic* impact through its reforms of the structure of capital markets: eg on secondary market liquidity, infrastructure investment, product development, the balance between wholesale and retail markets, and between debt and equity. Finally, there is a question about the timescale over which the impact of Capital Markets Union can be assessed.

3 Each of these issues is considered briefly in turn in this Quarterly Assessment. Individual proposals which affect ICMA members from the Commission's Action Plan are considered in detail later in the Quarterly Report.

Economic growth

4 The first test is whether Capital Markets Union will encourage sustainable economic growth in the EU. Although the economies of the EU and the US are of broadly similar size, capital market financing in the EU represents a much smaller proportion of GDP than in the

“The first test is whether Capital Markets Union will encourage sustainable economic growth in the EU.”

US, if capital markets are defined as debt and equity securities. Under the European Commission's initiative for Capital Markets Union, US capital markets provide a potential point of reference. There may be lessons in the EU to learn from US experience, while recognising that the EU has different traditions and characteristics.

5 The main difference is that the EU has traditionally relied on banks to finance growth in the real economy to a much greater extent than the US. But bank financing in the EU is now constrained by regulation implemented in response to the international financial crisis with the objective of enhancing financial stability. Bank capital and liquidity requirements have been increased, particularly for systemically important financial institutions, and a leverage ratio has been imposed. Whereas banks in the US were recapitalised very shortly after the crisis, banks in the EU have taken much longer to be recapitalised and have been slower to be restructured. The level of non-performing bank loans is higher in the EU than in the US. EU bank lending to businesses has still not fully recovered from the crisis *(Chart 1).*

6 Capital Markets Union is not designed to replace bank financing, but to complement it. If sources of funding in the EU are diversified by making greater use of capital markets, the Commission hopes that they could help to finance a sustainable economic recovery in the EU. Diversification could also help to make the financial system more stable by reducing the EU's dependence on a single source of finance. Clearly, progress towards Capital Markets Union in the EU depends on the continuation of a level playing field for competition across the single EU market between market participants in the euro area and in the rest of the EU.

7 These objectives have the best prospect of being realised if the monetary and fiscal policies set by the authorities across the EU are appropriate, and any risks to financial stability, including any risks arising from the integration of markets, are appropriately regulated:

- In the first case, economic recovery has so far been much more pronounced in the US than in the euro area *(Chart 2).* There is consequently an increasing divergence between the policy response by the US authorities and the authorities in the euro area. In the US, the Federal Reserve concluded its quantitative easing (QE) programme some time ago and raised short-term US interest rates – by 0.25% – in December 2015 for the first time since 2006. In the euro area, the ECB only began its own QE programme of sovereign bond purchases in the secondary market in March 2015, with the objective of raising the level of euro-area inflation to its target level of below – but close to – 2%, and with the effect of weakening the euro exchange rate, which should encourage net exports. In December 2015, the ECB Governing Council decided to extend the completion date for the programme from September 2016 for at least a further six months at the same rate of €60 billion per month, but also to reinvest the proceeds of maturing bonds, while reducing its deposit rate from minus 0.2% to minus 0.3%.
- In the second case, the financial resilience of market firms and the stability of the financial system have been strengthened since the crisis: in particular, through an increase in bank capital and liquidity requirements, accompanied by stress tests, on the prudential side; and through much more intrusive regulation of the conduct of their business. While it is important to maintain financial stability, and counter emerging risks such as threats to cyber-security, the focus now needs to shift to achieving sustainable economic growth. This is where the Commission hopes that the Capital Markets Union initiative can help.

International competitiveness

8 To realise their full potential, capital markets in the EU need to be competitive not only with other forms of financing (eg bank lending), but also EU capital markets need to be competitive internationally (eg with North America and Asia). There are two important considerations here.

9 The first is whether the financial institutions involved in EU capital markets are internationally competitive themselves. Recently, European-based investment banks appear to have lost market share to US-based investment

“Capital markets in the EU need to be competitive not only with other forms of financing but also competitive internationally.”

banks. There are questions about whether this is because financial regulation in the EU is more onerous than in the US or EU financial institutions have been subject to higher fines and penalties; whether early recapitalisation and restructuring after the crisis has helped US-based investment banks; and how important it is to be based in a large domestic market like the US; or some combination of reasons. The test for the EU is to ensure a level playing field for all capital market participants.

10 The second and related consideration is how to make the domestic capital market in the EU as competitive as possible. Capital Markets Union is intended to help complete a single EU capital market: for example, by removing the remaining barriers to capital markets business across borders in the EU, and reducing market fragmentation as a result. There are still a significant number of cross-border barriers, despite previous attempts over many years to remove them, for example:

- barriers relating to the financial market infrastructure: it is still much more expensive to process financial transactions across borders within the EU than in the US, though TARGET2-Securities is designed to improve cross-border efficiency, when it becomes fully operational;
- differences between the 28 EU Member States in the way they treat insolvency, securities ownership across borders and withholding tax; and
- a new Financial Transaction Tax, which is still being negotiated among 10 Member States in the euro area, even though it is not consistent with the objectives of EU Capital Markets Union.

None of these issues will be easy politically to resolve within the EU. Nor will it be easy to ensure regulatory equivalence between the EU and "third countries".

11 However, it is encouraging that the new European Commission has introduced a "better regulation" agenda, whose objective is to improve the quality of EU regulation rather than its quantity, and to assess its overall impact. Around 40 separate new legislative acts were introduced in the EU at speed in the immediate response to the international financial crisis. Not surprisingly, they do not all fit well together, and there are a number of unintended consequences. The Commission hopes to identify these through its Call for Evidence on the cumulative impact of EU financial regulatory reform, while keeping the thrust of the regulatory reform programme unchanged. ICMA is responding to the Call for Evidence, focusing on the impact of regulatory reform on secondary market liquidity.

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To make EU capital markets work well they need to be liquid.

Secondary market liquidity

12 To make EU capital markets work well and be competitive internationally, they need to be liquid. (Market liquidity means the ability to trade one financial asset for another without a significant impact on the price.) The US dollar is currently much the most widely used reserve currency internationally, and the US Treasury market is the most liquid international securities market. In the euro area, government bonds are issued by 19 different governments, and there is no euro-area benchmark government yield curve. The ECB's QE programme injects liquid reserves into the financial system, but also takes market liquidity out of the system (eg by reducing the amount of collateral available for use in repo transactions, unless the collateral is recycled). This is particularly the case when the ECB purchases private sector assets, such as covered bonds, where the market is much more limited in size than the sovereign and agency bond market sector.

13 Corporate bond market liquidity in both EU and US markets has deteriorated since the crisis as banks have retrenched and the regulatory costs for banks of acting as market makers have increased. Market makers have run down their inventories, on some measures by up to 75%; and several sell-side market firms have withdrawn from market making altogether. Corporate bond spreads have widened *(Chart 3)*. This is not so much of concern in the case of those corporate bonds which are bought by investors with the intention of holding them to maturity. But in the case of those corporate bonds which have traditionally been liquid, the market-making model for providing secondary market liquidity has effectively been broken. It is not yet clear what will replace it:

- If the sell side acts only as an agency broker rather than as a market-making principal, that will not in itself provide market liquidity.
- Asset managers on the buy side may not be willing to take over the traditional market-making function from the sell side, particularly as asset managers are acting in a fiduciary capacity on behalf of their clients rather than operating on their own account.
- Trading on electronic platforms is still at a relatively early stage of development in the European market. One of the key questions is whether electronic trading platforms effectively create liquidity in the market or not.

14 A separate question being considered by the European Commission is whether greater standardisation of corporate bond issuance would contribute to liquidity.

Standardisation can mean two different things:

- Some large and frequent issuers of corporate debt in the EU already issue bonds as benchmarks, though there are not as many companies sufficiently large to be able to benchmark their issues in the EU as in the US. Smaller companies in the EU mainly issue bonds less frequently and in smaller amounts. They need to be able to determine when they do so, and have the flexibility to match their liabilities. For smaller issuers, standardisation of new issuance is unlikely to be helpful.
- In the case of offer documentation for new corporate debt issues, on the other hand, the market is substantially standardised already on the basis of regulatory requirements and the ICMA Primary Market Handbook, which is consistent with them.

In both these cases, the degree of standardisation should be a matter for the market to resolve, not for further EU regulation.

15 The problem of a lack of liquidity in the secondary market has been contained over the past few years by the strength of the primary market: bond yields have fallen to historically very low levels, while new corporate issuance has been at record levels over the past year. But when the bond market in the EU turns, and interest rates follow the US and begin to rise, lack of liquidity could well become a much more significant problem for investors. The problem would be compounded if the liquidity of investment funds (whose liabilities to savers are payable on demand but whose assets in financial markets can only be realised over a period of time) were to be called into question. A rise in short-term interest rates could also lead to capital losses for those investors, such as insurance companies, some of which already have a mismatch between the low current return on their financial assets and the higher historic cost of their financial liabilities.

Infrastructure investment

16 The historically very low interest rates which have prevailed since the international financial crisis should in theory make long-term investment in infrastructure by the private sector more attractive, once confidence recovers.

> “ The public sector is expected to play a larger role in infrastructure projects.

> “ The Commission is supportive of the steps which ICMA has taken under the pan-European private placement initiative.

Indeed, insurance companies and pension funds look for long-dated investments backed by stable cash flows to match their long-term liability structures. But there is still a regulatory disadvantage (eg in terms of capital charges) for insurance companies to make long-term investments in the EU under Solvency II. Although the investments are illiquid, capital is charged on them on the basis that the investments can be realised in the short term. The European Commission is due to reconsider the level of capital charges when Solvency II comes up for review.

17 Under Capital Markets Union, the public sector is expected to play a larger role in infrastructure projects through the Investment Plan for Europe under the aegis of the European Investment Bank and the European Commission. The Commission is projecting that €315 billion of additional investment can be mobilised by the public and private sectors under its European Fund for Strategic Investments *(Chart 4)*. There are two key tests for the effectiveness of the Investment Plan for Europe. One is the value for money from investment: the main challenge is to identify a sufficient number of infrastructure projects which are financially viable so as to attract private sector investment. The other is the composition of the risk-sharing arrangements between the public and private sectors, which are likely to affect the ratio of private sector capital raised in relation to the public sector's involvement through investment or guarantees.

Capital market products

18 Some capital market products – such as private placements and securitisations – are not as well developed in the EU as in the US, and the European Commission's initiative on Capital Markets Union is intended to encourage their EU development:

- *Private placements:* European corporate issuers have often issued private placements in the US rather than in their home market. The pattern is changing in response to the pan-European private placement initiative, which builds on national market precedents (eg in Germany, France and the UK). In the Action Plan, the Commission states that it is supportive of the steps which ICMA has taken under the pan-European private placement initiative.

> **The potential benefits in the long term mean that it is important to take the necessary steps as soon as practicable.**

- *Securitisations:* The reputation of securitisation in the EU was damaged by the crisis, even though losses were much lower for securitisations originated in the EU than in the US. In an attempt to overcome the problem, the Commission has proposed new legislation to promote simple, transparent and standardised (STS) securitisations. There are two main issues to be resolved: first of all, linking STS to a sufficient reduction in capital charges to incentivise investment, without the reduction being offset by increases in capital charges elsewhere (eg as a result of the Fundamental Review of the Trading Book); and second, devising a fail-safe procedure for deciding whether a securitisation should be categorised as STS or not. If successful, the revival of the securitisation market, through sales by banks to investors, should free up bank balance sheets for more lending (eg to small businesses).
- *Covered bonds:* The Commission has consulted stakeholders on the feasibility of a pan-European framework for covered bonds, owing to differences between a number of well-functioning national covered bond frameworks.
- *Green bonds:* The Commission is monitoring developments in the green bond market, which is coordinated through the Green Bond Principles, for which ICMA provides the Secretariat.

Wholesale and retail financial markets

19 To be internationally competitive, wholesale markets in the EU need to be free from barriers across borders. But there are also barriers in the EU to retail investment across borders. While retail investors need to be offered more investor protection than wholesale investors, it is important that the remaining retail barriers across borders are removed, because retail investment is one of the largest potential markets for growth in the EU (eg in response to provision for retirement) in the period ahead. Steps need to be taken to make cross-border retail issuance (eg by pan-European issuers) more attractive. Retail investors traditionally have a "home bias".

20 The Commission's proposal for a revised Prospectus Regulation is intended to encourage cross-border retail investment. It is not clear whether eliminating the €100,000 denomination threshold under the Commission's proposal will help to improve market liquidity by encouraging issues in smaller denominations. But even if it does, there needs to be some other way of distinguishing between wholesale issues distributed solely to institutional investors and issues sold to retail investors. If not, retail disclosure standards could be applied to wholesale issues, raising the regulatory burden, increasing costs in the wholesale market and damaging EU competitiveness.

21 In addition, the Commission has launched a consultation which looks at the retail market across the EU for financial services such as insurance, mortgages, loans, payments and bank accounts. The Commission is seeking to identify unjustified barriers that consumers face when they want to use such services across borders in the EU, as a first step towards deciding how best to remove them so as to increase competition and consumer choice. An Action Plan on *Retail Financial Services* is due to follow later in 2016.

Debt and equity markets

22 Since the crisis, the question of whether there is "too much debt" has become the subject of political debate. Did too much debt cause the crisis, or was it one of the consequences of the crisis? Is it justified to give preferential tax treatment to debt, by deducting interest rate payments against tax? And if not, should the preferential tax treatment on debt be removed, or should greater preference be given to equity (eg by making dividend income tax-exempt) so as to encourage equity investment? Under Capital Markets Union, the European Commission is due to prepare a proposal in 2016, as part of the work on the Common Consolidated Corporate Tax Base. To be effective, any such proposal would need to be agreed on a global basis (as in the case of a number of other corporate tax issues). The potential impact on the real economy would also need to be assessed.

Timing

23 The timetable for implementing the Commission's Action Plan on Capital Markets Union makes it clear that progress can be expected in the EU on some issues in the short to medium term. But the most important issues – like insolvency reform, securities law and withholding tax – have previously proved politically intractable, and will take a long time fully to resolve. They will need to be resolved in order to complete a single capital market across the EU. The full impact of Capital Markets Union on EU growth and competitiveness is therefore likely to take a long time to work through. But the potential benefits in the long term mean that it is still important to take the necessary steps as soon as practicable.

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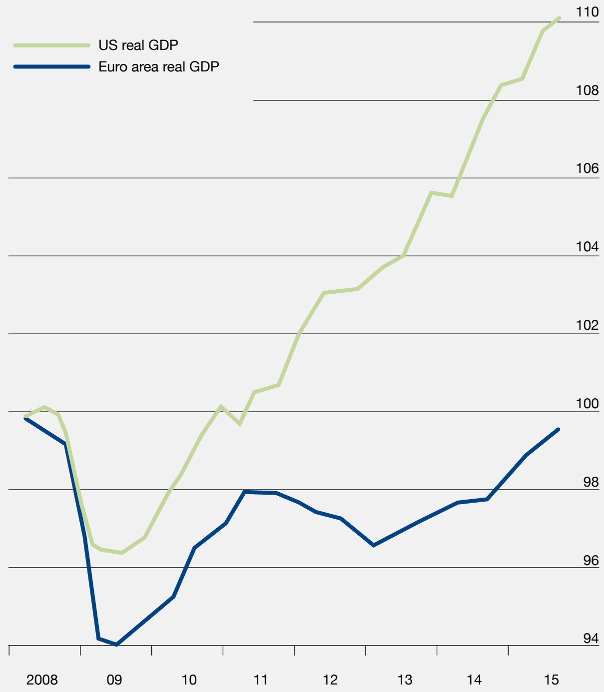
Chart 1: EU bank lending to business: 2008-2014

Note: year-on-year. Source: European Commission

Chart 2: Euro area and US real GDP: 2008-2015



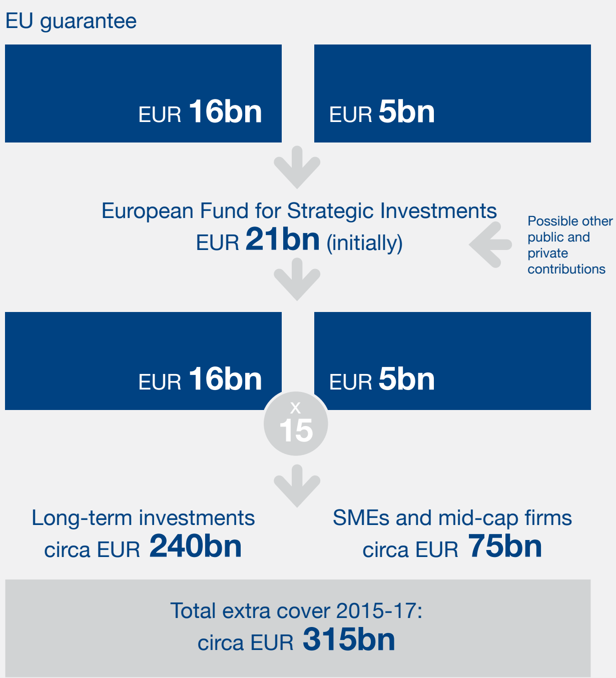
Source: Thomson Reuters; Haver Analytics

Chart 3: Corporate bond spreads

Note: EA non-financial corporate bond spreads by rating between iBoxx non-financial corporate yields and ICAP euro EURIBOR swap rates for different maturities, basis points.

Source: Thomson Reuters; ESMA

Chart 4: European Fund for Strategic Investments



Source: EIB

Practical initiatives by ICMA

There are a large number of practical initiatives on which ICMA is currently, or has recently been, engaged with, and on behalf of, members. These include:[1]

Short-term markets

1 *ICMA European repo market study:* The ICMA study on *The Current State and Future Evolution of the Repo Market* was launched on 18 November 2015. The study was undertaken by Andy Hill, who interviewed 47 major sell-side and buy-side firms and infrastructure providers. This is a companion study to the corporate bond market liquidity study published by ICMA in November 2014.

2 *Repo and MiFID II/MiFIR:* A Q&A on the implications of MiFID II/MiFIR for the repo market has been published on the ICMA website.

3 *ERCC:* The ICMA European Repo Council (ERC) has been rebranded as the ICMA European Repo and Collateral Council (ERCC), reflecting the scope of work being undertaken by this constituency.

4 *ERCC Operations Group webpage:* A new section of the ICMA website has been established containing detailed information on the work of the ICMA ERCC Operations Group.

5 *Securities Financing Transaction (SFT) reporting:* An ICMA paper on SFT reporting regulations has been published on the ICMA website; and the ERCC Operations Group responded to the Bank of England's consultation on *A New Sterling Money Market Data Collection and the Reform of SONIA*.

6 *SFT trade matching and affirmation:* The ERCC Operations Group has published a standardised template for trade matching and affirmation (TMA) of repo transactions, along with a supporting glossary.

7 *GMRA:* ICMA has published a legal opinion for Malaysia covering the Global Master Repurchase Agreement (GMRA), the most widely used standard agreement for international repo transactions.

8 *Resolution stays:* ICMA has announced the publication of a Securities Financing Transaction Annex that forms part of the newly published ISDA 2015 Universal Resolution Stay Protocol.

Primary markets

9 *ICMA Primary Market Handbook:* Following the launch of the revised ICMA Primary Market Handbook in London on 10 September, ICMA made presentations in Hong Kong and Singapore on 12 and 13 November and in Brussels on 19 November. ICMA has also published various revisions to the Primary Market Handbook in December, most of which were made to reflect changes in legislation.

10 *FICC Markets Standards Board (FMSB):* ICMA made a short presentation on the revised Primary Market Handbook and Repo Best Practice Guide to the Standards Convergence Sub-Committee of the FMSB on 5 November.

11 *FCA Competition Review of Investment and Corporate Banking:* Members of the FCA competition team had a discussion on new issue processes with large corporate issuers in ICMA's Corporate Issuer Forum at its meeting in London on 1 October.

12 *Prospectus Regulation:* ICMA's Prospectus Directive Review Working Group is considering the Prospectus Regulation proposed by the European Commission on 30 November.

1. ICMA responses to consultations by regulators are available on the ICMA website.

13 *Market Abuse Regulation:* ICMA has sought to engage various EU and national authorities on the draft Technical Standards on the Market Abuse Regulation, published in September by ESMA.

14 *Continuity of contracts:* On 16 October, ICMA responded to the IBA's second position paper on the evolution of LIBOR, focusing on continuity of contract.

15 *Primary Market Forum:* The annual ICMA Primary Market Forum was held at Slaughter & May in London on 24 November.

Secondary markets

16 *Electronic trading platforms:* ICMA is keeping its map of electronic trading platforms up-to-date on the ICMA website, following its launch at the end of September.

17 *MIFID II Level 2:* ICMA is planning to hold a workshop in London on 19 January on the implications of MiFID II for ICMA members involved in the secondary markets.

18 *CSDR Level 2:* ICMA has continued to discuss with ESMA possible ways of addressing the market's concerns about mandatory buy-ins under the CSDR.

19 *Secondary market liquidity:* ICMA is planning to respond to the Commission's Call for Evidence on the cumulative impact of the EU regulatory framework before the deadline of 31 January 2016, focusing on the cumulative impact of new regulation on secondary market liquidity.

Asset management and investors

20 *Systemic risk:* Following the decision by the G20 to focus on the systemic significance of the buy-side activities of asset managers rather than the institutions themselves, ICMA's Asset Management and Investors Council (AMIC) Executive Committee has set up a Fund Liquidity Working Group to consider liability management by the buy side.

21 *Simple, transparent and standardised (STS) securitisation:* The AMIC Securitisation Working Group has commented in detail on the EU legislation on STS securitisation proposed by the Commission on 30 September.

22 *Covered bonds:* ICMA has responded to the Commission consultation on a pan-European framework for covered bonds.

Capital market products

23 *Pan-European private placements:* ICMA was invited on 9 December to brief the EU Financial Services Committee in Brussels on progress in the pan-European Private Placement Joint Committee, which is chaired by ICMA.

24 *Infrastructure investment:* Senior representatives of the EIB spoke about the Investment Plan for Europe at the AMIC Council meeting in London on 29 October and at the Public Sector Issuer Forum at the EIB in Luxembourg on 19 November.

Other meetings with the central banks and regulators

25 *Central banks:* Senior representatives of ICMA and of its Market Practice and Regulatory Policy Committees held meetings with Benoit Coeuré, Executive Director, Markets, and Ulrich Bindseil, Director General, Market Operations, at the ECB in Frankfurt on 2 November; and with Chris Salmon, Executive Director, Markets, at the Bank of England in London on 18 November.

26 *PSIF:* Niall Bohan, Head of the Capital Markets Union (CMU) Unit in DG FISMA at the European Commission, introduced a discussion on CMU in the Public Sector Issuer Forum at the EIB in Luxembourg on 19 November.

27 *RPC:* Richard Knox of HM Treasury participated in a discussion with ICMA's Regulatory Policy Committee at its meeting on 15 December.

28 *Official groups in Europe:* ICMA continues to be represented, through Martin Scheck, on the ECB Bond Market Contact Group; through René Karsenti, on the ESMA Securities and Markets Stakeholder Group; and through Godfried De Vidts, on the ESMA Secondary Markets Standing Committee, the ECB Contact Group on Euro Securities Infrastructures (COGESI), the ECB Macroprudential Policies and Financial Stability Contact Group and the Bank of England's Securities Lending and Repo Committee (SLRC).

29 *Global groups:* ICMA participated in the meeting of the Affiliate Members Consultative Committee of IOSCO in Zurich on 26 October.

International Regulatory Reform

by David Hiscock

G20 financial regulatory reforms

Following the IOSCO Board meeting, held on 6-7 October 2015 in Toronto, a press release was issued, reporting on discussions "to reinforce IOSCO's position as the key global reference point for financial services and markets regulation". The Board discussion during the two-day meeting focused on three sets of activities in key priority areas as identified in the IOSCO 2020 Strategic Direction: identifying and responding through guidance to global market risks; providing assistance to IOSCO members and supporting the G20 efforts to promote stability in the global financial system. The meeting was preceded by a discussion among Board members on recent market developments, including recent market volatility and increased leverage, particularly in growth and emerging markets.

As part of its ongoing efforts to identify and respond to emerging risks, the Board discussed progress in IOSCO's work on asset management and agreed to publish a report on liquidity risk management in collective investment schemes. It further decided to conduct work on enhancing collection of data about asset management activity and considered developing guidance on liquidity risk management beyond its 2013 principles (including on stress testing). On advocacy in the FSB, the Board also confirmed that IOSCO will continue actively to contribute to the international debate on potential financial stability risks that could emanate from asset management activities and products.

The Board discussed its work in other key areas, including the risks posed by CCPs, market conduct, cyber resilience and audit quality, discussed progressing recommendations in the recently published report on cross-border regulation and endorsed work to provide further guidance to financial benchmark administrators and on crowd funding. Corporate governance and IOSCO's possible contribution to international integrated reporting were also discussed. On other issues, the Board heard progress on its review of IOSCO's *Objectives and Principles of Securities Regulation and supporting Methodology*; and also heard an update on proposals to undertake alternatives to its current implementation monitoring efforts.

In a letter to G20 Finance Ministers and Central Bank Governors, dated 5 October 2015, the FSB Chair, Mark Carney, discussed *Financial Reforms – Progress on the Work Plan for the Antalya Summit*. In brief, this letter states that the FSB's priorities for 2015 are (i) full, consistent and prompt implementation of agreed reforms; (ii) finalising the design of remaining post-crisis reforms; and (iii) addressing new risks and vulnerabilities. The letter notes that the FSB is making considerable progress towards its post-crisis reform objectives, as (a) international policy measures to end "too-big-to-fail" are now largely complete for banks, but substantial work remains at a national level to implement effective resolution regimes; (b) implementation of OTC derivatives reforms is under way but continues to be uneven and behind schedule; and (c) meanwhile progress is being made in implementing the policies agreed to address the major fault lines in shadow banking revealed by the crisis. The letter also notes that the FSB is on track to deliver the first annual consolidated report on the implementation of the G20 financial reforms and their effects; and provides an update on work on risks stemming from and associated with market liquidity and asset management activities, the FSB action plan to address misconduct risks, and possible work on implications of climate-related issues for the financial sector.

On 6 October 2015, the CPMI issued a consultative report (for comment by 7 December 2015) on *Correspondent Banking*, which, especially for cross-border transactions, is an essential component of the global payment system. Through correspondent banking relationships, banks can access financial services in different jurisdictions and provide cross-border payment services to their customers, supporting, *inter alia*, international trade and financial inclusion. Until recently, banks have maintained a broad network of correspondent relationships, but there are growing indications that this situation might be changing. In particular, some banks providing these services are cutting back the number of relationships they maintain. Following a detailed assessment of the advantages and disadvantages of a number of technical measures, the report puts forward four recommendations for consideration by the industry and authorities.

Dated 9 October 2015, the Communiqué of the Thirty-Second Meeting of the IMFC, Chaired by Agustín Carstens, Governor of the Bank of Mexico (which was conducted in the context of the 2015 Annual Meetings of the World Bank Group and the IMF, held in Lima, Peru from 9-11 October) includes a paragraph "Invest in resilience", which makes the following points:

- The global financial regulatory reform agenda should be completed and implemented in a timely and consistent manner and further developed, including through monitoring and addressing issues raised by financial activities outside the banking system, as necessary.
- Priorities in many advanced economies are to repair balance sheets, tackle non-performing loans, and monitor and, if necessary, address market liquidity issues.
- Emerging market and developing countries should continue to enhance policy frameworks and maintain adequate buffers.
- Foreign currency exposures warrant special attention, while exchange rate flexibility, where feasible, can act as a shock absorber.
- Appropriate, well targeted macroprudential tools as well as strong supervision are important to preserve financial stability.
- When dealing with risks from large and volatile capital flows, necessary macroeconomic policy adjustment could be supported by macroprudential and, as appropriate, capital flow management measures.
- A strong global financial safety net remains important in order to provide liquidity in times of need.

A ninth progress report on adoption of the Basel regulatory framework was published by the BCBS, on 15 October 2015, providing a high-level view of Basel Committee members' progress in adopting Basel III regulations as of end-September 2015. The report focuses on the status of domestic rule-making processes to ensure that the Basel standards are transformed into national law or regulation according to the internationally agreed timeframes; and is based on information provided by individual members as part of the BCBS's Regulatory Consistency Assessment Programme (RCAP). The report includes the status of adoption of the risk-based capital standards, the liquidity standards (LCR and NSFR), the framework for SIBs, the leverage ratio, the revised Pillar 3 disclosure requirements and the large exposure framework.

On 19 October 2015, to promote consistent implementation of the Basel III countercyclical capital buffer, the BCBS issued frequently asked questions and other supporting information. The information includes a list of all prevailing and pre-announced buffers, as well as developments related to domestic rule-making. The information is presented both for BCBS member jurisdictions as well as select non-member jurisdictions, and will be updated online as jurisdictions inform the BCBS of changes to domestic countercylical capital buffer requirements. The countercyclical capital buffer requirement, when activated by member jurisdictions, will be phased in from 1 January 2016.

On 3 November 2015, the FSB published an updated list of G-SIBs. This updated list comprises a total of 30 banks with one new bank, China Construction Bank, being added and one bank, BBVA, being removed from the list, and with Royal Bank of Scotland being moved down into the 1% bucket for required higher loss absorbency. Alongside this, the FSB released further information which includes: a list of all the banks in the assessment sample; the denominators used to calculate the scores for banks in the exercise; the cut-off score that was used to identify the updated list of G-SIBs; the thresholds used to allocate G-SIBs to buckets for the purposes of calculating the specific higher loss absorbency requirements for each institution; and links to the disclosures of all the banks in the assessment sample in 2015.

Also, the FSB published an updated list of G-SIIs, comprising a total of nine insurers with one new insurer, Aegon, being added and with Generali being removed. The next updates to these lists will be published in November 2016.

Also on 3 November 2015, the FSB released two finalised guidance papers and three consultative documents as part of its policy agenda to end "too-big-to-fail" and promote the resolvability of all financial institutions that could be systemic in failure through full implementation in substance and in scope of the *Key Attributes of Effective Resolution Regimes for Financial Institutions*. The two finalised guidance papers are: *Principles for Cross-border Effectiveness of Resolution Actions*; and *Guidance on Cooperation and Information Sharing with Host Authorities of Jurisdictions where a G-SIFI has a Systemic Presence that are Not Represented on its Crisis Management Group*. The three consultative documents are: *Temporary Funding Needed to Support the Orderly Resolution of a G-SIB*; *Arrangements to Support Operational Continuity in Resolution*; and *Developing Effective Resolution Strategies and Plans for SIIs*.

On 9 November 2015, the FSB published its *Principles on the Loss Absorbing and Recapitalisation Capacity of G-SIBs in Resolution and Total Loss Absorbing*

> "The meeting was preceded by a discussion on recent market developments, including recent market volatility and increased leverage.

Capacity (TLAC) term sheet, in support of which the BCBS released two related documents. The BCBS's *TLAC Quantitative Impact Study* (QIS) report analyses the TLAC levels and shortfalls at G-SIBs based on the FSB's November 2014 consultative version of the TLAC term sheet. This QIS is a critical component of the impact analysis of the TLAC regime. In particular, it provides the main data set that is the basis of the analysis, *Assessing the Economic Costs and Benefits of TLAC Implementation*, which was led by staff of the BIS.

The TLAC QIS also examines the extent that G-SIBs and non-G-SIBs currently invest in TLAC instruments. This has helped to inform the second BCBS publication, the *TLAC Holdings Consultative Document*. This sets out (for comment by 12 February 2016) the proposed regulatory capital treatment of TLAC instruments which are held by banks (both G-SIBs and non-G-SIBs). This proposed prudential treatment seeks to limit contagion within the financial system if a G-SIB were to enter resolution.

In his, 9 November 2015, letter to the G20 Leaders, the FSB Chairman, Mark Carney, highlights that during the Turkish G20 Presidency the FSB has focused on three priorities: (i) full, consistent and prompt implementation of the agreed financial reforms; (ii) finalising the design of the remaining post-crisis reforms; and (iii) addressing new risks and vulnerabilities. His letter then reports on progress and highlights issues that demand the attention of Leaders. It makes four main points: (i) the implementation of agreed reforms has substantially strengthened the resilience of the global system; (ii) the FSB has now finalised the tools needed to end "too-big-to-fail" in the banking sector, with the FSB's final standard on TLAC for G-SIBs being presented for the G20 Leaders' endorsement; (iii) the G20 must remain vigilant to new risks and vulnerabilities; and (iv) the FSB is placing greater emphasis on the impact of reforms on emerging market and developing economies.

Concerning the third of these main points, the letter explains that the structure of financial markets has changed significantly since the crisis, with the growing importance of market-based finance. This has the potential to make the system more diversified and more effective, but it also brings new risks. In response, the FSB is analysing potential vulnerabilities, including from the growth of asset management, and is working to ensure that the ability of markets to finance the real economy remains resilient in the face of major changes to market structure and liquidity dynamics. Later in the letter there is a related paragraph regarding the "interaction of reforms on market liquidity". This states that "there are concerns that liquidity in fixed income markets has declined in recent years. Evidence is mixed, and the baseline for comparison should not be the unsustainable excess liquidity that existed prior to the crisis. The FSB is analysing the extent and causes of any shifts in market liquidity, including the interaction between liquidity, changes in market structure and individual regulatory measures. The broader question concerns the interaction of these reforms with structural shifts in markets such as the rise of electronic and algorithmic trading, the fragmentation of trading venues, and the marked increase in asset management."

Point 3 in the letter, *Addressing New Risks and Vulnerabilities*, elaborates yet further on this market resilience concern and other matters. Sub-points in this section of the letter cover (i) risks stemming from market-based finance, and changes in market structure and liquidity; (ii) misconduct risks; (iii) correspondent banking and the potential risk of financial exclusion; and (iv) climate change and risks to financial stability.

Alongside this letter, the FSB's first annual report to the G20 on the *Implementation and Effects of the G20 Financial Regulatory Reforms*, was published. This reviews the implementation status of reforms, considering (i) building resilient financial institutions; (ii) ending "too-big-to-fail"; (iii) making derivatives markets safer; (iv) transforming shadow banking into resilient market-based finance; (v) progress in other reform areas; and (iv) strengthening adherence to international financial standards. It then considers the overall effects of reforms, with sections on building a more resilient financial system and supporting sound financial intermediation. It identifies areas for attention as being (i) implementation challenges: promoting cross-border cooperation; implementing reforms in EMDEs; and ensuring effective use of resources for implementation; and (ii) issues for ongoing monitoring: an open and integrated global financial system; and market liquidity.

On 12 November 2015, the FSB published (i) *Progress Report on Transforming Shadow Banking into Resilient Market-based Finance*; (ii) *Global Shadow Banking Monitoring Report 2015*; (iii) *Regulatory Framework for Haircuts on Non-CCP cleared SFTs*; and (iv) actions and deadlines set out in an updated *Roadmap*. The first of these newly published reports sets out actions taken to implement the FSB's two-pronged strategy to address financial stability concerns associated with shadow banking over the past year, and next steps. There has been further progress this year to strengthen oversight and regulation of shadow banking, particularly in the area of securities financing; and the implementation of previously agreed policies is progressing. The FSB considers it essential for the agreed policies to be implemented in a timely manner, and, in coordination with relevant standard-setting bodies, will continue to monitor the national implementation of agreed policies to ensure they achieve the intended objectives.

The second of these reports presents the results of the FSB's fifth annual monitoring exercise to assess global trends and risks of the shadow banking system, reflecting data as of end-2014. It covers 26 jurisdictions and the euro area, representing about 80% of global GDP and 90% of global financial system assets. This year the FSB has introduced a new activity-based "economic function" approach in its annual monitoring, which is intended to help authorities narrow down their focus to those parts of the non-bank financial sector where shadow banking risks may arise and may need appropriate policy responses to mitigate these risks. The new activity-based, narrow measure of shadow banking that may pose financial stability risks was US$36 trillion in 2014, versus US$35 trillion in 2013.

Lastly, the third of these reports sets out the finalised policy recommendations in the framework for haircuts on certain non-CCP cleared SFTs, based on the public consultation findings. The framework aims to address financial stability risks associated with SFTs. This work, which was earlier published in October 2014, sets out numerical haircut floors to apply to "non-bank-to-non-bank" SFTs and updates the implementation dates of the FSB's recommendations on SFTs. Subsequently, on 18 November, the FSB also published its report on *Standards and Processes for Global Securities Financing Data Collection and Aggregation*.

On 13 November 2015, the BCBS published two reports for the G20 Leaders' Summit in Antalya. The first, *Finalising Post-Crisis Reforms: an Update*, reviews the BCBS's work since the global financial crisis to strengthen the international regulatory framework for banks; and also focuses on the BCBS's substantial progress towards finalising its post-crisis reforms, which includes reducing excessive variability in RWAs. As a result, the BCBS is well on track to finalise the remaining elements of the regulatory reform agenda for global banks. The second, *Update on the Implementation of Basel III Standards*, reports progress since the 2014 report to the G20 Leaders, noting that implementation has generally been both timely and consistent with the globally agreed standards. All BCBS member jurisdictions have implemented the risk-based capital regulations; final rules on the LCR are in force in almost all; and efforts are continuing to adopt the standards for the Leverage Ratio and the NSFR, as well as for SIBs.

The G20 Leaders met for their Summit in Antalya, on 15-16 November 2015, to determine further collective actions towards achieving strong, sustainable and balanced growth to raise the prosperity of their people. Their communiqué following from this Summit states that they are firm in their resolve to ensure growth is robust and inclusive, and delivers more and better-quality jobs. They recognize that advancing inclusive growth and entrenching confidence require the use of all policy tools and strong engagement with all stakeholders. They then state that, in pursuing their objectives, they have adopted a comprehensive agenda this year around the three pillars of decisive implementation of their past commitments to deliver on their promises, boosting investments as a powerful driver of growth and promoting inclusiveness in their actions so that the benefits of growth are shared by all. They have also enhanced their dialogue with low income developing countries as part of their implementation of this agenda.

"The BCBS is well on track to finalise the remaining elements of the regulatory reform agenda for global banks.

More detailed points in the communiqué are made under the headings of *Strengthening the Recovery and Lifting the Potential; Enhancing Resilience;* and *Buttressing Sustainability*. The ongoing work on reform financial regulation is reported under the heading of Enhancing Resilience, in particular in paragraphs 13 and 14. Paragraph 13 reports that strengthening the resilience of financial institutions and enhancing stability of the financial system are crucial to sustaining growth and development; and that further core elements of the financial reform agenda have been completed – in particular, as a key step towards ending "too-big-to-fail", the common international standard on TLAC for G-SIBs has been finalized; and there is agreement to the first version of higher loss absorbency requirements for G-SIIs.

Paragraph 14 then outlines that critical work remains to build a stronger and more resilient financial system. In particular, the G20 Leaders look forward to further work on CCP resilience, recovery planning and resolvability and ask the FSB to report back to them by their next meeting. They will continue to monitor and, if necessary, address emerging risks and vulnerabilities in the financial system, many of which may arise outside the banking sector; and, in this regard, will further strengthen oversight and regulation of shadow banking to ensure resilience of market-based finance, in a manner appropriate to the systemic risks posed. They look forward to further progress in assessing and addressing, as appropriate, the decline in correspondent banking services; and will expedite their efforts to make further progress in implementing the OTC derivatives' reforms, including by encouraging jurisdictions to defer to each other, when it is justified in line with the St. Petersburg Declaration. Going forward, they are committed to full and consistent implementation of the global financial regulatory framework in line with the agreed timelines, and will continue to monitor and address uneven implementation across jurisdictions; and they welcome the FSB's first annual report on the implementation of reforms and their effects. They will continue to review the robustness of the global regulatory framework and to monitor and assess the implementation and effects of reforms and their continued consistency with their overall objectives, including by addressing any material unintended consequences, particularly for emerging markets and developing economies (EMDEs).

With effect from 1 December 2015, China has assumed the G20 Presidency from Turkey and the next G20 Leaders' Summit will accordingly be held on 4-5 September 2016 in Hangzhou, China. The published message from President Xi Jinping on the 2016 G20 Summit in China includes a section on continuing financial sector reforms. This states that, in order to enhance the stability and resilience of global financial system, the G20 needs to continue the reforms in global financial sector, implementing standards and rules already agreed and furthering the work on setting standards. Meanwhile, the G20 should continue to be vigilant on new risks and vulnerabilities of the global financial system, and ready to take timely measures in response. The G20 should sum up past experiences on macroprudential management and improve the framework of financial regulation coordination, so as to more effectively maintain financial stability. The G20 should also continue to improve global financial infrastructure and enhance macroprudential regulation and its international cooperation in this area.

On 7 December 2015, the FSB published two reports and a statement from the Enhanced Disclosure Task Force (EDTF). The 2015 *Progress Report on Implementation of the EDTF Principles and Recommendations* is the EDTF's fourth report and third progress report on implementation of the EDTF recommendations; it covers 40 global or domestic SIBs. The FSB also published an EDTF report on the *Impact of Expected Credit Loss Approaches on Bank Risk Disclosures* which highlights issues with the implementation of new accounting standards on expected credit loss. Furthermore, the EDTF provided a statement on the treatment of emergency liquidity provision under the EDTF disclosure recommendations.

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The G20 should continue to be vigilant on new risks and vulnerabilities of the global financial system.

A G20 Finance and Central Bank Deputies meeting was held in Sanya, China, on 14-15 December 2015, which is the first high-level meeting since China took over the G20 Presidency. The meeting was co-chaired by Zhu Guangyao, Vice Finance Minister of China and Yi Gang, Deputy Governor of the People's Bank of China. Lou Jiwei, Finance Minister of China addressed the opening session and introduced the agenda, priorities and work programme of the G20 finance track in 2016. The Deputies reached broad agreement on the agenda, priorities and work programme in 2016 and discussed various issues including the global economy; framework for strong, sustainable and balanced growth; international financial architecture; financial sector reform; international tax cooperation; and green finance and climate finance.

On 16 December 2015, the BCBS issued a progress report on banks' adoption of the BCBS's *Principles for Effective Risk Data Aggregation and Risk Reporting*. Published in 2013, these Principles aim to strengthen risk data aggregation and risk reporting at banks to improve their risk management practices and decision-making processes. Firms designated as G-SIBs are required to implement these Principles in full by 2016; and this report reviews banks' progress in 2015, outlining the measures G-SIBs have taken to improve their overall preparedness to comply with these Principles, as well as the challenges they face. G-SIBs are increasingly aware of the importance of this topic and have moved towards their implementation, yet important challenges remain and it is expected that some banks will still not meet these Principles on time. In light of this, this report makes additional recommendations to promote adoption of these Principles. Whilst these Principles apply initially to all G-SIBs, the BCBS recommends that national supervisors also apply them to D-SIBs three years after their designation.

On 16 December 2015, the Board of IOSCO announced that it has appointed Paul P. Andrews as its new Secretary General, in succession to David Wright, who joined IOSCO in March 2012. Paul Andrews, who is currently the Vice President and Managing Director of International at the Financial Industry Regulatory Authority (FINRA), will take up his position at IOSCO for a three-year renewable term in March 2016. He currently represents FINRA at IOSCO, where he sits on the Regulatory Advisory Committee of IOSCO's Affiliate Members Consultative Committee (AMCC) and chairs the AMCC Task Force on Risk.

On 17 December 2015, the BCBS released (for comment by 17 March 2016) a consultative document entitled *Identification and Measurement of Step-in Risk*. Step-in risk refers to the risk that a bank will provide financial support to an entity beyond, or in the absence of, its contractual obligations should the entity experience financial stress. The proposals would form the basis of an approach for identifying, assessing and addressing step-in risk potentially embedded in banks' relationships with shadow banking entities (although without limiting the proposals to specific entities), with the objective being to mitigate potential spillover effects from the shadow banking system to banks. To capture and address such risk, the focus is on the identification of unconsolidated entities to which a bank may nevertheless provide financial support, in order to protect itself from any adverse reputational risk stemming from its connection to the entities. The BCBS has yet to decide how these proposals should be incorporated into the regulatory framework, including whether a Pillar 1 or Pillar 2 approach is most appropriate; and will conduct a quantitative impact study in the first half of 2016 to collect evidence on the nature and extent of step-in risk.

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European financial regulatory reforms

On 5 October 2015, the Joint Committee of the ESAs published its Work Programme for the upcoming year. In 2016, the Joint Committee will continue to give a high priority to consumer protection – in particular the work on PRIIPs, and cross-sectoral risk analysis. Moreover, it will proceed with the joint regulatory work already under way in areas such as anti-money laundering, financial conglomerates and securitisation while being prepared to address any new developments in the European regulatory field if necessary.

Then, on 7 October 2015, ESMA published its 2016 Work Programme, which sets out its priorities and the activities it will undertake in pursuit of its statutory objectives of enhancing investor protection and promoting stable and orderly financial markets. In line with the recently published ESMA Strategic Orientation 2016-2020, ESMA's priorities for 2016 signal a shift from rule making towards implementation and promoting the convergence of supervisory practices. The key priorities for 2016 focus on (i) supervisory convergence; (ii) MiFID II and MiFIR; and (iii) data collection and management. ESMA's 2016 Work Programme is based on a budget of €40.4 million and a staff of 210 in line with the budget approved by the Board of Supervisors on 4 February 2015 and subsequently submitted to the EU institutions. The European Commission has, however, proposed a budget of €38.1 million which, if accepted by the institutions, will require cuts in ESMA's activities of €2.3 million. In order to plan for this possible outcome ESMA has identified areas where work would not be carried out as planned, including a reduction in budget to be spent on certain IT projects and translations, as well as some planning and peer review activities.

Similarly, on 16 October 2015, the EBA published its detailed annual Work Programme for 2016, describing the specific activities and tasks of the Authority for the

“ESMA's priorities for 2016 signal a shift from rule making towards implementation and promoting the convergence of supervisory practices.

coming year, as well as a multiannual work programme, highlighting the key strategic areas of work in the coming years (from 2016 to 2018).

Following the presentation of the Five Presidents' Report by the Presidents of the Commission, the Euro Summit, the Eurogroup, the European Central Bank and the European Parliament, the European Commission launched Stage 1 ("Deepening by doing") of the process of completing EMU on 1 July 2015. On 21 October 2015, the Commission announced its follow-up to this, with concrete measures to begin the implementation of the plan to deepen EMU. The package of measures adopted by the College of Commissioners entails a revised approach to the European Semester, including through enhanced democratic dialogue and further improved economic governance, such as the introduction of National Competitiveness Boards and an advisory European Fiscal Board; and a more unified representation of the euro area in international financial institutions, especially the IMF. Subsequently, on 24 November 2015, the Commission proposed a euro-area wide insurance scheme for bank deposits and set out further measures to reduce remaining risks in the banking sector in parallel.

On 27 October 2015, the European Commission adopted its 2016 Work Programme, the second of the Juncker Commission, reaffirming the commitment to the ten political priorities of its Political Guidelines. Within the 23 new initiatives in Annex I, under the heading *of A Deeper and Fairer Economic and Monetary Union* (which ties into the Commission's implementation of Stage 1 of the Five Presidents' Report), this includes a legislative proposal which will outline steps towards a European bank deposit insurance scheme based on a reinsurance mechanism; and a Communication, which will set out further measures to complete the Banking Union.

Amongst the 27 REFIT initiatives in Annex II, under the heading of *A Deeper and Fairer Internal Market with a Strengthened Industrial Base*, this includes (i) legislative reviews in relation to (a) the Prospectus Directive and (b) the European Venture Capital (EuVECA) and European

Social Entrepreneurship Fund (EuSEF) regulations; (ii) follow-up to the Report of the Financial Legislation Review, with the Commission services (following this Call for Evidence) to report on the main findings and next steps by mid-2016; and (iii) an evaluation of the Financial Conglomerates Directive.

The priority pending proposals in Annex III, again under the heading of *A Deeper and Fairer Internal Market with a Strengthened Industrial Base*, include both the proposal under enhanced cooperation for an FTT and the proposal for an EU securitisation framework; whilst the list of withdrawals of pending proposals in Annex IV, under the heading of *Economic & Financial Affairs, Taxation & Customs*, includes the original FTT proposal and an associated proposal for a Regulation on the methods and procedure for making available the own resource based on the FTT. Annex VI lists legislation published with application dates in 2016.

Additionally, on 28 October 2015, the European Commission presented a roadmap to deliver President Juncker's political commitment to unleash the full potential of the Single Market and make it the launchpad for Europe to thrive in the global economy. This includes linkages to both the Investment Plan for Europe (which has provided over €1 billion of EIF equity investments for SMEs and start-ups across Europe since January) and Capital Markets Union.

The Eighth Full Forum of the Vienna Initiative assessed key achievements over the past year and proposed an agenda for future cooperation at a meeting hosted by the National Bank of Poland in Warsaw on 18 November on cross-border banking issues affecting Central, Eastern and South Eastern Europe. In the past year, the Vienna Initiative has actively supported efforts by the non-EU SEE countries to develop close regulatory coordination with the European Banking Authority (EBA). This work resulted in the signing in October 2015 of a landmark Memorandum of Cooperation with the EBA and five SEE countries, establishing a framework for cooperation and information exchange.

On 30 November 2015, the Single Resolution Board (SRB) reported that it would take over full responsibility for bank resolution as planned on 1 January 2016, since the number of Member States needed to validly ratify the Intergovernmental Agreement on the Single Resolution Fund (SRF) had been reached in due time for the SRB to be fully operational as of that date. Subsequently, on 8 December 2015, SRB welcomed the endorsement of the public bridge financing arrangement for the SRF at that day's meeting of ECOFIN. The bridge financing arrangement will cover – as a last resort – temporary financing shortfalls in the SRF, in particular, during the early years of the transitional period. An, 18 December 2015, ECOFIN note conveys a letter regarding the report by the SRB on the conditions for the transfer of contributions to the SRF. A 31 December 2015 European Commission press release reports on the Single Resolution Mechanism (SRM) coming into effect for the Banking Union from 1 January 2016.

On 14 December 2015, the EBA published its report in response to the European Commission's Call for Advice on the suitability of certain aspects of the prudential regime for investment firms. This report, done in consultation with ESMA, presents the EBA's findings and lists a series of recommendations aiming to provide a more proportionate and less complex prudential regime for investment firms, based on appropriate risk sensitivity parameters. The first recommendation proposed by the EBA is a new categorisation of investment firms, which will distinguish between systemic and "bank-like" investment firms to which full CRD/CRR requirements should apply, and other investment firms, namely those that are considered "not systemic" or "not interconnected", for which specific requirements should be defined.

On 15 December 2015, the EBA published its final guidelines regarding limits on institutions' exposures to "shadow banking entities" that carry out bank-like activities outside a regulated framework. In particular, these guidelines introduce an approach that will allow EU institutions to set internal limits for their exposures to shadow banking entities, hence addressing in a proportionate way the risks that these exposures pose to the EU banking sector. The guidelines were informed by a report, published alongside, on the exposures of a sample of EU institutions to shadow banking entities and the impact of setting limits.

On 17 December 2015, the EBA published its report on the *Impact Assessment and Calibration of the NSFR*, recommending the introduction of the NSFR in the EU to ensure stable funding structures. The EBA recommends that the NSFR should be applied on a consolidated and individual basis, with sub-consolidated requirements being subject to a competent authority's decision. The EBA's analysis did not find strong statistical evidence of significant negative impacts of the NSFR on bank lending, financial asset markets or trading book positions. Whilst in general finding that the calibration and definition adopted in Basel fit well with the European banking system, the EBA also explained that certain EU specificities should be taken into account – in particular in the cases of trade finance, pass-through models, CCPs, centralised regulated savings and residential guaranteed loans. The EBA's report will inform the work on potential legislative proposals on NSFR of the European Commission, which is due to put forward an EU NSFR proposal during 2016.

On 30 December 2015, the Netherlands Presidency announced that the Council of the EU has set its work programme for the next 18 months. Priorities for this were agreed by the three upcoming presidencies of the Council, the Netherlands, Slovakia and Malta, collectively the

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so-called trio. Amongst the priorities included in the trio programme are follow up to Five Presidents' Report and a series of financial regulatory measures, namely Directive on IORPs; MMFs Regulation; Banking Structural Reform Regulation; SRM implementation; upcoming proposal on the resolution of CCPs; review of funding and governance of structures of ESAs; European Deposit Insurance Scheme; CMU Action Plan, including a reduction of capital charges for infrastructure investments, the securitisation proposal and review of the Prospectus Directive.

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Financial Transaction Tax (FTT)

A Luxembourg EU Presidency note dated 26 November 2015 outlined the state of play on the FTT. Subsequently, reflecting continued efforts to reach an agreement on the basis of enhanced cooperation, the outcome of the 8 December 2015 ECOFIN meeting reported agreement by 10 EU Member States (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia, Spain) on certain features of an FTT on shares and derivatives. Regarding shares it has been agreed that all transactions, including intra-day, should be taxed; and with all transactions in the chain being taxed except agents and clearing members (when acting as facilitators). In order to sustain liquidity in illiquid market configurations, it is agreed that a narrow market making exemption might be required. The territorial scope of the tax should follow the Commission's proposal; but it is now being determined whether it is more sensible to start taxation with only shares issued in the Member States participating in the enhanced cooperation. Important elements in this determination include relocation risks and administrative costs.

Regarding derivatives it has been agreed that: no exemption for market making activities should be granted; the territorial scope of the tax should follow the Commission's proposal (cumulation of residence and issuance principles with application of counterparty principle); the taxation should be based on the principle of the widest possible base and low rates and it should not impact the cost of sovereign borrowing; and the determination of the tax base should abide by the following principles: (i) for option-type derivatives the tax base should preferably be based on the option premium; (ii) for products others than option-type derivatives and coming with a maturity, a kind of term-adjusted notional amount/market value (where available) might be considered as the appropriate taxable base; (iii) for products other than option-type derivatives and not coming with a maturity, the notional amount/market value (where available) might be considered as the appropriate taxable base; and (iv) in some cases, adjustments to the tax rates or to the definition of the tax base might be necessary in order to avoid distortions.

It has also been agreed that further analysis with regard to real economy and pension schemes is required; and that negative impact on the real economy and pension schemes should be minimised. Further, the financial viability of the tax for each country is required. On the basis of these features, in order to prepare the next step, experts in close coordination with the Commission should now elaborate adequate tax rates for the different variants. A decision on these open issues should be made by the end of June 2016; and the result of all this work should be satisfactory to all EU Member States, both those that wish to have a common FTT system and those that will not participate in the enhanced cooperation.

Enhanced cooperation for an FTT was authorised in January 2013 by Council decision 2013/52/EU after the September 2011 proposal for an EU-wide FTT had failed to obtain unanimous support. Tabled in February 2013, the proposal on enhanced cooperation essentially mirrored the scope and objectives of the Commission's initial proposal for an EU-wide FTT. However, the withdrawal of Estonia, which was initially one of the 11 EU Member States participating in the FTT under enhanced cooperation, raises potential questions over the legality of any agreement that the 10 remaining Member States may now reach. This is because there is no procedure set out for a Member State participating in an enhanced cooperation process to cease to participate. If it is not possible to cease to participate then the only possible outcomes are that all the enhanced cooperation participants agree to introduce the measure, which is then binding on them, or they are not all agreed and the process comes to an end. To avoid legal uncertainty on this point, either Estonia must be convinced to recommit to the process or (at least nine of) the remaining 10 Member States should seek fresh authorisation.

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Financial benchmarks

As reported in Issue 38 of the ICMA Quarterly Report, on 19 May 2015 the European Parliament endorsed its position on benchmarks, allowing trilogue discussions to commence as the European Council had already agreed its position in February 2015. On 25 November 2015, the European Commission welcomed agreement, reached the previous night, between the European Parliament and the Council of the EU, on an EU Regulation of Financial Benchmarks. Then, on 9 December 2015, the Permanent Representatives Committee approved, on behalf of the Council, the compromise text agreed with the European Parliament.

The EU Benchmark Regulation will introduce a legally-binding code of conduct for contributors (of data) requiring the use of robust methodologies and sufficient and reliable data. In particular, it calls for the use of actual transaction input data where possible. But other data may be used if the transaction data is insufficient. The scope of the Regulation is broad, although benchmarks deemed to be critical will be subject to stricter rules, including the power for the relevant competent authority to mandate contributions of input data. The Regulation will not apply to the provision of benchmarks by central banks, and, in certain circumstances, by central counterparties and public authorities. Administrators of benchmarks will have to apply for authorisation and will be subject to supervision by the competent authority of the country in which they are located. If an administrator does not comply with the provisions of the Regulation, the competent authority may withdraw or suspend its authorisation. Administrators will be required to have in place appropriate governance arrangements and controls to avoid conflicts of interest.

Benchmarks will be subject to requirements appropriate to their size and nature, while at the same time respecting a core set of minimum requirements in line with the applicable internationally agreed principles of IOSCO. Critical benchmarks will be those used as a reference for financial instruments or financial contracts, or for the determination of the performance of investment funds, having a total value of at least €500 billion on the basis of all the range of maturities of the benchmark; or benchmarks based on submissions by contributors mainly located in one member state and recognized as being critical in that Member State. Benchmarks of at least €400 billion can also be considered critical if they have no or very few appropriate market-led substitutes, and if their absence would have significant and adverse impacts on markets integrity, financial stability, consumers, the real economy, or the financing of households and corporations. Significant benchmarks are those which fall below the critical level but still have a total average value of at least €50 billion on the basis of all the range of maturities or tenors of the benchmark over a period of six months. Benchmarks below this threshold can also be upgraded if they have a significant impact on the markets, with no or few market-led substitutes. Below this, non-significant benchmarks are subject to a light regulatory regime based on a comply-or-explain mechanism: ie general principles in line with the internationally agreed IOSCO principles. However, specific regimes will apply to commodity, interest rate and regulated data benchmarks. In particular, interest rate benchmarks, which are more prone to conflicts of interest and data manipulation, are subject to additional requirements relating to input data and contributors.

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Credit Rating Agencies

On 15 October 2015, ESMA published its latest set of semi-annual statistical data on the performance of credit ratings, including transition matrices and default rates. This latest dataset covers the period from 1 January to 30 June 2015 and is available in the Central Rating Repository (CEREP).

On 27 October 2015, ESMA formally approved the registration of INC Rating Sp. z o.o., based in Poland, and, on 1 December 2015, also approved the registration of Rating-Agentur Expert RA GmbH, based in Germany, as CRAs under Article 16 of the CRA Regulation, meaning that their credit ratings can be used for regulatory purposes within the EU. Following these approvals, there are currently 26 registered and four certified CRAs in the EU (amongst the 26 registered CRAs, three operate under a group structure, totaling 17 legal entities in the EU, which means that the total number of CRA entities registered in the EU is now 40).

On 2 October 2015, ESMA published (i) *Technical Advice on Reducing Sole and Mechanistic Reliance on Credit Ratings;* (ii) *Technical Advice on Competition, Choice and Conflicts of Interest in the CRA industry;* and (iii) a *Report on the Possibility of Establishing one or more Mappings of Credit Ratings Published on the European Rating Platform*. These papers provide an overview of competition and give insight into the market dynamics of the EU CRA industry; and also consider measures to provide stronger controls around credit ratings for structured finance instruments and to reduce reliance on credit ratings. The report finds that the EU CRA Regulation has improved the governance and operation of CRAs but that it is too soon comprehensively to assess the impact of measures regarding competition and conflicts of interest included in the CRA Regulation of 2013. The European Commission will consider ESMA's Technical Advice and Report and then issue its own reports to the European Parliament and Council on whether all references to credit ratings should be removed from EU law for regulatory purposes and on the implementation of provisions of the CRA Regulation relating to competition, conflicts of interest and structured finance products.

On 11 November 2015, the Joint Committee of the ESAs published two draft ITS on credit assessments by External Credit Assessment Institutions (ECAIs). By determining an objective approach for attributing risk weights to the assessments of ECAIs, as well as a prudential approach for those cases lacking factual evidence, these standards are designed to ensure sound credit assessments contributing to financial stability in the EU. This work of the ESAs is intended to ensure that only credit ratings issued by ECAIs – those CRAs registered under the EU CRA Regulation or central banks issuing credit ratings exempt from the application of the same regulation – can be used for calculating capital requirements of financial institutions and insurance undertakings.

On 17 November 2015, ESMA issued a Discussion Paper seeking stakeholders' views (by 19 February 2016) on the validation and review of CRAs methodologies. This Discussion Paper is to help ESMA develop further its views on the quantitative and qualitative techniques used as part of the validation of methodologies required under the EU's CRA Regulation. This Regulation requires that "a credit rating agency shall use rating methodologies that are rigorous, systematic, continuous and subject to validation based on historical experience, including back testing". In particular, this Discussion Paper focuses on the last part of this requirement, ie "subject to validation based on historical experience, including back testing". An associated open hearing will be held at ESMA, in Paris, on 25 January 2016.

On 16 December 2015, ESMA published an updated questions and answers (Q&A) on the application of the EU CRA Regulation. The revised Q&A clarifies the definition of unsolicited credit ratings, specifically whether a credit rating issued upon the request of a person different from the rated entity/issuer and a related third party constitutes a solicited credit rating.

"The BCBS has now decided to reintroduce the use of ratings, in a non-mechanistic manner, for exposures to banks and corporates.

On 18 December 2015, ESMA published its annual market share calculation for EU registered CRAs. The market share calculation is designed to increase awareness of the different types of credit ratings offered by each registered CRA and to help issuers and related third parties considering appointing smaller CRAs. The calculation has been computed using CRAs' 2014 revenues from credit rating activities and ancillary services at group level. ESMA is considering whether further information would help issuers and related third parties to assess CRAs' experience and invites market participants to provide feedback on the information it should present in future.

On 10 December 2015, the BCBS released a second consultative document, for comment by 11 March 2016, on *Revisions to the Standardised Approach for Credit Risk*. These revised proposals form part of the BCBS's broader review of the capital framework to balance simplicity and risk sensitivity, and to promote comparability by reducing variability in risk-weighted assets across banks and jurisdictions. These proposals differ in several ways from an initial set of proposals published by the BCBS in December 2014. In particular that earlier proposal set out an approach that removed all references to external credit ratings and assigned risk weights based on a limited number of alternative risk drivers; but the BCBS has now decided to reintroduce the use of ratings, in a non-mechanistic manner, for exposures to banks and corporates. The revised proposal also includes alternative approaches for jurisdictions that do not allow the use of external ratings for regulatory purposes. This consultative document also includes proposals for exposures to multilateral development banks, retail and defaulted exposures, and off-balance sheet items. The credit risk standardised approach treatment for sovereigns, central banks and public sector entities are not within the scope of these proposals, since the BCBS is considering these exposures as part of a broader and holistic review of sovereign-related risks. The BCBS will conduct a comprehensive quantitative impact study in 2016; and prior to finalising the revised standardised approach by end-2016, will evaluate appropriate implementation arrangements, and will provide sufficient time for implementation taking into account the range of other reforms that have been, or are due to be, agreed by the BCBS.

Following from a February 2015 consultative version, on 18 December 2015, the BCBS issued *Guidance on Credit Risk and Accounting for Expected Credit Losses* (ECLs), which replaces its 2006 *Sound Credit Risk Assessment and Valuation for Loans*. Comprising 11 principles, the guidance sets out supervisory expectations for banks relating to sound credit risk practices associated with implementing and applying an ECL accounting framework. Among these principles, three provide guidelines for supervisory evaluation

> It proposes a clearing obligation for both the main and cross-over variants of 5 year, iTraxx Europe, Untranched Index CDS.

of credit risk practices, accounting for ECLs and the related supervisor's assessment of a bank's capital adequacy. The move to ECL accounting frameworks by accounting standard setters is an important step forward in addressing the weakness identified during the financial crisis that credit loss recognition was too little, too late.

On 22 December 2015, IOSCO published the final report on *Sound Practices at Large Intermediaries Relating to the Assessment of Creditworthiness and the Use of External Credit Ratings*. This report recommends 12 sound practices that regulators could consider as part of their oversight of market intermediaries. Large market intermediaries also may find the sound practices useful in the development and implementation of effective alternative methods for the assessment of creditworthiness. IOSCO believes that identifying sound practices regarding suitable alternatives to credit ratings should reduce the overreliance on CRAs for credit risk assessment.

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OTC regulatory developments

In view of ESMA's statutory role to build a common supervisory culture by promoting common supervisory approaches and practices, ESMA adopted a, 1 October 2015, Q&As document which relates to the consistent application of EMIR. The first version of this document was published on 20 March 2013 and subsequent updates have been published on a regular basis. This document is expected to be further updated and expanded as and when appropriate.

On 2 October 2015, ESMA submitted a final report regarding *Draft Technical Standards on the Clearing Obligation*. This final report on the clearing obligation is covering certain classes of CDS. It includes the final version of the draft RTS that are submitted to the European Commission for endorsement and proposes a clearing obligation for both the main and cross-over variants of 5 year, iTraxx Europe, Untranched Index CDS. From the date of submission the European Commission should take the decision whether to endorse the RTS within three months.

On 4 October 2015, ESMA notified the European Commission that it had not submitted its draft MiFIR RTS on exchange-traded derivatives, in order to ensure consistency with the EMIR RTS on the indirect clearing of OTC derivatives. These two empowerments share the same objective of specifying the types of indirect contractual arrangements that do not increase counterparty risk and ensure that the assets and positions of the counterparty benefit from protection with equivalent effect.

On 4 November 2015, the FSB released two reports on implementation of the reforms to OTC derivatives market agreed by the G20. The *Thematic Peer Review of OTC Derivatives Trade Reporting* assesses progress of FSB member jurisdictions in implementing trade reporting requirements. Whilst good progress has been made in implementing these requirements, further work needs to be undertaken to ensure that the data collected by trade repositories can be effectively used by regulators. Alongside this, the *OTC Derivatives Market Reforms: Tenth Progress Report on Implementation* is designed to give a brief update on key developments in OTC derivatives reforms since the previous report published in July.

On 5 November 2015, ESMA published a Consultation Paper seeking stakeholders' views (by 17 December 2015) on the draft requirements on indirect clearing arrangements for OTC derivatives and exchange-traded derivatives (ETD). This consultation paper thus covers the draft RTS on indirect clearing arrangements for ETD under MiFIR as well as the draft amendments to Commission Delegated Regulation No 149/2013 with regard to the RTS on indirect clearing arrangements for OTC derivatives under EMIR.

A 6 November 2015 report of the OTC Derivatives Regulators Group (ODRG) updates the G20 Leaders, since the ODRG's report from November 2014, on how the ODRG has addressed or intends to address a number of identified cross-border issues. A focus of the ODRG has been the issue of deference in the context of CCPs, in line with the G20 Leaders' St. Petersburg and Brisbane declarations. There has been further substantial progress in implementing OTC derivatives reforms within ODRG jurisdictions, and continued bilateral progress in addressing cross-border issues amongst them.

On 10 November 2015, ESMA submitted a further final report regarding *Draft Technical Standards on the Clearing Obligation*. This final report on the clearing obligation is covering certain classes of OTC interest rate derivatives denominated in the EEA currencies. It includes the final version of the draft RTS that are submitted to the European Commission for endorsement and proposes a clearing obligation for fixed-to-float interest rate swaps denominated in NOK, PLN and SEK and forward rate agreements denominated in NOK, PLN and SEK. From the date of submission the European Commission should take the decision whether to endorse the RTS within three months.

On 13 November 2015, the European Commission adopted five equivalence decisions (implementing acts) for the regulatory regimes for CCPs in Canada, Mexico, South Africa, Switzerland and Republic of Korea (these decisions follow previous determinations of equivalence, made in October 2014, for Australia, Singapore, Japan and Hong Kong). Through application to ESMA and subject to applicable assessment, CCPs in these non-EU countries will now be able to obtain recognition in the EU. Market participants will then be able to use them to clear standardised OTC derivative trades as required by EMIR, while the CCPs will remain subject solely to the regulation and supervision of their home jurisdictions. CCPs that have been recognised under the EMIR process will also obtain qualifying CCP (QCCP) status across the EU under the CRR. This means that EU banks' exposures to these CCPs will be subject to a lower risk weighting in calculating their regulatory capital.

As reported in Issue 39 of the ICMA Quarterly Report, on 6 August 2015, the European Commission adopted new rules, in the form of a Delegated Regulation, implementing the clearing obligation under EMIR for the first time; with this Regulation covering certain interest rate swaps. Following appropriate scrutiny by the European Parliament and Council, on 1 December 2015, this Regulation was published in the *Official Journal* of the EU. The effective date of application of the clearing obligation under this Regulation is staggered for different categories of counterparties, starting on 21 June 2016 and stretching out as far as 21 December 2018.

Central clearing of standardised financial instruments, as promoted by the G20 Leaders, addresses some of the financial stability risks that materialised during the financial crisis. Its rapid evolution since 2009 may have changed the linkages between CCPs and the rest of the financial system. Against the backdrop of these trends, *Central Clearing: Trends and Current Issues*, published as a special feature in the 6 December 2015 edition of the BIS Quarterly Review, discusses how, and through which mechanisms, CCP clearing might have affected systemic risk.

On 14 December 2015, ESMA published a Consultation Paper on the Review of Article 26 of RTS No 153/2013 regarding EMIR. In relation to the relevant RTS ESMA is seeking feedback on deals with the length of the margin period of risk (MPOR) for CCPs' client accounts. The MPOR determines the amount of initial margins collected by a CCP. The ESMA proposal is to reduce from two days to one day the MPOR for gross omnibus accounts and individual segregated accounts for exchange-traded derivatives and securities.

ESMA's list of CCPs authorised to offer services and activities in the EU, in accordance with EMIR, was last updated on 30 October 2015; its list of third-country CCPs recognised to offer services and activities in the EU was last updated on 3 November 2015; its *Public Register for the Clearing Obligation* under EMIR was last updated on 2 December 2015; and its (non-exhaustive) list of CCPs established in non-EEA countries which have applied for recognition was last updated on 6 January 2016.

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Short-Term Markets

by David Hiscock and Andy Hill

European repo market study

In November 2015, ICMA published the study, *Perspectives from the Eye of the Storm: the Current State and Future Evolution of the European Repo Market*.

The ICMA study records growing concern that the cumulative impact of various prudential and market regulations, along with extraordinary monetary policy, could be affecting the ability of the European repo market to function efficiently and effectively. This could, in turn, have wider repercussions for the broader capital markets and so for the real economy.

The study is a qualitative assessment of the current state and future evolution of the European repo market, based on interviews with a wide range of market participants and stakeholders, including bank repo desks, fund managers, inter-dealer brokers, electronic trading platform providers, agency lenders and triparty agents.

The main findings of the study are:

- Basel III, incorporating Risk Capital Requirements, Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio, is the single greatest regulatory driver of change, transforming the structure and dynamics of the repo market. Each of its four components impact the repo market in different, yet cumulative ways, significantly adding to the cost of capital required to run a repo trading book. The Leverage Ratio (with the Supplementary Leverage Ratio for larger US banks) is having the most profound impact on the repo market, to the point where repo is becoming unprofitable as a traded product.
- ECB monetary policy since the 2007-2008 crisis has produced excess bank reserves and negative interest rates which dampen repo activity. It has also led to a reduction in the stock of high-quality collateral, which is identified as a concern for future fractures in the market, particularly given the widely anticipated increase in the size of the purchase programme.
- There is concern about the effect of planned future regulatory initiatives, in particular the Net Stable Funding Ratio, CSDR mandatory buy-ins, and the provision under the Bank Recovery and Resolution Directive (BRRD) for resolution stays.
- Most banks have already restructured or are restructuring their business models. Key trends include de-risking, deleveraging, transformation from a profit centre to a cost centre, reducing head-count, and the merging of repo desks with other funding functions to create centralised liquidity and collateral management hubs. Many banks now provide repo liquidity to preferred clients as a loss-leader to support other, more profitable businesses and services.
- There is a sense amongst the repo market stakeholders interviewed that regulators do not fully appreciate how the repo market operates, and that this is apparent in a number of regulatory initiatives, both directly and indirectly related to the repo market. There is further concern about the cumulative burden of regulation and the cost of its implementation.
- Stakeholders are trying to adapt and innovate to meet the challenges and looking for potential new opportunities. Most innovations relate to balance sheet optimisation, and creating more netting capabilities. Others are being driven by the need for improved liquidity and collateral management. Electronic solutions and improved automation are also being discussed. However, the uncertainty being brought about by regulation is making business planning extremely challenging.
- There are still many unknowns arising from both regulation and monetary policy making predicting the future evolution of the European market difficult. The consensus views are: an expected reduction in

(continued on page 28)

ICMA European Repo and Collateral Council

by Lalitha Colaco-Henry

ICMA's European Repo Council (ERC) was established in December 1999 to represent the cross-border repo market in Europe. It has become the industry representative body that develops consensus solutions to issues arising in a rapidly evolving marketplace, consolidating and codifying best market practice. The ICMA ERC's on-going efforts to establish a robust infrastructure to underpin the European repo market include the development of the Global Master Repurchase Agreement (GMRA) and the publication of the ICMA ERC Guide to Best Practice in the European Repo Market – a document which is periodically amended as warranted by evolution in the agreed understanding of best practice. The ICMA ERC also plays a significant role in nurturing the development of the repo market and supporting its wider use in Europe by providing educational courses and market information, such as the semi-annual survey of the European repo market.

The efficient sourcing, pricing, and mobilisation of collateral is a market function, and primarily takes place in the funding markets, with bank repo (and, on a smaller scale, securities lending) desks acting as the primary intermediaries between various collateral users and takers. Accordingly, repo desks are increasingly being regarded as collateral desks. Since the financial crisis of 2007, the importance of collateral has grown significantly. This is largely related to the shift in risk appetite of market participants, with an increased demand amongst them to secure their credit risk exposures through the taking of high-quality collateral. Official policy makers have also significantly fuelled the demand for high-quality collateral as they have sought to make markets more robust, to reduce systemic risk and help mitigate the risks of any future financial crises.

Over the last few years the ICMA ERC has focused closely on collateral. A core theme running through the ICMA's April 2013 publication, *Economic Importance of the Corporate Bond Markets*, was the importance of collateral and the extent to which changes to financial regulatory rules risk impeding the functioning of the European repo market, which serves as a primary channel for the circulation of collateral. This was followed by *Collateral is the New Cash: the Systemic Risks of Inhibiting Collateral Fluidity* in April 2014, which describes the increasing importance of collateral and how it effectively underpins the functioning of capital markets which provide the basis for economic growth, calling for regulators to consider the impact of financial regulation on the movement of collateral. A further paper, *Continually Working to Develop Efficient and Effective Collateral Markets*, published in September 2014, summarises continuing work which the ICMA ERC has been engaged in, collaboratively with others including in the public sector, to develop efficient and effective collateral markets.

In recognition of the intimate relationship between repo and collateral and having consulted the members of the ICMA ERC, the ICMA Board, on 4 December, approved amendments to Section 1000 of ICMA's Rules and Recommendations for the secondary market to effect, amongst others, changing the name of the ERC and the ERC Committee to the European Repo and Collateral Council (ERCC) and ERCC Committee. These changes took effect immediately. The changes are not expected to presage a dramatic shift in the nature or role of the ICMA ERCC, but rather they are being made to recognise the reality of the way in which the market and the work of the ICMA ERCC has already evolved. Not only will it sharpen the focus of the ICMA ERCC on the critical topic of collateral, but it will also help to ensure that there is recognition in the official sector, and amongst the public, of the ICMA ERCC's mandate to work on collateral. The ICMA ERCC's work will continue as today, but over time new groups of member representatives may be formed to more directly tackle applicable collateral topics and challenges.

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the size of the market; an increase in the diversity of participants; a general widening of bid-ask spreads; and the ongoing merging of banks' funding and collateral management functions.

- The overriding concern among market participants is that in future, although they expect the repo market to continue in some form, it may be unable to function as effectively and efficiently as it has in the past in providing liquidity and collateral fluidity to the financial system, with potential negative consequences both for markets and the broader global economy.

The study has already received a great deal of attention and media coverage, and it is hoped that it will provide a catalyst for more extensive discourse and research related to the cumulative impacts of regulation on European repo and collateral market liquidity and efficiency.

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European repo market

Securities Financing Transaction Regulation (SFTR)

As reported in this section of Issue 38 of the ICMA Quarterly Report, on 17 June 2015, the European Commission issued a press release welcoming political agreement on its SFTR proposal. Subsequently, on 29 October, the European Parliament approved the SFTR in a plenary vote, in Strasbourg, and then, on 16 November 2015, the European Council formally confirmed its adoption of SFTR. Article 33 of the adopted SFTR text provides that SFTR's entry into force shall be on the twentieth day following that of its publication in the *Official Journal* of the EU (this publication date was 23 December 2015). Accordingly, from 12 January 2016, applicable SFT participant firms will already need to comply with certain of the provisions, such as the Article 4.4 requirement to keep a record of any SFT that they have concluded, modified or terminated for at least five years following the termination of the transaction.

But Article 33 also expressly provides that certain of SFTR's provisions only need to be complied with from certain future points in time. In particular, Article 4.1 provides that counterparties to SFTs shall report the details of any SFT they have concluded, as well as any modification or termination thereof, to a trade repository, by no later than the working day following the conclusion, modification or termination of the transaction. However, Article 33.2(a) states that this reporting obligation shall only apply to EU credit institutions (or equivalent third country entities) from 12 months after the date of entry into force of the Delegated Act adopted by the Commission pursuant to Article 4(9) – which is itself not expected to be until about a year after SFTR's entry into force. Furthermore, rather than 12 months after, the applicable period for CCPs and CSDs will be 15 months after; for insurers, reinsurers, UCITS, AIFMs and IORPs, 18 months after; and for non-financial counterparties, 21 months after.

Also, importantly, Article 33.2(d) provides that Article 15 shall apply from 13 July 2016, and shall apply to collateral arrangements existing at that date. Article 15 governs the ability of counterparties to reuse collateral received in SFTs, so by the time it applies market participants need to be ready to satisfy its stipulations if they wish to continue to be free to reuse such received collateral.

Haircuts and margins

The Impact of CCPs' Margin Policies on Repo Markets is a BIS working paper, released on 2 October 2015. This paper quantifies the impact on the cost of funding in repo markets of the initial margins applied by CCPs. The authors use contract-level data on the general collateral (GC) segment of Italy's MTS repo market between January 2011

The overriding concern among market participants is that the repo market may be unable to function as effectively and efficiently as it has in the past.

and April 2014. Their analysis shows that the initial margins, paid by all participants, had a positive and significant effect on the cost of funding; and that such an impact is consistent across different model specifications and data sub-samples.

On 5 November 2015, the BCBS issued (for comment by 5 January 2016) a consultation proposal for incorporating the FSB's policy framework for haircut floors for non-centrally cleared SFTs into the Basel III framework. This proposal is based on the FSB's report on *Strengthening Oversight and Regulation of Shadow Banking – Regulatory Framework for Haircuts on Non-Centrally Cleared Securities Financing Transactions*, published in October 2014, which recommended that its policy framework for haircut floors for non-centrally cleared SFTs be incorporated into the Basel III framework by the end of 2015. The objective of this BCBS proposal is to create incentives for banks to set their collateral haircuts above the floors rather than hold more capital.

It is important to note that the BCBS seeks to follow the FSB's recommendation that haircut floors apply in case of non-CCP cleared SFTs in which the financing, against collateral other than government securities, is provided to counterparties who are neither central banks nor supervised by a regulator that imposes prudential requirements consistent with the international norm; and that the haircut floors also apply to "collateral upgrade" transactions with these same counterparties (for these transactions, the floors are equal to the difference between the floors for each of the collateral types).

The fundamental principle of the newly proposed BCBS approach is that, for any in-scope SFT transaction or netting set of SFT transactions, if the collateral haircut is less than the applicable FSB haircut floor, then the bank must treat the transaction as an unsecured loan for the sake of calculating capital requirements. This new treatment will apply across each of the different methods available under the Basel framework to compute the exposure of SFTs (ie Financial Collateral Comprehensive Method (FCCM), value-at-risk and Internal Models Method (IMM)).

As reported in this section of Issue 36 of the ICMA Quarterly Report, on 14 October 2014, the FSB published its *Regulatory Framework for Haircuts on Non-CCP Cleared SFTs*. That October 2014 framework document also included a consultative proposal on the application of the numerical haircut floors to transactions in which financing against collateral other than government securities is provided to non-banks by other non-banks (non-bank-to-non-bank transactions). Based on the assessment of consultative responses received, the FSB members agreed to extend the scope of numerical haircut floors to "non-bank-to-non-bank" transactions and developed an implementation approach for applying numerical haircut floors to such transactions.

The FSB recognised that the potential for "non-bank-to-non-bank" transactions to pose financial stability risks varies across jurisdictions. Thus, the implementation approach should depend on the national/regional authorities' assessment of the scale of securities financing activities and, within that, the materiality of "non-bank-to-non-bank" transactions in their jurisdictions. To ensure consistent implementation, the FSB also introduced detailed guidance for authorities and enhanced implementation monitoring through the FSB process. Since jurisdictions may adopt market regulation to implement numerical haircut floors, which can take a few years to implement, the FSB members agreed to extend the implementation date to the end of 2018 (a one year extension compared to the date set in the October 2014 Framework Document). This extension of the scope of the framework is intended to limit the build-up of excessive leverage outside the banking system, reduce the procyclicality of such leverage, guard against the risk of regulatory arbitrage, and maintain a level-playing field.

Accordingly, a newly published FSB document now sets out a revised framework for haircuts on non-CCP cleared SFTs, which integrates the new elements as explained above. As in the October 2014 framework document, it consists of recommendations on: (i) qualitative standards for methodologies used by market participants that provide securities financing to calculate haircuts on the collateral received (Section 2); and (ii) a framework of numerical haircut floors that will apply to non-CCP cleared SFTs in which financing against collateral other than government securities is provided to non-banks (Section 3). This document also includes: (i) the implementation approach for applying the numerical haircut floors to non-bank-to-non-bank transactions (Section 3.5); (ii) details of an enhanced monitoring of implementation of the framework through the FSB process (Section 3.6); and (iii) the technical guidance on the implementation of the framework (Annex 2).

NSFR

On 17 December 2015, the EBA published its report on the *Impact Assessment and Calibration of the NSFR*, recommending the introduction of the NSFR in the EU – broadly in line with the finalised Basel NSFR – to ensure stable funding structures. The EBA's report will inform the work on potential legislative proposals on NSFR of the European Commission, which is due to put forward an EU NSFR proposal during 2016.

Of particular note for repo markets, Chapter 9 of the EBA's report (at page 156) concerns its evaluation of the "impact on financial markets", which includes specific sections on: (i) impact of the NSFR adjustment on trading book activities; (ii) potential consequences of introducing a stable funding requirement for investment in financial assets; (iii) potential consequences of introducing a stable funding requirement for different funding markets; and (iv) prime brokerage and market making: assessing the impact of the NSFR.

This chapter describes structures including securities borrowing to cover clients' short sales, inter-related repo and reverse repo transactions, and swaps that provide customers with similar exposures in a synthetic form. The report describes the potential funding risk created by the maturity mismatch between the two sides of these transactions when, for franchise reasons, the providing bank would have an incentive to continue sourcing the security or the cash to its client, even when it is facing difficulties with the other counterparty (the counterparty from which the security or the cash is sourced). But overall the EBA decides that, even though some adjustment in prices could arise, material consequences in financial markets as a direct result of introducing an NSFR requirement are not expected to happen. Rather, the suggested calibration of the NSFR is expected to protect against the existing funding risks entailed by these transactions.

For further details, the third of these sections (at page 169) outlines the treatment of funding sources in the NSFR and then comments on the incentives and disincentives for using different funding sources – specifically covering (i) incentives towards long-term funding and (ii) secured funding versus unsecured funding (which considers both short-term repo/reverse repo and covered bonds). And within the fourth of these sections there is an examination of "prime brokers: a link between hedge funds and end savers" (at page 177), which includes further specific comments on both repo and reverse repo and securities borrowing and lending. This leads to a clear dismissal of the suggestion, advanced by some commentators, that paragraph 45 of the Basel text could be used to allow offsets of matched repos and reverses or of client short covering facilitation.

OECD BEPS

On 5 October 2015, the OECD published the final package of recommendations to reform the international tax system – the Base Erosion and Profit Shifting (BEPS) Project. Together they represent a dramatic change to the international tax system. For the repo market, the most directly relevant component of this package is BEPS Action 2: *Neutralising the Effects of Hybrid Mismatch Arrangements*. Within this particular BEPS report the sections which refer most specifically to repo are Hybrid Transfers – paragraphs 72-78 (pages 38-39) and Examples 1.31-1.35 (pages 256-273).

When considering who is likely to be affected it should be noted that the proposals apply in very broad circumstances, particularly in relation to hybrid financial instruments between related parties. There will be a particular impact on participants in the repo market, as the proposed hybrid rules are specifically designed to capture these types of transactions by treating repos as financial instruments, and there are often variances in how the transactions are treated in each jurisdiction giving rise to hybrid mismatches.

It should also be noted that the OECD proposals need to be adopted into domestic law before they apply. Looking ahead, there will no doubt prove to be a piecemeal adoption by various countries over different timeframes, and some countries that are unlikely to take any action at all or at least likely to be quite resistant, which raises significant uncertainties for cross-border dealings. So whilst there is no immediate impact, as this will come out of any associated domestic law changes, these proposals do clearly seek to alter the tax treatment of repo usage in certain situations and hence the potential implications of these reports will need to be considered.

Concerning one important example of domestic implementation, on 9 December 2015, HMRC published a summary of consultation responses to its December 2014 consultation, *Tackling Aggressive Tax Planning: Implementing the Agreed G20-OECD Approach for Addressing Hybrid Mismatch Arrangements*. Alongside this, HMRC published draft legislation, introducing a hybrid mismatch rule in the UK from 1 January 2017, together with a series of examples illustrating the application of the hybrid mismatch rule. And at the, 8 December 2015, ECOFIN meeting the European Council adopted conclusions on how to implement the OECD's conclusions on the BEPS project in the EU context. In their conclusions, Ministers support an effective, swift and coordinated implementation by EU Member States of measures to be adopted at EU level. They identify EU directives as the preferred vehicle for implementing the OECD conclusions, with recourse to other non-legislative solutions for implementing certain anti-BEPS actions.

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Bank resolution stays for GMRA transactions

by Leland Goss and Lisa Cleary

Last year, we reported on the regulatory request for contractual recognition of resolution stays with respect to securities financing transactions (SFTs) including repurchase transactions under the GMRA.

On 12 November 2015, the Financial Stability Board (FSB) welcomed the announcement of the publication by ICMA and other trade associations of a Securities Financing Transaction Annex (SFT Annex) that forms part of the ISDA 2015 Universal Resolution Stay Protocol (the Protocol). The Protocol builds on the version developed in 2014 in close coordination with the FSB which focused on amending ISDA Master Agreements for OTC bilateral derivatives to improve the effectiveness of cross-border bank resolution actions.

The original Protocol was voluntarily signed by 18 major banks and certain of their subsidiaries in November 2014. The revised ISDA 2015 Universal Resolution Stay Protocol, including the SFT Annex, has been signed at launch by 21 banking groups categorized as systemically important. It is expected that other systemically important banks will sign the Protocol over time. The SFT Annex has been developed jointly by ICMA, the International Securities Lending Association (ISLA) and the Securities and Financial Markets Association (SIFMA) in coordination with ISDA and the FSB.

The SFT Annex will assist market participants who use certain securities financing master agreements sponsored by the trade associations in complying with relevant bank resolution laws and regulation requiring the recognition of bank resolution stays in certain cross-border contractual arrangements. The Annex allows adhering parties to recognise existing and forthcoming special resolution regimes which provide for temporary stays on early termination rights in the event that a bank enters into resolution. These stays are intended to give regulators time to facilitate an orderly resolution of a troubled bank.

Statutory resolution regimes have been implemented in a number of jurisdictions, including the US and EU. These regimes provide resolution authorities with broad tools and powers to effect a resolution, including the imposition of a temporary stay on counterparties' early termination rights in the event a bank enters into resolution. However, it is uncertain whether these stays would extend to contracts governed by "third country" law (law other that of the resolution authority). By adhering to the Protocol, firms are opting to abide by certain overseas national resolution regimes, ensuring cross-border trades with counterparties in those jurisdictions are subject to the stays.

Regulators are in the process of developing new regulations in their jurisdictions that will promote broader adoption of the stay provisions beyond the G-SIBs and other banks. A separate Protocol is being developed for other market participants, including buy-side and end-user firms and other banks, providing them with a tool to comply with forthcoming regulations requiring the contractual recognition of stays within relevant financial contracts. The separate Protocol will be published next year for those firms that choose to use it. Regulations requiring financial contracts to incorporate contractual stays are expected to be implemented in several jurisdictions from early 2016.

For more information on the Resolution Stay Protocol and Securities Financing Transaction Annex, see ICMA's website.

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Future challenges in repo post-trade processing

by Alexander Westphal

As ICMA's latest study on the repo market highlights, the current regulatory challenges to this market are diverse and unprecedented. Probably most relevant from an operational perspective are the various regulatory initiatives that are currently under way to foster transparency in repo and securities lending markets. Taken together, the new rules are expected to change substantially the way repos and other securities financing transactions (SFTs) are currently processed. As reported in this section of the previous Quarterly Report (4Q 2015), the upcoming EU SFT Regulation is just one of the initiatives with an important impact on repo operations. Others include initiatives by the ECB and other central banks, such as the Bank of England, to introduce new detailed reporting regimes for secured and unsecured money markets, as well as, at a global level, work by the FSB in the context of the shadow banking agenda. At the same time, other EU laws not directly focused on SFTs such as the CSD Regulation will have important repercussions for repo post-trade processing as well, requiring the availability of detailed information on repo trades at settlement level, where repos are currently in most cases not identifiable as a separate product distinct from other cash trades.

In anticipation of the upcoming changes, the ICMA ERCC Operations Group is actively working towards a better understanding of the regulatory requirements, their impact on the post-trade processing of repo transactions as well as solutions to help firms establish an efficient operating model to manage the changes. The ambition clearly goes beyond regulatory compliance as the work aims to improve the efficiency of repo post-trade processing more generally. While one important aspect remains to ensure in our interactions with regulators and law makers that the different regulatory initiatives under way are broadly consistent, members of the ERCC Operations Group are determined to use the regulatory challenge as an opportunity for a more fundamental review of the underlying post-trade process in order to minimise remaining operational inefficiencies.

The first step is to obtain a clear understanding of the various regulatory requirements. For this purpose, the ERCC Operations Group published in September 2015 a briefing paper on *Regulatory Initiatives on the Identification and Reporting of SFTs* summarising each of the relevant regulations and identifying the key provisions. This paper has been regularly updated and extended since then as the regulatory requirements continue to evolve. More recently the briefing paper has been supplemented by a set of slides, which aim to present in a simplified and clear way the operational challenges presented by the various regulations. The slides include flow diagrams which help to illustrate the impacts on the different stages of the repo lifecycle. The document serves as a problem statement but also sets out the agenda for the ERCC Operations Group by identifying a number of key areas of work where further harmonisation and standardisation may prove beneficial.

A natural starting point for this work has been the trade matching and affirmation (TMA) process, which should allow firms to capture the relevant transaction details that they are required to report to regulators. Following several months of work and in close cooperation with post-trade vendors offering the relevant TMA services, the ERCC Operations Group published on 8 December 2015 a standardised template of recommended matching fields (see box). This is an important step, as it is hoped that the template can provide a standard basis on which the industry can match its trades and meet the upcoming legal requirements once they are in place.

As a next step, besides promoting implementation and use of the TMA template, the ERCC Operations Group will shift its focus to the underlying messaging standards allowing firms to transmit transaction details in a standardised and automated way, and thereby facilitating straight-through-processing (STP) from trade execution to settlement. This covers in particular work in relation to the international ISO20022 standards, increasingly adopted by regulators, and related messaging protocols. The work on messaging standards also extends to the use of Legal Entity Identifiers (LEIs) as well as the less advanced discussions on Unique Trade Identifiers (UTIs) and Unique Product Identifiers (UPIs). Although current discussions among regulators, in particular on UTIs and UPIs are still focused primarily on derivatives, these are highly likely to become a regulatory requirement in the near future in the repo space as well. The ERCC Operations Group is therefore keen to be involved in the discussions at an early stage, in order to ensure that the specifics of the repo market are properly taken into account. At the same time, it will be crucial to build on the extensive work on these topics already carried out in the derivatives space, in particular within ISDA, to maintain overall consistency across products and to avoid duplication.

Finally, the ERCC Operations Group is also looking into the process of trade confirmations for repo. Unlike the TMA process, the confirmation of key economic terms and settlement details is a legal requirement and also a contractual obligation under the GMRA. However, there is also scope for further work in this area to improve the efficiency of the process and to avoid redundant paper confirmations where appropriate. As the main obstacle seems often to be a lack of clarity on current legal requirements in relation to confirmations, the ERCC Operations Group is working on a grid which aims to map the different legal requirements and best practices against a wide variety of scenarios existing in the market. In the longer term it is hoped that a clear understanding of the legal requirements will be the basis for the industry to converge to a more harmonised process, thus allowing important gains in terms of timing and costs, as well as legal certainty.

It becomes clear that, in order to be successful, all of the different initiatives outlined above will require a joint industry effort. The ERCC Operations Group is therefore looking to actively involve all SFT market participants, sell- and buy-side, as well as the relevant post-trade service providers and infrastructures and hopes that its current work can serve as a platform to further the good cooperation that has already been established with other industry groups, such as ISLA. The upcoming TMA workshop mentioned in the box below will be a further good opportunity to strengthen cross-industry discussion and cooperation, on the TMA template itself, but also beyond, to define the way forward towards an efficient post-trade operating model for repo.

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Trade matching and affirmation of repos: a standardised ICMA template

The ICMA ERCC Operations Group has been seeking for years to promote the increased efficiency and wider use of affirmation in the repo market by encouraging potential service-providers to offer automated transaction matching products. More recently, as the discussion on various regulatory requirements in relation to the identification and reporting of repo evolved, it became clear that there was a case for developing a list of required matching fields to ensure that competing products meet the minimum needs of the industry without introducing differences in the scope or definition of the information to be affirmed.

Following first discussions with the relevant post-trade vendors, the ERCC Operations Group held in April 2015 an initial industry-wide workshop on *The Future Challenges in Post-Trade Processing for Repo* hosted by J.P. Morgan. The workshop served as a basis for the development of the standardised TMA template. After several months of further work, jointly with post-trade vendors, the TMA template was finally published on 8 December 2015 and is available on the ICMA website. It sets out a list of recommended mandatory and optional matching fields, and was published alongside a glossary of terms defining each of the fields to ensure the consistent use of terminology.

The TMA template is intended to provide a standard basis on which the industry can match its trades and meet the upcoming requirements of the SFTR, CSDR and other regulatory initiatives on the matching, transaction reporting and settlement efficiency. Although both template and glossary are based on current available information, it is important to note that many of the relevant regulatory requirements have not been finalised yet. It is therefore expected that the recommendations will evolve further and may be subject to change as the relevant regulatory requirements are being finalised.

In due course, it is hoped that the project can be extended to other securities financing transactions, in particular, securities lending and borrowing. In the meantime, the Operations Group welcomes comments, questions and suggestions from the market and all potential service-providers. In order to encourage further industry wide dialogue on the TMA emplate and the way forward for SFT post-trade processing more generally, the ERCC Operations Group will hold a second workshop event on *10 February 2016 (9:30-12:00 GMT)*. The event will be hosted in London by J.P. Morgan (25 Bank Street). More details are available in the events section of the ICMA website.

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Introduction of electronic voting for ERCC elections

Much of the work of the European Repo and Collateral Council (ERCC) is carried out by its executive arm, the ERCC Committee. The ERCC Committee comprises 19 individuals who are elected by the ERCC. Historically elections have been held by way of paper ballot at the ERCC's Annual General Meeting, the date of which varies from year to year. In some years the AGM has been held in January while in other years it has taken place as late as May.

On 4 December 2015, the ICMA Board approved amendments to Section 1000 of ICMA's Rules and Recommendations for the secondary market to effect, amongst others, changes allowing the Committee to determine the manner of the ERCC Committee election procedure from time to time. These changes took effect immediately and have been made in order to facilitate the move to electronic voting.

Going forward, the number of seats on the ERCC Committee will continue to be 19. Elections from 2016 onwards will be held at the same time every year (instead of at the AGM) and the term of office for the new ERCC Committee will be approximately one year – starting from the announcement of the election results each year and ending on the announcement of the following year's election results.

The electronic ballot process that the Committee has adopted is as follows. The ERCC Secretariat will call for nominations to the Committee approximately four to six weeks before the closing date for nominations. A list of candidates standing for election to the ERCC Committee will then be circulated to ERCC members and will also be published on ICMA's website in mid-January. At the same time, the election period will be opened and ERCC members will have three weeks to e-mail their ballot preferences to the ERCC Secretariat. All e-mailed ballot preferences must vote for a minimum of 10 candidates and a maximum of 19 candidates otherwise the ballot will be considered spoiled. (This would not apply to e-mailed ballot preferences submitted in a second ballot held in the event of a tie.) The ERCC Secretariat will keep all e-mailed ballot preferences confidential.

> “The electronic ballot process that the Committee has adopted is as follows.

Because ERCC members have three weeks within which to e-mail their ballot preferences to the ERCC Secretariat, there is no longer any need for the appointment of proxies or proxy voting.

Once the voting period has closed, the ERCC Secretariat will count the ballots and will then e-mail the results to ERCC members. The results will also be published on the ICMA website.

For the forthcoming 2016 elections, the relevant dates are as follows.

Friday, 15 January 2016	Closing date for nominations to be received by the ERCC Secretariat.
Friday, 22 January 2016	List of candidates standing for election to the ERCC Committee will be circulated to the ERCC and published on ICMA's website. The electronic voting period is opened
Friday, 12 February 2016	Closing date for ERCC members to e-mail their ballot preferences to the ERCC Secretariat.

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ECP market

ABCP: On 10 November 2015, the BCBS released a consultative document (for comment by 6 February 2016) on capital treatment for simple, transparent and comparable (STC) securitisations. This proposal builds on the revised capital standards issued by the BCBS in December 2014. The criteria for identifying STC securitisations (STC criteria) were published by the BCBS and IOSCO in July 2015. The July 2015 STC criteria are designed to mitigate securitisation risks, including uncertainty related to asset risk, structural risk, governance and operational risk; and transactions that comply with these criteria should therefore have lower structural and model risk.

However, this new consultative document makes clear that its proposed revisions to the capital standards affect neither ABCP programmes nor synthetics securitisations. The BCBS-IOSCO July 2015 STC criteria explicitly excluded short-term securitisations (and more specifically, ABCP programmes) from the scope of the criteria. The BCBS and IOSCO are currently considering whether, and how, STC criteria for ABCP should also be issued; and if the BCBS and IOSCO do finally publish STC criteria on ABCP programmes, the BCBS will then in turn determine how to incorporate them in the revised securitisation framework. ICMA will continue to promote the importance of such an extension of the STC framework to encompass ABCP, consistent with the recognition already being given to the importance of this in the official work that is under way to revive securitisation at European level.

As reported in Issue 39 of the ICMA Quarterly Report, on 30 September 2015, the European Commission published details of its securitisation initiative. On 2 December 2015, after two months of intensive and constructive negotiations under the Luxembourg EU Presidency, EU Member States agreed on the securitisation package at the meeting of the Committee of Permanent Representatives. The agreement reached covers two draft Regulations, one setting rules on securitisations and establishing criteria to define simple, transparent and standardised (STS) securitisation; and the other amending the CRR to provide for a more risk-sensitive regulatory treatment for STS securitisations. The European Council confirmed this agreement at the ECOFIN meeting on 8 December and it is planned that the incoming Dutch EU Presidency will start talks with the European Parliament as soon as possible in 2016. Regarding the STS proposal, the Parliament has appointed Paul Tang MEP (S&D, Netherlands) as its *rapporteur*; and, for the CRR amendment proposal, it has appointed Pablo Zalba Bidegain MEP (EPP, Spain) as its *rapporteur*.

Industry welcomes the initiatives being taken in relation to securitisation and considers it important that this does encompass ABCP, which provides a valuable financing tool that is well-suited to the needs of certain business and which fits well with the investment preferences of certain investors. But the details of the way in which securitisations, including ABCP, are structured in order to most appropriately fit them to the needs of both issuers and investors involves many detailed elements. For this reason, it is important that great care is taken in designing new measures, which may prove counterproductive in their effect if they do not allow sufficient flexibility to safely accommodate critical details needed to make transactions sufficiently viable. Accordingly, industry participants are closely examining the various proposals which have been made and continuing to submit detailed suggestions for necessary refinements. The success, or otherwise, of these securitisation initiatives will turn upon such details.

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After two months of intensive and constructive negotiations under the Luxembourg EU Presidency, EU Member States agreed on the securitisation package.

Primary Markets: Issuers

by Nicholas Pfaff, Katie Kelly and Valérie Guillaumin

Public Sector Issuer Forum

The Public Sector Issuer Forum (PSIF) is an issuer committee and one of three at ICMA representing this vital constituency. With 35 institutional members, it brings together the majority of Sovereigns, Supranationals and Agencies (SSAs) active in the European capital markets. They include key European DMOs, the European Commission (as an issuer), major agencies such as Kreditanstalt für Wiederaufbau (KfW) and the leading multilateral development banks, including the European Investment Bank, the European Bank for Reconstruction and Development and the World Bank.

PSIF participants share information and experience from their capital markets activity, focusing both on market practice and on the impact of new financial regulation on their operations. ICMA supports the PSIF through a Secretariat based in Paris, as well as through its other resources and, in particular its Market Practice and Regulatory Policy team.

The PSIF is coordinated by a Steering Committee with three senior members representing each a key SSA constituency. In November this year, the newly appointed Vice President and Treasurer of the World Bank, Arunma Oteh, replaced her predecessor Madelyn Antoncic as PSIF Steering Committee member. She joins the current Steering Committee members Frank Czichowski (Senior VP & Treasurer, KfW) and Anne Leclercq (Director Treasury and Capital Markets, Belgian Debt Agency).

A key aspect of the PSIF's activities is its dialogue with regulatory and public authorities to which it brings its unique independent public sector perspective. The PSIF for example met in 2014 senior representatives of the ECB for a presentation and discussion on the Single Supervisory Mechanism, as well as the US Treasury on the new sovereign Collective Action Clauses.

Early in 2015, at a meeting hosted by Eurofima in Basel in Switzerland, the PSIF met the Financial Stability Board (FSB) for an overview and discussion on the FSB's 2015 Work Programme and priorities. Later in the year, ICMA organised a meeting at its London office where the UK FCA presented an overview of the Fair and Effective Markets Review (FEMR). This was followed by a discussion on the possible international ramifications of FEMR.

Most recently in November, at a PSIF meeting hosted by the European Investment Bank (EIB) in Luxembourg, a senior representative of the European Commission provided an update on the progress of the Capital Market Union (CMU) Action Plan published on 30 September 2015. An EIB presentation followed on the practical implementation of the European Fund for Strategic Investments (EFSI), an EU initiative launched jointly by the EIB and the European Commission to help overcome the current investment gap in the European Union by mobilising private financing for strategic investments across the EU.

The PSIF is currently reviewing its 2016 programme with the next meeting scheduled to take place during the first quarter in Paris hosted by the Agence France Trésor.

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ICMA sovereign debt reforms

by Leland Goss

Held in parallel with the IMF and World Bank Annual Meetings, The Group of Trustees of the Principles for Stable Capital Flows and Fair Debt Restructuring ("The Group of Trustees") met and discussed the progress made on the implementation of ICMA's sovereign debt reforms. The Group of Trustees consists of 47 current and former leaders of global finance that meets once a year to review the progress made on implementation of the Principles within the framework of the international financial architecture. The Institute of International Finance (IIF) in its capacity as Secretariat to The Group of Trustees released a statement on 30 November 2015 in support of full adoption of ICMA sovereign debt contract reforms published in October 2014 and updated in May 2015. The Group of Trustees welcomed the "growing acceptance by issuers and investors of the recommendations put forward by ICMA". These reforms include model collective action clauses, a model *pari passu* clause and a suggested creditor engagement clause for the formation of creditor committees and the engagement by sovereign debtors with these committees.

ICMA's reforms were recognised as serving to "strengthen the framework for sovereign debt restructuring while providing adequate safeguards for investor rights." The Group of Trustees further noted that "a stronger debt restructuring framework will support debt sustainability, restoration of market access, and — critically — economic growth for the country undergoing debt restructuring" and stated: "we welcome the widespread support for the ICMA contractual reforms, including but not limited to their endorsement by the Executive Boards of the IMF, ICMA and the IIF. We also welcome encouragement at the G20 and IMFC level to promote the use of the enhanced collective action clauses and report on their inclusion."

The IMF staff published in September 2015 a *Progress Report on Inclusion of Enhanced Contractual Provisions in International Sovereign Bond Contracts*, noting the substantial progress that has been made by sovereign borrowers in adopting ICMA's reforms. In the period from 1 October 2014 to 31 July 2015, some 92% of NY law and 75% English law (85% overall) new issuances (excluding re-openings and take-downs) have included ICMA's model clauses. At the same time, there has been no observable market or adverse pricing impact. While this is encouraging, the key challenge is replacing the outstanding debt stock with the new reforms which will take time, particularly in light of the value of outstanding sovereign debt having increased recently. Sovereign issuers and their financial and legal advisors are therefore strongly encouraged to adopt the reforms at the next earliest opportunity.

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Regulatory concerns for corporate treasury

The ICMA Corporate Issuer Forum (CIF) convened three times in 2015, with a focus on transaction execution and the impact of regulation on the corporate treasury function. Some of the many areas of regulation which have a direct and indirect impact on the corporate treasurer and which have been addressed in the CIF in 2015 are highlighted below.

Bail-in: The combination of the bail-in mechanism under the Bank Recovery and Resolution Directive (BRRD), extended depositor preference in Europe, ring-fencing proposals under the Vickers Report in the UK and the Liquidity Coverage Ratio rules means that the position of non-preferred depositors is now much more subordinated, the cumulative effect of which for banks is a change in their credit profile. While it is unlikely that the corporate treasurer's credit exposure to banks can be cut completely, any such exposures may need to be carefully monitored and hedged and netted to the extent possible with the cash management side of the bank.

Bail-in under the BRRD has already been implemented in the UK, pursuant to which senior debt held by issuers as well as corporate deposits held by banks are all capable of being bailed in. In addition, uncollateralised swaps and derivatives may also be bailed in if they are considered to be the liability of the bank.

Ring-fencing: Ring-fencing proposals herald the start of longer-term structural change. While there is still a degree of uncertainty over their application in Europe, which in itself may lead to a more fragmented approach, the proposals in the UK will bring about a change in the way certain banks will do business. Certain parts of the ring-fenced entity will be restricted in terms of the products offered, and may no longer be able to enter into derivatives and swaps. Banking relationships and products may instead be split between different banks in the same group (for example, by way of new "holdco" structures), each of which could have different ratings and could result in more expense for customers.

In terms of exposure to ring-fenced banks, corporate issuers ought to consider effective netting across corporate treasury products, pricing for loans and deposits and a trade-off with rating of the entity they will be dealing with. The new ring-fenced/non ring-fenced structures will be complicated, and if a client does not opt out of a ring-fenced bank by agreement, the ring-fenced bank can automatically assign its client to either the ring-fenced area or the non ring-fenced area. Ring-fencing could also affect the availability of syndicated credit facility back-up lines which are usually required by credit rating agencies for corporate ratings.

Net Stable Funding Ratio: The Net Stable Funding Ratio for banks now having been agreed and finalised, the corporate treasurer may witness a change in banks' appetite in terms of their sources of funding, and which assets they hold, given how much long-term funding they will have to hold against them. This could increase the cost of providing balance sheet as banks are forced to take more long-term funding, and may mean that banks will be mindful to allocate balance sheet in ways which are more efficient for them.

Prospectus Regulation: One of the conclusions of the European Commission's Capital Markets Union Action Plan announced on 30 September 2015 was a review of the Prospectus Directive, resulting in the Prospectus Regulation, proposed by the Commission on 30 November 2015. The proposal includes: requiring a summary for all issues of securities; obliging issuers to categorise risk factors according to their materiality (high-risk, medium-risk and low-risk); limiting the number of risk factors that can be included in a summary to the five most material risks relating to the issuer and five most material risk factors relating to the securities; and removing the €100,000 denomination distinction for disclosure purposes and thereby applying one disclosure regime to all securities. Concerns around these areas have been brought by ICMA to the attention of the Commission, as well as to national regulators, and are addressed in detail elsewhere in this Quarterly Report.

Regulatory authorities generally have relatively little exposure to issuers. However, the CIF meetings present an ideal opportunity for direct engagement between regulatory authorities and corporate issuers, and in 2015, the CIF members invited both the Bank of England and the FCA to participate in CIF meetings. The CIF expects to continue this engagement with regulators in 2016.

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Primary Markets: Lead Managers

by Ruari Ewing and Charlotte Bellamy

EU prospectus regime

Prospectus Directive Review

On 30 November 2015, the European Commission published a proposed Prospectus Regulation, intended to replace the existing Prospectus Directive (PD).

As reported in previous editions of this Quarterly Report, this follows a European Commission consultation, to which ICMA responded in May 2015. The European Commission's proposal is not accompanied by an industry consultation. Rather, the European Council and European Parliament will consider the Commission's proposal and work towards agreement on a final Level 1 text through the ordinary legislative procedure. Depending on how that process progresses, a new Prospectus Regulation could be published in the *Official Journal* at some point in 2016 or early 2017 and apply just over one year thereafter.

The proposed Prospectus Regulation includes a number of interesting changes to the current regime, some of which may be helpful in improving ease of access to capital markets for bond issuers while maintaining appropriate levels of disclosure for investors. For example, the removal of a requirement for a base prospectus summary is a welcome and sensible step towards ensuring that base prospectuses are easily analysable and comprehensible. Depending on the detailed provisions of the Level 2 legislation, the proposed minimum disclosure regime for secondary issuances (which would apply to issuers of non-equity securities whose equity has been admitted to trading for at least 18 months) and suggestions regarding a removal of the requirements for detailed tax disclosure could also be helpful changes.

However, there are some proposed changes that could cause concerns for the currently well-functioning wholesale vanilla debt market, which is a critical source of funding for Europe's companies and banks. A summary of the most important of those concerns is set out below, although there are a number of other issues that may also merit further attention and consideration.

1. *The Prospectus Regulation should not require a Prospectus Regulation-compliant summary to be prepared if securities will be initially offered to qualified investors only:* Currently, there is no requirement to prepare a PD-compliant summary where a prospectus relates to the admission to trading on a regulated market of non-equity securities having a denomination of at least €100,000. That exemption from the requirement to prepare a PD-compliant summary is sensible, because it recognises that institutional investors do not require a PD-compliant summary in order to make an investment decision. However, the proposed Prospectus Regulation appears to require a Prospectus Regulation-compliant summary to be prepared for all issues of debt securities, regardless of their characteristics or to whom they will be sold. The costs associated with this are likely to be significant. Additional burdens like these should only be introduced if they are justified by a corresponding investor (or other stakeholder) need. However, in this case, there is no obvious institutional investor need for a Prospectus Regulation-compliant summary. As such, the requirements place an unnecessary

burden on issuers. This should be rectified by not requiring a summary if the prospectus relates to the admission to trading on a regulated market of non-equity securities that will be offered to qualified investors only.

2. *The proposed requirement to categorise risk factors creates liability concerns for issuers and could have unintended consequences:* The proposed Prospectus Regulation contains a new provision requiring issuers to categorise risks according to their relative materiality. This is concerning for a number of reasons. First, it could expose issuers to increased liability given the potential for risks to be mischaracterised. The requirement will present particular liability concerns for issuers that offer securities in the US market as well as the European market, as it may make it difficult for issuers to provide consistent disclosure to investors in the US and Europe. Second, it is not clear exactly how issuers will be able to apply the requirement in practice given the interplay of various risk factors with each other and the uncertainty around the weight issuers should give to the likelihood and/or potential impact of risk factors in categorising them. Third, the requirement is unlikely to have the desired effect. It could serve to make risk factor sections more confusing if investors need to cross-refer to different sections in order to read the risk factors, rather than risk factors being ordered thematically which is the current practice. It could also have unexpected consequences and mislead investors into focusing on the first category of risks only, when all the risks included in the prospectus will be considered material by the issuer. Fourth, the rules are unlikely to address the concern that risk factor sections have become excessively lengthy. This is because the general test for what a prospectus needs to include is still very broad. In order to properly address the issue of overly long prospectuses, regulators should consider amending this test for non-equity securities, in order to allow issuers to include more focused, relevant disclosure in their prospectuses. For example, relevant disclosure for debt securities would include information that is necessary to enable an investor to make an informed assessment of the issuer's ability to pay interest and repay principal under the bond only.

3. *The restriction on the number of risk factors that can be included in the summary is unnecessary and arbitrary:* The proposed Prospectus Regulation imposes an arbitrary limit on the number of risk factors that can be included in a summary. Not only is this requirement unnecessary (as the proposed six-page limit on the length of the summary will ensure that summaries are short), but it is too blunt an instrument to be workable in practice. Selecting the "five most material risks" will pose significant practical challenges and liability concerns for issuers. How should an issuer select the five most material risks when it believes there to be six, seven or more? The proposal could also mean that the summary is misleading for investors, who may focus most heavily on the five risk factors in the summary, and neglect to consider the other risk factors, which could affect their investment decision.

4. *It is not clear why third country issuers require a "representative" in Europe:* The proposed Prospectus Regulation also requires third country issuers to designate a representative established in their home Member State, which shall (among other things) be responsible for ensuring compliance of the prospectus with the requirements of the Prospectus Regulation. The rationale for this new requirement is not clear. It is difficult to see what investor protection benefit there might be from a third country issuer representative. There is a reference to the representative being a point of contact for national competent authorities, although it is not clear why National Competent Authorities cannot continue to communicate directly with third country issuers and their advisers in the way they currently do (and will continue to do with European issuers). This provision will increase costs for third country issuers and therefore increase barriers to, and potentially hinder the growth of, Europe's capital markets. Unless there is a clear rationale and investor protection benefit associated with this requirement, it is important that consideration is given to removing it.

5. *The grandfathering period is helpful, but should be longer:* The proposed Prospectus Regulation helpfully contains a grandfathering provision, stating that prospectuses approved in accordance with the current Prospectus Directive shall continue to be governed by those rules until the end of their validity or until twelve months have elapsed after the date that the Prospectus Regulation applies, whichever occurs first. However, based on the implementation experience of PD II (which was difficult for both market participants and National Competent Authorities), this grandfathering period needs to be longer. Given many of the detailed provisions relating to prospectus content will continue to be contained in Level 2 rules, it would be helpful if this grandfathering period referenced the date of application of the Level 2 rules, rather than the Level 1 rules. If that is not possible, the 12 month period currently referenced in the Prospectus Regulation should be extended to 24 months in order to ensure market participants and National Competent Authorities are sufficiently familiar with the new

regime (at both Level 1 and Level 2) to allow an orderly implementation.

ICMA will continue to discuss the implications of the proposed Prospectus Regulation in relevant committees and working groups. ICMA also intends to continue to engage with various regulators at national and European level to discuss the proposed Prospectus Regulation.

Other developments under the current Prospectus Directive regime

Omnibus II Delegated Regulation concerning prospectus approval and publication and advertisements: As anticipated, the European Commission adopted a Delegated Regulation concerning prospectus approval and publication and advertisements on 30 November 2015. This follows ESMA submitting final RTS to the European Commission in June 2015, which was reported on page 34 of the previous edition of this Quarterly Report. It is understood that the Council has invoked its extension on the objection period and the objection period will last until 30 January 2016. As such, the Delegated Regulation would be published in the *Official Journal* in February 2016 at the earliest and would enter into force on the twentieth day following publication in the *Official Journal*. It is also understood that ESMA envisages producing two Q&A on the advertisements section of the RTS (as noted on page 34 of the previous edition of this Quarterly Report), which would be published in late March.

ESMA Q&A on Prospectuses: ESMA published a revised version of the ESMA Q&A on Prospectuses in December 2015. There is a new Q&A 96 relating to disclosure for securities subject to conversion or write-down powers under the BRRD, where ESMA states: "Where the issuer considers the possibility of bail-in to be material … this should be reflected in the risk factors section and summary of a prospectus", and gives some detail on the minimum content of a bail-in risk factor. It is not anticipated that this new Q&A will require changes to existing market practice. There is also a revised question (Q26) relating to the calculation of the €5 million limit in PD Article 1(2)(h) and the €75 million limit in PD Article 1(2)(j), which is less likely to be relevant to the wholesale bond market.

Omnibus II filing final terms with host national competent authorities: The Omnibus II Directive amended Article 5(4) of the Prospectus Directive so that the home National Competent Authority, as opposed to the issuer, has responsibility for filing final terms with a host National Competent Authority. This change was due to take effect in Member States' legislation from 1 January 2016. In this regard, we understand that the Luxembourg, Irish and UK National Competent Authorities will require final terms and certain information to be provided to a specific email address. More information is available on this UKLA webpage and page 2 of this CSSF Newsletter.

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Packaged Retail and Insurance-based Investment Products (PRIIPs)

On 11 November 2015, the Joint Committee of the European Supervisory Authorities (ESAs) – EBA, EIOPA and ESMA – published a Joint Consultation Paper (subsequently followed on 6 January 2016 by a one page errata document) on PRIIPs key information documents (KIDs), which are primarily for structured products. (See further the Third Quarter 2014 edition of this Quarterly Report in respect of product scope). The Consultation Paper includes draft Regulatory Technical Standards (RTS) under the PRIIPs Regulation. The European Commission also published its earlier Final Report on a consumer testing study on KID format and content.

Background: These publications follow (i) the ESAs' November 2014 Discussion Paper, to which the Joint Associations Committee (JAC) responded, with ICMA's support; (ii) December 2014 *Official Journal* publication of the PRIIPs Regulation; and (iii) the ESAs' June 2015 Technical Discussion Paper, to which ICMA responded. See further the past editions of this Quarterly Report, which detail *inter alia* historic concerns around residual ambiguity of KID purpose and related liability (despite previous highlighting efforts) and the (consequentially limited) feedback given to the ESAs as they have sought to define the KID's detailed format and content requirements in this ambiguous context.

KID purpose/investor understanding: In this regard, the Recitals to the draft RTS state that (emphasis added):

(a) the KID "designed to ensure that it is *easy* for retail investors to read, understand and compare";

(b) the KID's summary risk indicator "should be accompanied by sufficient narrative explanations of the risks of the PRIIP to allow for an informed decision";

(c) the KID "can be expected to be also used as a summary of the main features of the PRIIP";

(d) the "information contained in the [KID] should be capable of being *relied* on by a retail investor when making an investment decision";

(e) "Given that changes may be important for retail investors and their future allocation of investment

"

The consumer testing study seems to indicate a KID misunderstanding rate of between 30% and 60%.

> assets, existing retail investors should reliably be able to locate the new [KID]."

It is worth bearing in mind in this context that the consumer testing study seems to indicate a KID misunderstanding rate of between 30% and 60% (with 70% understanding being exceeded in respect of a few aspects only). This would seem to be consistent with the Commission's 2009 *UCITS Disclosure Testing Research Report* that seemed to indicate retail investor 30% misunderstanding rates for simple UCITS' KIIDs.

KID content: Concerning the KID's synthetic risk indicator, the current consultation sets out more detail around computing a VaR-based market risk measure (MRM), computing an obligor credit risk measure (CRM) and combining the two into a 1-7 scale as per the table below – which seems *inter alia* to mask MRM changes at the higher CRM ranges and CRM changes at the higher MRM ranges (colour emphasis added). In this respect, it is interesting that the consumer testing study states that consumers "were mainly concerned about the possibility of losing their investment if the manufacturer went out of business [...]". The CRM is to be worked out primarily by reference to third party credit ratings (as "At this point no suitable methodology other than the current external rating was found."), but otherwise by reference to a "credit quality step" depending on the type of obligor. Liquidity risk is proposed to be mainly addressed by way of narrative warning/explanation.

MRM class

CRM class	MR1	MR2	MR3	MR4	MR5	MR6	MR7
CR1	1	2	3	4	5	6	7
CR2	1	2	3	4	5	6	7
CR3	3	3	3	4	5	6	7
CR4	5	5	5	5	5	6	7
CR5	5	5	5	5	5	6	7
CR6	6	6	6	6	6	6	7

Distinctly, three "what-if" performance scenarios are proposed: "unfavourable", "moderate" (based on "normal market circumstances") and "favourable" (with the draft RTS recitals noting that "it is essential that forecasts are included in the KID"). In this respect, the consumer testing study notes that consumers "often wrongly assumed likelihoods when shown performance scenarios" and "where no information was provided on how probable the scenarios were – including where narrative text was included to underline that the scenarios had no implied probability – respondents tended to read an implied probability anyway".

Costs and charges are also covered, both as reduction-in-yield and monetary figures, with structured debt securities covered by a "fair value" approach (contrasting the offer price with an expected or notional secondary trading value). In this respect, it is interesting that the consumer testing study seems to indicate consumer preferred focus on net returns (rather than on gross returns through the extraction of "embedded" costs as the PRIIPs regime will require) and that a "minority" of consumers "understood that the costs shown might not represent actual costs".

Otherwise, the requirement for individual KIDs to identify the regulator with PRIIPs jurisdiction seems to be expected to be satisfied by reference to the regulator of the EEA Member State where the relevant manufacturer is located.

KID format: The current consultation sets out (at pages 32-33, 49-50 and 55-56 and 73) the proposed visual format of the KID and its risk indicator, performance scenarios and costs presentation (the combination of which reportedly fits within the KID's length limit of three sides of A4). Length challenges may come in fitting in additionally required information, including notably "sufficient narrative" text necessary to ensure the above indicators are not misleading. Annex 10 to the consumer testing study final report also sets out earlier full mock-ups for several types of PRIIPs, including four (C1, C2, C3 and C4) for a "note" form of PRIIP.

KID review: The draft RTS provides for periodic and (where there is "material" change) *ad hoc* KID reviews and revision. In this respect, the draft RTS's Recital 20 notes (further to the draft RTS's Article 20): "Where a PRIIP is not currently *available* for retail investors, the continued review and revision of the [KID] would be disproportionate [...]. The trading of a PRIIP on a secondary market however would *not* exempt the PRIIP manufacturer from the obligation to continue to review and revise the key information document for that PRIIP."

Potential practical considerations for industry: Given the residual ambiguity on KID purpose/liability, the KID's length cap and the KID's relatively ambitious content requirements, there may be some further practical considerations for market practitioners to consider (particularly since there seems to be no grandfathering or transition for non-UCIT existing products). For example, would the prescriptive nature of some of the PRIIPs regime's disclosure requirements mean such disclosure is deemed to not be misleading? Might market practitioners seek to ensure that PRIIPs can only be made available to retail on an advised basis to mitigate the risk of investors being mislead (including in terms of secondary market access)? Might this involve potential restrictions on PRIIPs transferability (which might also be relevant in terms of retail "availability" and the KID review/revision obligation)? Might this reduce the range and choice of products that might be offered to retail investors? (It might distinctly be interesting to see how this would fit with the Commission's Capital Markets Union agenda and its December 2015 Green Paper on retail financial services seeking feedback by 18 March.) The answers to these and other questions may only become apparent as the new regime takes its final shape.

Next steps: Despite the residual ambiguity on KID purpose/liability and the highly technical and granular nature of the current consultation, the JAC is working to respond on at least certain aspects by the prescribed deadline of 29 January. It expected that the ESAs will then deliver final draft Technical Standards under the PRIIPs Regulation to the Commission at the end of March, with the Commission adopting final standards in early summer and the PRIIPs regime coming into application from end-2016 (regardless of any delay to the implementation of MiFID II).

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Market Abuse Regulation (MAR)

On 28 September 2015, ESMA published its *Final Report: Draft Technical Standards on the Market Abuse Regulation*. This follows ESMA's preceding July 2014 consultation to which ICMA responded on 15 October 2014 (as noted in the First Quarter 2015 edition of this Quarterly Report). ICMA's focus continues to be on the aspects of MAR that most exclusively impact new bond issuance: stabilisation and market soundings.

Regarding stabilisation, the Final Report's draft technical standards seem to replicate the existing Market Abuse Directive (MAD) regime, albeit with one significant difference. That is that "details" of stabilisation trades must be published within seven daily sessions and not just reported to regulators as currently under MAD. This possibility was not mentioned in the July 2014 consultation or in the consultation feedback included in the Final Report. It is hopefully not the official intention to include counterparty identification information among such details and so override client confidentiality (which has been specifically preserved in the context of MiFID II's transaction reporting/publication provisions). Either way, regulatory clarification would seem relevant to help market participants comply with their client confidentiality obligations. Distinctly, the detailed proposals in ICMA's October 2014 response to streamline the stabilisation regime were neither included in the draft technical standards nor acknowledged in the Final Report's feedback statement. The draft Technical Standards also envisage reporting to multiple regulators. This was not unexpected, but it might be helpful for ESMA to maintain a public list of regulator contact details for receiving such reports.

Regarding market soundings, the Final Report's draft Technical Standards seem much improved (though still highly prescriptive) compared to the July 2014 consultation, though there seem to be a few residual inconsistencies – for example between the Final Report's draft Regulatory Technical Standards' Article 3.3(e) and its implementing technical standards' Annex I, item vii. Queries remain, however, as to the practical application of MAR's procedural requirements for market soundings that do not involve inside information.

The MAR regime is due to come into force on 3 July 2016, so there remains limited time for the Technical Standards to be adopted (and then for industry to put into place the consequently related processes and systems).

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BRRD Article 55

by Leland Goss and Charlotte Bellamy

Article 55 of the EU Bank Recovery and Resolution Directive (BRRD) requires EU financial institutions in agreements creating "liabilities" that are governed by non-EEA law to include a new contractual term to recognise the application of the new write-down and conversion powers pursuant to the BRRD bail-in tool. The bail-in tool allows resolution authorities to impose a bank's losses on its shareholders and certain creditors. The BRRD was due to be implemented in EU Member States on 1 January 2016. The scope of Article 55 is very far reaching and arguably unnecessarily broad in order to achieve its accepted purpose. It will require changes to a substantial number and variety of contracts containing liabilities that are highly unlikely to need to be bailed in.

The European rules go beyond the FSB's proposals set out in *FSB Principles for Cross-Border Effectiveness of Resolution Actions*. Subject to very limited exceptions, under the BRRD it would appear that a very wide range of contracts that contain any legal commitment or obligation will need to include a clause recognising bail-in. The FSB, however, recommended amendment of only "capital or debt instruments", essentially only those things that can be meaningfully bailed in as part of a bank resolution. In the primary debt capital markets space, the European rules may affect non-EEA law governed contracts that managers enter into such as subscription agreements, dealer agreements, auditor arrangement letters, mandate letters, confidentiality agreements and agreements among managers such as the ICMA AAM v1 New York law.

European managers' obligations may be governed by non-EEA law in a number of circumstances, for example, in agreements that they enter into for European high yield bond issues; large, frequent US or supranational issuers' bond issues; and bond issues by Australian, Asian or Swiss issuers.

As a general matter, it would seem that the most effective and sensible approach would be to require recognition of bail-in only where a bank has an actual debt obligation or other financial liability that has an existing monetary value that can be waived, written down or cancelled that resolution authorities may need to bail in. It would appear, on the other hand, to serve little purpose to require recognition simply due to the existence of *any* legal commitment of a bank that in practice will include a very great many contracts that do not involve a debt obligation or financial liability such as agreements including only obligations to perform a service or other action. Such a broad approach is likely to create substantial practical problems (including costs and diversion of staff resource) for banks, yet at the same time it is far from clear what purpose the inclusion of a contractual recognition of bail-in clause in such a great number of contracts will serve in practice.

This is particularly the case in relation to primary debt capital markets, where a contractual recognition of bail-in may need to be included in agreements relating to a bank's role as an underwriter of another issuer's debt securities. For example, the risk of the underwriters' "liability" crystallising in practice will be very remote and often entirely within their own control (eg their compliance with their own obligation under the contract). In addition, a contractual recognition that a new issue manager's liability for breach of, say, confidentiality obligations may be cancelled or written down could be seen as weakening the manager's contractual obligation under the contract. Similarly, potentially voiding a firm's obligations to comply with selling restrictions and other regulations seems counterintuitive and contrary to public policy.

There are also a number of practical factors that may make it very difficult for managers to include a contractual recognition of bail-in clause in documentation. For example, often the managers' counterparties and the lawyers preparing the documentation for these transactions will be based outside Europe in the jurisdiction of the relevant governing law, who may not be familiar with the requirements of BRRD. In addition, managers' counterparties and lawyers outside Europe may resist inclusion of compliant bail-in terms, given some non-European equivalents of BRRD Article 55 are expected to be narrower in scope and may only apply to the terms of a bank's debt securities (in line with the FSB's approach). Perhaps most significantly, documentation for some bond issues is relatively "commoditised" with limited opportunity for managers to make changes to it. Bond issues often need to be executed within a very short timeframe in order to take advantage of narrow issuance windows in volatile markets. As such, European banks may be invited to join a transaction as manager as late as two days before the documentation needs to be signed. At that stage, they may be expected to sign the documentation without any ability to amend it.

If the managers do have the opportunity to negotiate the documentation, their counterparties (eg the issuer of the bonds) are likely to have difficulty with the fact that they would need to recognise that a European manager's potential liability under the contract could be cancelled or written down. Counterparties may choose simply to proceed with their transaction without involving European banks, rather than needing to acknowledge that the managers' obligations are capable of being cancelled. As such, the need to include a contractual recognition of bail-in could represent a competitive disadvantage for European banks vis-à-vis non-European banks.

The practical problems that banks may face were recognised to some extent by the UK Prudential Regulation Authority (PRA)'s *Modification by Consent* in relation to the contractual recognition of bail-in requirements, which was published in November 2015. Firms can contact the PRA to apply for a modification by consent in respect of the application of the PRA's rules implementing BRRD Article 55. The modification of the PRA rules would disapply the rules for a limited period of time and with respect to certain liabilities where compliance with the rules is "impracticable". Such Modification by Consent is limited in its application due to the relatively high bar set by the term "impracticable" and scope because it is not available to all European firms.

In light of these challenges, market participants have been very focused on preparing for the implementation of BRRD. ICMA updated the ICMA AAM v1 New York Law Schedule (see below) and is cooperating with AFME on preparing a model clause for inclusion in managers' debt capital markets contracts. ICMA has also been seeking to raise awareness of the implications of BRRD Article 55 for lead managers through its committees, working groups and via other trade associations. These practical steps may help smooth the path for managers of bond issues in some way, but the challenge that managers and their institutions more generally will face in complying with this rule should not be underestimated. It is therefore hoped that regulators will listen to the concerns of the industry in relation to BRRD Article 55. ICMA will continue to engage on this issue in the coming months.

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The scope of Article 55 is very far reaching and arguably unnecessarily broad in order to achieve its accepted purpose.

Other primary market developments

Benchmarks: As reported in previous editions of this Quarterly Report, ICMA has been monitoring the process for the evolution of LIBOR for some time. The latest development in this process is the publication of a feedback statement by IBA following the consultation process under IBA's second position paper, to which ICMA responded in October 2015. ICMA's response noted that, in improving the robustness of a benchmark, it is important to ensure that there are no negative side effects for outstanding contracts that reference that benchmark. It is expected that IBA will publish a paper in early 2016 setting out a roadmap for the evolution of LIBOR.

In a similar vein, EMMI has published a consultation on the evolution of EURIBOR which has a deadline of 29 January 2016. ICMA will consider carefully the need to respond to this consultation.

Separately, certain Thomson Reuters ISDAFIX screen pages may be discontinued in 2016, with ICE Swap Rates being made available on Thomson Reuters ICESWAP screen pages instead. It is understood that there is no impact on any other entities that provide access to, or publish ICE Swap Rates and that this proposed change follows a series of other changes to ICE Swap Rates, including a change of administrator in 2014 and a change to calculation methodology earlier in 2015.

Tax disclosure and provisions in prospectuses: The EU Savings Tax Directive was repealed from 1 January 2016 for all countries apart from Austria and will be repealed from 1 January 2017 for Austria (see this press release for further information). As such, it is felt that prospectuses for deals with no Austrian nexus no longer need to include EU Savings Tax Directive provisions. For deals with an Austrian nexus (ie an Austrian issuer, guarantor or paying agent), relevant disclosure and other provisions may need to be included in prospectuses until 1 January 2017, and local tax advice should be sought. ICMA has removed provisions relating to the EU Savings Tax Directive from the ICMA Primary Market Handbook (see below).

More broadly, in light of the various global and domestic information reporting initiatives which are now well known, disclosure of information reporting requirements generally is not felt to be material disclosure to investors in the international capital markets and so does not necessarily need to be included in deals from now onwards.

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ICMA Primary Market Handbook changes

- *Appendix A1 ICMA Agreement Among Managers version 1 Introduction and New York Law schedule*: This item has been updated to include a contractual recognition of bail-in clause, in order to ensure compliance with the EU Bank Recovery and Resolution Directive (2014/59/EU), where relevant.
- *Appendix A7 ECP documentation for investment grade issuers:* Provisions relating to the EU Savings Tax Directive have been deleted from this item in light of the forthcoming repeal of that Directive. The name of this item has also been amended (from "ECP documentation") to make it clear that this standard form documentation is relevant for investment grade issuers.
- *Appendix A17 Withholding tax:* Provisions relating to the EU Savings Tax Directive have been deleted from this item in light of the forthcoming repeal of that Directive.
- *Appendix A11 Paying agents and ICSDs*: This item has been updated to amend the contact details for Euroclear Bank S.A./N.V.
- *Appendix A12 Pre-sounding, bookbuilding and allocations:* This item has been amended to acknowledge more clearly that the submission of clear indications of interest or orders may be recognised in the allocation process and that issuer staff sometimes participate in allocation calls (bearing in mind they need to be appropriately knowledgeable and empowered to avoid risking transaction delay and so potential transaction detriment).
- *Appendix B1 Reader's guide:* This item has been amended to clarify the circumstances in which the dates of provisions in the ICMA Primary Market Handbook will be updated.

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Secondary Markets

by Andy Hill and Elizabeth Callaghan

Call for Evidence on the cumulative impact of regulation

On 30 September 2015, to coincide with the Capital Markets Union Action Plan, the European Commission launched a consultation related to the cumulative impact of regulation, entitled *The Call for Evidence*. In particular, the Commission is looking for empirical evidence and concrete feedback on:

- rules affecting the ability of the economy to finance itself and growth;
- unnecessary regulatory burdens;
- interactions, inconsistencies and gaps;
- rules giving rise to unintended consequences.

ICMA, on behalf of its members, intends to respond to the consultation. Given the relatively short timeframe of the consultation for providing evidence and concrete feedback across a broad range of thematic areas and issues (the deadline for responses was originally 6 January 2016, but has subsequently been extended to the end of January 2016), ICMA has chosen to focus primarily on the issue of *market liquidity* within the context of *rules affecting the ability of the economy to finance itself and grow*. This has been a high priority for ICMA for a number of years, and so the response will draw on much of the work and research it has undertaken previously related to both European corporate bond secondary market liquidity as well as collateral and repo market liquidity. ICMA believes that efficient and stable capital markets require a healthy degree of liquidity, which is essentially the ability for investors and capital raisers to meet, and a key component in strengthening the link between savers and economic growth. As ICMA has maintained in its recent work on the evolution of the corporate bond and collateral markets, market liquidity should be viewed as a "public good" and the collective responsibility of those who provide, use, and oversee capital markets.

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Fundamental Review of the Trading Book

The Fundamental Review of the Trading Book (FRTB) is a set of proposals by the Basel Committee on Banking Supervision (BCBS) that will create the framework for the next generation of market risk regulatory capital rules for banks that actively trade in capital markets. Areas covered by the new framework will include the definition of the trading book, market risk and liquidity risk measurement and capitalisation, and the supervision of banks' internal risk models.

The measures propose two key changes:

- standardised criteria for defining the boundary between the trading and banking book. This is intended to achieve better alignment in capital quantification across different banks and to eliminate incentives to designate discretionally individual positions across the different books with the intent to minimise capital usage (ie "capital arbitrage").

> It is likely that many firms, particularly those that rely heavily on the IRM approach, will see their capital requirements increase.

- recalibration of both the standardised approach (SA) and internal risk model (IRM) with the intention of better aligning capital costs between both the SA and IRM approaches.

This entails:

- a more sophisticated, granular, and sensitised mechanism for calculating the standardised approach (SA) capital charge, better aligned with the banks' actual risk management practices, which banks will have to maintain alongside their internal risk model (IRM).
- three proposed additional components for use of the IRM approach:
  - Expected Shortfall (ES) as an alternative market risk metric to Value at Risk (VaR). The ES also integrates liquidity risk ("liquidity horizons") to reflect the ease of unwinding positions without significant price impacts.
  - Incremental Default Risk (IDR), designed to capitalise the jump to default risk. Significantly, securitisation products are completely disallowed in the IRM treatment for IDR.
  - A "capital add-on" based on stress-testing and scenario analysis, designed to capture non-modellable risk factors (NMRF).

Furthermore, the trading book will have to report under both the SA and IRM approaches. For banks to use the IRM, they will need to investigate and assess the current level of consistency between their front-office P&L and their risk management P&L. In the event that these consistency requirements are not met, the SA model will act as a fall-back to the IRM.

The intention of the proposal was not to increase capital requirements beyond the increases prompted by Basel 2.5/3, but it is likely that many firms, particularly those that rely heavily on the IRM approach, will see their capital requirements increase. While the overall position in regulatory capital requirements is not expected to change dramatically, it is likely that there will be changes both across different institutions and different businesses. Fixed income is expected to be the most impacted as result of the new trading book definition, the new models-based approach, the incorporation of liquidity risk, and the supervisory risk correlations for hedging and diversification.

In November 2015, the BCBS published its own quantitative impact study (QIS) *Interim Impact Analysis* based on the data from 44 banks from December 2014, and which assesses the impact of proposed revisions to the market risk framework set out in two consultative documents published in October 2013 and December 2014. The key findings of the BCBS analysis include:

> "Analysis by market stakeholders suggests that the impact on capital charges for holding securitisations could be significant.

- Total non-securitisation risk capital charges would increase by only 4.7% of the overall Basel III minimum risk requirement.
- When the bank with the largest value of risk-weighted assets (RWA) is excluded, this translates to a 2.3% increase.
- Compared to the current market risk framework, the proposed framework would result in a weighted average increase of 74% in aggregate market risk capital charges: this is 41% as a simple average, and for the median bank the capital increase is 18%.
- When measured as a simple average, the capital requirement under the current IRM approach is 54% higher. For the median bank this is 13% higher.
- Compared to the current SA framework, the proposed SA framework capital requirement is 128% higher; and 51% higher for the median bank.

Of note, this QIS exercise does not test the capital impact of the proposed standardised approach treatment for all securitisation exposures in the trading book, and an internal model approach for securitisation exposures in the trading book is not provided. Analysis by market stakeholders suggests that the impact on capital charges for holding securitisations could be significant (more than double that required by Basel III).

The target date to finalise the FRTB framework is expected to be published by the Basel Trading Book Group (TBG) shortly. It is expected to "go live" in the first quarter of 2018. Given the expected significant impacts on capital charges related to trading certain fixed income securities, not least securitisations, ICMA would expect increased market focus on the details and potential implications of FRTB over the coming months.

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MiFID II Level 2

MiFID II will bring much of the transparency traditional in equity markets to bond trading. Europe will go further with bond transparency rules than just about anywhere in the world, including the US. MiFID II's regulatory regime brings into effect pre-trade transparency for bonds as well as post-trade. This will result in a significant impact on the market structure of bond markets. Bond pre-and post-trade transparency requirements will be calibrated for different types of bond market trading structures such as order-book, quote-driven, hybrid and periodic auction trading systems. In order to calibrate bonds correctly for MiFID II transparency obligations, IT systems have to be enhanced, developed or built from scratch. This is a major undertaking for the industry. Banks, regulators and investors are dependent on data collected to meet MiFID II's commitments.

Owing to the need for an IT build both by National Competent Authorities and by the industry, MiFID II is set to be delayed by one year, most likely to 30 January 2018. Most market participants believe it would be better to tie the MiFID II delay to the publication in the Regulatory Technical Standards (RTS) in the *Official Journal* of the EU as IT builds cannot begin in earnest until these RTS are published. Regardless, it is expected the Commission will announce formally a calendar one-year delay *before* the publication of the RTS. The result is that the industry will not actually benefit from the Commission's full one-year delay. However, it is important to note that most market participants view any delay as a welcome outcome.

The expected timeline for MiFID is currently as follows:

- *January 2016:* ESMA Level 3: A 200-page guideline document will be published on transaction reporting.
- *January 2016:* Delegated Acts will most likely be adopted by the Commission.
- *First Quarter 2016:* Regulatory Technical Standards (RTS) are expected to be published in the *Official Journal.*
- *First Quarter 2016:* ESMA Level 3: Secondary Markets Q&A on: transparency, trading venues, micro-structural issues and data reporting.

This timeline is subject to change as the Q&A will not occur until after the RTS and Delegated Acts are published in the *Official Journal.*

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CSD Regulation: mandatory buy-ins

Following the ESMA Consultation Paper, *Regulatory Technical Standards on the CSD Regulation: the Operation of the Buy-in Process*, which called for responses by 6 August 2015, the market had been expecting ESMA to publish the draft Regulatory Technical Standards (RTS) for mandatory buy-ins in September 2015 as part of the *Final Regulatory Technical Standards for CSDR*. In the last Quarterly Report, we noted that ESMA had delayed publication of the RTS related to buy-ins until October 2015. Due to the complexity of drafting RTS that would be legally consistent with the Level 1 text, while minimising the potential for adverse impacts on market liquidity and efficiency, ESMA subsequently indicated that publication of the RTS would not be until December 2015. It would now appear that publication is more likely to follow the next meeting of the ESMA Board of Supervisors on 27 January 2016.

While committed to supporting regulatory initiatives to improve settlement efficiency across the European capital markets, ICMA has consistently argued against the introduction of a mandatory buy-in regime, which is likely to have negative implications for bond and financing market pricing and liquidity. These potential impacts are illustrated and quantified in the *ICMA CSDR Mandatory Buy-in Impact Study*, published in February 2015. Furthermore, ICMA has repeatedly drawn attention to a number of flaws in the Level 1 text which would make implementation of a mandatory buy-in regime even more challenging, if not impossible. This was highlighted in the ICMA response to the August 2015 ESMA Consultation Paper, as well as in a subsequent briefing paper, *Buy-ins, How They Work, and the Challenge of CSDR*.

While subject to approval by the co-legislators, it is still widely expected that mandatory buy-ins, along with cash penalties, will be introduced in early 2018.

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ICMA electronic trading platform (ETP) mapping study

European bond market trading is increasingly becoming more electronic. This is due to the natural evolution of trading in bonds and, more recently, a by-product of regulation. Market participants have a regulatory obligation to evidence best execution and meet transparency obligations, but more importantly need to source and optimise liquidity. The fixed income landscape is currently very fragmented. The reduction in balance sheet due to Basel III combined with investors' reluctance to trade has led to a diffusion of liquidity across platforms. Sourcing and aggregating liquidity is vital for sell-side and buy-side traders. Technology is the only way to enable these participants to uncover the liquidity available. Understanding the contrasts and capabilities of the new and the incumbent ETPs is the first step to choosing the best execution venue or information network available in the market.

In order to assist bond market participants, ICMA has created a capabilities mapping study for traders in the European fixed income markets to better understand the unique selling points of various electronic trading platforms (ETPs) and information networks. By offering a centralised one-stop shop to research the electronic trading skills available in the market, the industry is now able to compare and contrast the various ETP providers in order to determine which platforms best suit their investment and/or trading strategies. ICMA's mapping study is a living document and is regularly updated with new information from ETPs about platform modifications and additions.

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Asset Management

by Patrik Karlsson

Securitisation and the buy side

Since the European Commission launched its proposal for simple, transparent and standardised (STS) securitisation on 30 September, an AMIC working group has been actively developing views on the legislation.

AMIC has welcomed:

- the application of the STS framework to whole vehicles and not only to senior tranches;
- placing the onus on issuers/sponsors to retain 5% net economic interest rather than limiting investors to those vehicles where issuers/sponsors have retained 5% net economic interest;
- the ambition for a swift timetable for implementation and application of the STS framework.

However, AMIC members have significant concerns with a number of further elements of the text, which should be addressed if the framework is to be successful in reviving the securitisation markets in Europe. AMIC's significant concerns are in the areas of self-certification and Solvency II, amongst other things.

The most important element of AMIC's concern is around self-certification. AMIC has noted that the draft Regulation places ultimate responsibility for ensuring compliance with STS criteria on investors, which is of great concern. The STS criteria in the Regulation (over 50) are both numerous and onerous to verify for investors. Many of these items can only be verified by checking fairly complex elements, and will be addressed differently depending on the asset class and the country of origin of the securitisation, which multiplies the complexity of the task. This additional regulatory compliance role will require investors to go over and above the current due diligence requirements for non-STS securitisations and would need to be done by each and every investor in each and every STS securitisation. This would make the due diligence process for STS securitisations more complex and costly for investors and would act as a disincentive for new entrants into the market.

Furthermore, the difficulty of agreeing a consistent interpretation of the criteria means that investors would have to verify the local interpretation of the STS criteria in each jurisdiction in which they have clients or invest in STS assets.

AMIC is concerned that investors will find such a self-certification scheme simply not workable and would lead to (i) existing investors leaving the market and (ii) new investors being unprepared to enter.

AMIC is also concerned at the lack of progress on amending Solvency II. AMIC is disappointed that the Commission did not propose an amendment to Solvency II alongside its proposal to revise CRR capital requirements for holders of STS securitisations. The main benefit of the STS framework is the capital benefit it will give to investors.

“The main benefit of the STS framework is the capital benefit it will give to investors.

The delay in introducing changes to Solvency II until the STS legislation is agreed and published in the *Official Journal* is significant. Insurers will not be able to reflect the lower capital treatment of these products until many years after the framework has been proposed.

The EU Council has already agreed its view on the legislation. AMIC welcomes the third-party certification regime that the Council suggests in its text. The European Parliament must still agree its own position before the institutions can negotiate a compromise agreement.

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Covered bonds in the EU

As part of the European Commission's work on Capital Markets Union (CMU), the Commission launched a consultation on covered bonds in the EU on 30 September 2015.

The CMU Green Paper, also published on 30 September 2015, proposed seeking stakeholder feedback on "the merits and potential shape of an EU covered bond framework and present policy options to achieve greater integration in covered bond markets, based on experience gained from well-functioning national frameworks".

Accordingly, the European Commission's consultation is structured as follows:

- Part I contains a summary of an in-depth analysis of covered bond market data and trends in recent years, a summary of which is made available for ease of reference in Part I.
- Part II considers the disparity between legal frameworks and supervisory practices of the various Member States that have enacted dedicated covered bond laws as a factor which could have contributed to market fragmentation. Such disparity, which is thoroughly illustrated in the EBA's *Report on EU Covered Bond Frameworks and Capital Treatment* of July 2014, may be hindering efforts to promote market standardisation in underwriting and disclosure practices, thus resulting in obstacles to market depth, liquidity and investor access (in particular on a cross-border basis). Accordingly, the consultation discusses the convenience of a reform agenda that would promote a more integrated EU framework for covered bonds based on high-quality standards and best market practices. The Paper presents two options:

  (i) voluntary convergence of Member States' covered bond laws in accordance with non-legislative coordination measures such as a Commission recommendation; or

  (ii) direct EU product legislation on covered bonds, which could seek to harmonise existing national laws or provide an alternative framework

- Part III discusses a high level design for a hypothetical EU covered bond framework based on the structure and elements set out in the EBA Report.

The Covered Bond Investor Council (CBIC) has considered the paper and responded to the consultation by the deadline of 6 January 2016. The CBIC noted the underlying assumption in the economic analysis that the extreme convergence of covered bond spreads before the crisis should be the norm and that subsequent events point to a sub-optimal fragmentation of markets within the European Union. However, CBIC members argued that markets prior to 2007 had mispriced risks inherent in the securities and that a return to that condition was not necessarily a desirable outcome. Particularly in the absence of implicit state support for the banking system, different covered bonds do reflect different underlying risk characteristics and it is the job of the market to identify and price these risks appropriately.

With regard to the main question in the consultation, the two options for covered bond harmonisation, the CBIC noted that there was insufficient detail in the consultation to give a definitive view. Some CBIC members believed that voluntary convergence of national regimes would suffice, particularly if backed by measures like capital requirements referencing the best practice guidelines. Other CBIC members expressed a preference for an EU legal framework with minimum standards based on current best practice.

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FCA Market Study into Asset Management

The FCA announced its intention to undertake a Market Study into Asset Management in its 2015/16 business plan, following feedback received as part of its wholesale sector competition review, which raised a number of questions about competition along the asset management value chain. Given the size of the market and the long-term nature of investments, even a small improvement in the effectiveness of competition could be of substantial benefit for investors.

As part of the formal announcement of the Market Study on 18 November 2015, the FCA stated that it would seek to understand:

- how asset managers compete to deliver value;
- whether asset managers are willing and able to control costs and quality along the value chain; and
- how investment consultants affect competition for institutional asset management.

In addition, the FCA will look at whether there are any barriers to innovation and/or technological advances in asset management. The FCA will consider both retail and institutional investors in this study. Although the study is restricted to asset managers based in the UK, the FCA is aware of the international element and will reflect, for example, where EU legislation is in the process of addressing potential shortcomings.

Following the publication of the terms of reference on 18 November, the FCA said that it would approach market participants for information and data to look into the issues set out above. In addition, the FCA will host roundtables and meetings throughout the study.

The FCA aims to publish an interim report in summer 2016 and a final report in early 2017. The FCA's interim report will set out those areas which the FCA considers raise concerns and those in which it has found few or no problems.

If the FCA concludes that competition is not working well, it may intervene to promote effective competition. The FCA can do this through rule making, introducing firm-specific remedies or enforcement action, publishing general guidance or proposing enhanced industry self-regulation.

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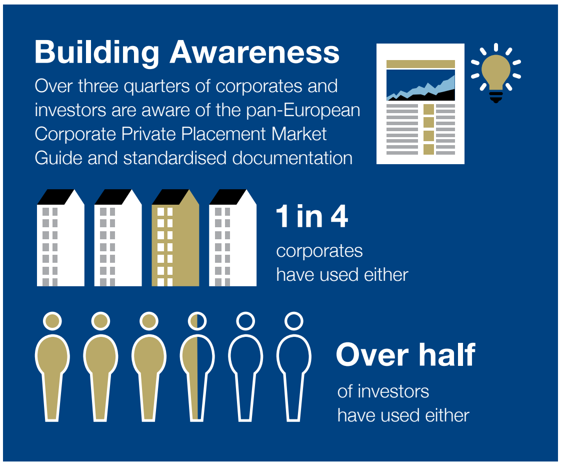
Capital Market Products

by Nicholas Pfaff, Katie Kelly and Valérie Guillaumin

Pan-European private placement initiative

The progress of the Pan-European Private Placement initiative coordinated by ICMA was underlined by the findings of the annual *Alternative Finance* study sponsored by Allen & Overy and published in November. It includes the conclusions of a YouGov poll of 368 corporates and investors in Europe. The results are encouraging as they indicate that 79% of investors and 76 % of corporates confirm awareness of the *Pan-European Corporate Private Placement Market Guide* (the Guide) and the model transaction documentation, and some 50% of investors and 25% of corporates have used them.



YouGov poll of 368 corporates and investors in Europe.
Source: Allen & Overy, YouGov. November 2015

The study also shows the inroads of the initiative in the key Italian market with nearly 30% of corporates and investors having used both the Guide and the documentation. It also highlights that recognition in Germany and Spain can comparatively improve. This is being taken into account for the planning of promotional events in 2016.

As discussed in previous editions of the Quarterly Report, Germany benefits from having Europe's largest established private placement market, the Schuldschein market, historically focused on implied investment grade issuers. Primarily aimed at medium-sized, unrated and often cross-over issuers, the PEPP is complementary to the Schuldschein market. There are also convergence points between the two markets in areas such as market practice and documentation.

In addition to previous contacts this year with the German market authorities, a dialogue on such convergence topics has been initiated with the Association of German Public Banks which has brought out a recent publication, *Best Practice in the Schuldschein market*, in the context of EU Capital Markets Union (CMU).

Cooperation with the Association of German Public Banks was illustrated by coordinated presentations following an invitation to update the European Council's Financial Services Committee (FSC) on 9 December 2015. This invitation was on the same basis as a similar request to the PEPP Joint Committee at the end of 2014.

In early December 2015, the PEPP met in London in a smaller format designed to facilitate decision-making and working group coordination. This PEPP Coordination Committee (PEPP CC) meeting hosted by Allen & Overy focused, in addition to the preparation of the FSC presentation, on an update of the progress of the Amendment Working Group. It also established a Risk Management Working Group, although further discussion will take place on the parameters of its output. The next edition of the Guide is tentatively scheduled for May-June 2016. The agendas of the Amendment, Schuldschein, and Documentation WGs will be set to reflect this target date.

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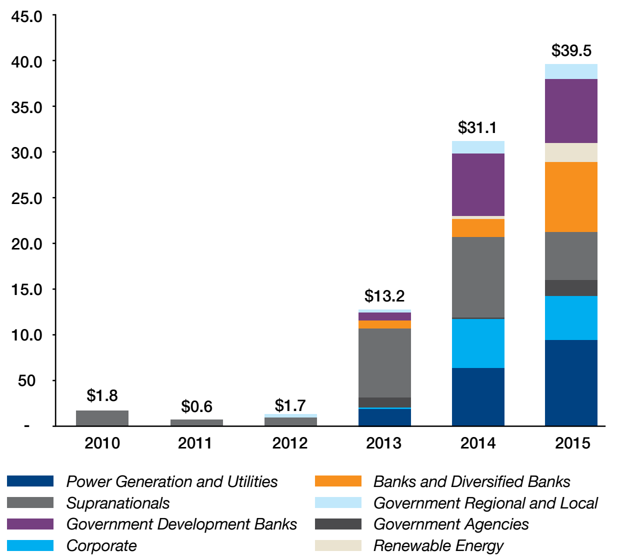
Green bond initiative

The potential of the green bond (GB) market to contribute to the financing of the transition to a sustainable low carbon economy was one of the many important topics discussed during the successful meeting of the COP21 in Paris. The Green Bond Principles (GBP) Excom was invited to intervene during an official COP21 session on private sector finance on 4 December 2015. Actiam spoke on behalf of the GBP Excom with an agreed statement underlining amongst others the growth and internationalization of the GB market, the role of the GBP and the remaining untapped capacity of international bond markets.

During the COP21 the GBP also organised on 10 December 2015 through its Secretariat a well attended joint GB roundtable with the OECD and other partners. This also provided the opportunity for the OECD to announce the publication of important new research on the GB market. GBP Excom organisations (including CAIB, EIB and HSBC) otherwise organised or participated in a number of important events during the COP21. In time for COP21, an updated proposal for impact reporting coordinated by EIB was also released by 11 International Financial Institutions.

At the beginning of 2015, there was speculation on how the GB market would grow after more than doubling in 2014 with an estimated US$31 billion of new issuance. Arguably, 2015 combined both consolidation and growth with total volumes at US$40 billion. Issuance this year has been marked by less supranational deals compensated by additional bank and renewable energy transactions. Overall, the GB market currently represents in the range of US$80 billion in outstanding bonds.

The green bond market as of the end of 2015



Sources: Bloomberg, Citibank

The current expansion of the GB market is underpinned at a number of levels. At the core, there is the GBP, with the support of ICMA. This is complemented by key efforts such as those of the UN PRI, UNEP, the Climate Bonds Initiative and combined initiatives such as the Coalition for Green Bonds, as well as by the work of multilateral and other development finance and government institutions.

The further internationalisation of the GB market is playing out especially in China with just released Government guidelines largely based on international market practices referring to the GBP and with an official taxonomy for environmental projects. Incentive mechanisms for the Chinese GB market are also under consideration in the form of (i) tax breaks, (ii) subsidies and/or (iii) credit enhancement. ICMA is a member of China's Green Finance Committee and has been advising on how to ensure the compatibility of a regulated Chinese GB market with an international market based on voluntary standards.

As a premise to the expansion of its market, China has already seen inaugural GB transactions that are explicitly aligned with the GBP such as the one by Agricultural Bank of China with US$1 billion in October.

There are also developments in other key countries based on international practice and the GBP. Domestic GB guidelines are for example under consultation in India (by the Securities Exchange Board of India), on which the GBP Excom has already had the opportunity to comment. In the meanwhile, transactions are coming to market such as the US$50 million equivalent green bond issued by Yes Bank of India with the support of the International Financial Corporation (IFC). There are also early plans being discussed in Brazil for the development of a local GB market.

The GBP Excom has moreover been consulted by the French Government on the establishment of an official label for green funds which will make alignment with the GBP a requirement in addition to respecting government guidelines for eligible environmental projects. This French green fund label may create a relevant precedent in the European context.

From these examples, a possible precedent is emerging where the GBP serves as the basis for official recognition of green bonds. Government incentives, when they are contemplated, can also focus on issuers and not interfere with the manner in which the international GB market is operating. Separately, GBP members and observers are requesting further guidance on the definition and categories of eligible green projects. This latter area may be one where additional and coordinated official sector guidelines developed in collaboration with the market may prove very helpful.

Looking to the future, it is clear that green bonds have an important role to play in financing the transition to a sustainable global economy. Supported by ICMA, the GBP Excom is actively working to help the green bond market reach its full growth potential. This is being done, amongst others, by promoting internationally the GBP, and by engaging fully with the official sector on complementary public policies.

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The Investment Plan for Europe

by Cormac Murphy

In November 2014, the European Commission, under its newly appointed President, Jean-Claude Juncker, together with the European Investment Bank (EIB) President, Werner Hoyer, announced an ambitious programme aimed at boosting investment in Europe, known as the Investment Plan for Europe (the Plan).

The impetus for the Plan was evidence of a growing investment gap in Europe, with investment running 15% below pre-crisis levels, and a lack of risk-taking despite historically low borrowing costs. If economic recovery is to take hold, efforts to boost long-term investment are necessary alongside fiscal and monetary policy measures. While this might have been achieved through higher public spending in the past, the need for budgetary consolidation means that the focus must be on mobilising financing from the private sector.

The Plan has resulted in the creation of a European Fund for Strategic Investments (EFSI), a joint initiative of the Commission and the EIB. The EFSI functions as a guarantee structure, supported by €16 billion from the Commission's budget and €5 billion from the EIB's own resources, providing a "first loss" commitment to the EIB for more risky operations in equity and debt and for the expansion of guarantee and equity instruments by the European Investment Fund for SMEs and small mid-caps. For every initial one euro of protection provided by the EFSI, it is estimated that three euro of higher risk financing will be provided by the EIB. Furthermore, experience indicates that one euro of EIB financing will catalyse an additional five euros in total investment, resulting in the original EFSI commitment of €21 billion supporting total investments of €315 billion, or 15 times the original EFSI commitment.

Following European Parliament and Council approval in mid-2015 and the signature of a bilateral agreement between the Commission and the EIB in July 2015, the governance structure of the EFSI will be completed by January 2016 after which the EFSI will be fully operational. In the meantime, the EIB Group has already approved more than 100 EFSI operations in 2015, expected to mobilise total investment of around €46 billion. Operations approved to date include significant support to smaller businesses and important projects in renewable energy, energy efficiency and other low-carbon investment, as well as strategic transport, digital and social infrastructure, research and development and industrial innovation.

While financing has a central role to play, the Plan also has two other strategic elements. One is a significant expansion of technical assistance through a newly formed "Advisory Hub" created in the EIB, which will work with public and private sector promoters to support the development and preparation of projects so that they are better placed for financing and effective implementation. By helping to enhance the quality of the projects, this contributes to addressing a key concern of investors about a lack of credible potential deal-flow and may ultimately lead to an acceleration of some investments. The other element is improvement of the structural and regulatory environment for investments by removing impediments and applying best practice, which may, in turn, facilitate a greater harmonisation of the European market. Finally, and to ensure more visibility to investment opportunities, a new Investment Portal is being established by the Commission.

The challenge now is to bring projects to fruition and to absorb the available funding through the mix of technical support and use of EFSI financial instruments. As this means accessing external financing, the focus is on revenue-generating projects and those with the financial capacity to meet commitments over time.

In mobilising such funding, the EIB's role as co-financier is expected to be a strong inducement for investors given the EIB's long track record and its customary robust due diligence, together with its relationship with public and private counterparts. This will include credit enhancement products such as the Commission/EIB Project Bond Credit Enhancement Initiative, which will be extended under EFSI, together with high risk loans and guarantees, hybrid debt and equity-type instruments, as well as new products currently being developed. The EIB is also actively looking at ways to bridge institutional financing through underwriting or syndication and by creating investment platforms and pooling structures for investors who prefer a portfolio approach.

The Investment Plan for Europe is complementary to initiatives such as Capital Markets Union and revisions to Solvency II for insurance companies (by recognising the risk characteristics and attractiveness of long-term stable assets for investors), which should also help increase institutional financing to the real economy in Europe.

With a recovery now taking place in Europe, it is time to make up for the backlog of investment during the crisis. The Investment Plan for Europe is an important tool in facilitating this and ensuring that this is broad-based and sustainable to help restore competitiveness and increase growth and jobs in the European Union.

Cormac Murphy is Head of Division, Structured Finance, Infrastructure – New Products, European Investment Bank.


ICMA in Asia-Pacific

by Mushtaq Kapasi and Ricco Zhang

Introduction

Since launching its Asia-Pacific representative office in Hong Kong in 2013, ICMA has continued to strengthen ties with members, regulators, central banks, intermediaries, infrastructure providers, and local associations in the region.

During ICMA's recent discussions in Asia, three common themes have emerged: (i) financial liberalisation, particularly in China; (ii) demand for new products to finance infrastructure development, particularly green projects; and (iii) fundamental changes in the structure of the market due to international regulatory reform and the emergence of new technologies. ICMA's own efforts to develop efficient and well-governed cross-border capital markets across the Asia-Pacific region reflect these trends.

In Asia, ICMA's main focus will continue to be on international debt capital markets and repo, with increased attention paid to green bonds, liquidity in the secondary markets, and electronic trading platforms. ICMA has promoted fruitful dialogue between Asia and Europe on emerging reforms and standard practices in both regions, and is active in international efforts to avoid regulations that have unintended or contradictory consequences across borders into Asia.

Particularly in China, as the domestic interbank and exchange-traded bond markets continue to develop, ICMA continues to advise onshore members, policy makers, and infrastructure providers on established international practices. ICMA has welcomed new members such as Bank of China, Shanghai Stock Exchange, and Shanghai Clearing House to cooperate in these efforts.

Asian primary markets

ICMA has established two committees in the debt primary markets, comprising Asia debt syndicate managers from leading global and regional underwriters and Asian legal, documentation, and transaction managers. The subjects covered in the syndicate group have included investor meetings, order book transparency, pricing iterations, allocations, stabilisation, retail distribution, and the dynamics and risks of a growing market. The forum of Asian legal, documentation, and transaction managers covers many of the same topics with an emphasis on regulations, compliance, contracts and disclosure. Discussions have echoed to some extent many of the topics arising in the ICMA Primary Market Practices Committee and the ICMA Legal and Documentation Committee, in particular the implications of Article 55 of the European Bank Recovery and Resolution Directive (BRRD) (see above), but have also shed light on some areas where Asian perspectives and dynamics differ. Many of the long-standing principles and standard clauses of the ICMA Primary Market Handbook, including the Agreement Among Managers, have been borrowed and adapted to local Asian capital markets.

Also, ICMA has had extensive dialogue with China's National Association of Financial Market Institutional Investors (NAFMII) to aid in the development of standards in the onshore interbank bond market. In particular, as part of the UK-China Economic and Financial Dialogue, ICMA and NAFMII established a private sector working group bringing together experts from financial institutions in London and China to share expertise on market access and practices. Earlier this year, the working group published a study comparing new issue processes in the international and Chinese bond markets, focusing on due diligence, disclosure, and book-running. In 2016, the working group intends to focus its efforts on developing the Chinese green bond market and the panda bond market (in which foreign institutions issue bonds in the onshore Chinese market).

Repo

The repo markets in Asia, both local and cross-border, remain relatively small and disjointed due to the variety of regulatory regimes and market dynamics. The adoption of international practices and increased use of standard documentation would help to improve secondary market liquidity, mitigate collateral risk, and increase transparency. While Asian markets are in various stages of development, several countries, particularly in south-east Asia, have taken concrete steps to adopt international practices including standard documentation based on the Global Master Repurchase Agreement. ICMA has been actively advising market leaders and policymakers on cross-border market characteristics, international regulations, legal opinions and repo contracts. Also, work is under way, in cooperation with regional associations, to more concretely analyse the structure and depth of the regional and domestic repo markets.

Green bonds

Green finance is now a major part of China's high-level economic policy. ICMA, which acts as the global secretariat for the Green Bond Principles, has developed relationships with the People's Bank of China, the Research Centre for Climate and Energy Finance at the Central University of Finance (which has also become an observer in the Green Bond Principles), National Centre for Climate Change Strategy and International Cooperation, Chinese Renewable Energy Industries Association, Beijing Financial Bureau and the China Banking Association to advise on green finance initiatives in the onshore Chinese market.

Green bonds are also drawing considerable attention in India and south-east Asia. In December 2015, the Securities and Exchange Board of India issued a concept paper encouraging the development of an Indian green bond market based on the voluntary Green Bond Principles. The Association of South-East Asian Nations (ASEAN) and national regulators in south-east Asia have also started to promote further environmentally focused markets as a part of their general initiatives to promote infrastructure investment.

Secondary markets

Liquidity, technology, and collateral issues are important to Asian markets, both local and cross-border. Asian regulators and financial institutions are also keen to understand how the emergence of electronic trading platforms and other potentially disruptive technologies will more broadly affect the structure of the regional secondary markets.

With respect to the Asian secondary markets, ICMA has provided guidance on the potential effect of European regulations such as MiFID and CSDR on regional markets. ICMA plans to extend its ongoing work on liquidity in the repo and corporate bond markets to address not only issues that have global relevance but also considerations particular to the diverse and relatively fragmented Asian markets. Also, ICMA plans to extend its recently published electronic trading platform mapping study to cover Asia-based fixed income trading platforms.

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2015 highlights in Asia-Pacific

Establishment of a formal Asia-Pacific Region led by a regional committee of senior individuals from member institutions.

Launch events for the revised ICMA Primary Market Handbook in Hong Kong and Singapore, featuring introductory presentations on the scope and content of the Handbook as well as panel discussions on its application in the Asian markets.

GMRA and repo workshops in Malaysia, Singapore, Indonesia, the Philippines, and Vietnam designed to assist market participants and policymakers to better understand repurchase agreements and related documentation.

A new Guide on Repo in Asia, based on the ICMA Guide to Best Practice in the European Repo Market and published jointly with Asia Securities Industry and Financial Markets Association (ASIFMA).

Under the UK-China Economic and Financial Dialogue (EFD), formal recognition of ICMA's work with the National Association of Financial Market Institutional Investors (NAFMII) to publish *A Comparative Review of New Issue Processes in the International and Chinese Bond Markets*.

Also as part of this year's UK-China EFD, formal recognition of cooperation between ICMA and the Green Finance Committee under the People's Bank of China to develop consistent global green bond standards.

ICMA membership in the Asia Securities Forum; new Memoranda of Understanding with the Thai Bond Market Association and Indonesia Securities Companies Association (APEI); and partnership with the Malaysian Investment Banking Association on development of local primary market practices.

Continued growth of ICMA's membership in Asia-Pacific, closing 2015 with 35 full and associate members located in the region.

Market Infrastructure

by Alexander Westphal

ECB: Contact Group on Euro Securities Infrastructures (COGESI)

The latest meeting of the ECB's COGESI Group took place on 17 November 2015. At the meeting, participants reviewed the latest developments related to euro financial market infrastructures and exchanged views on the long-term vision on efficient and safe post-trade infrastructures and collateral management services, a follow-up discussion from the last COGESI meeting in March. In addition, participants also discussed how to achieve a more coordinated approach regarding the communication on collateral management. As part of these efforts, the COGESI group will submit its own response to the Call for Evidence which the Commission launched in the context of its Capital Markets Union (CMU) initiative. The COGESI response will focus on the impact of regulation on collateral in the euro area. The official summary of the latest COGESI meeting should be available in due course on the Group's webpage. The next COGESI meeting has been provisionally scheduled for 18 February 2016.

ECB: Money Market Contact Group (MMCG)

The MMCG last met on 8 December 2015. The agenda for the meeting included a presentation on the ECB's latest quarterly MMCG euro money market survey conducted in 4Q 2015, a discussion on the latest market developments, including reactions to the monetary policy decisions taken by the ECB's Governing Council on 3 December, and an update on the ECB's Money Market Statistical Reporting Regulation (MMSR). Prior to this, the MMCG met on 9 September. The summary and several presentations given at that meeting are now available on the Group's webpage. The date of the next regular quarterly MMCG meeting has not yet been announced but should take place in February-March 2016.

ECB: Bond Market Contact Group (BMCG)

The official summary and several presentations from the latest BMCG meeting on 13 October 2015 have been published on the Group's webpage. One of the topics on the agenda for that meeting was a presentation on best market practices in European debt markets jointly prepared by ICMA and BNP Paribas. Other presentations focused on the impact of specific regulation on the bond market, including MiFID II, new rules on capital as well as derivatives regulation. The next BMCG meeting will be held on 19 January 2016 in Frankfurt. Besides the usual discussion on the bond market outlook, participants will be looking at the impact of QE, forward guidance and market-based inflation expectations and will also have a discussion on electronic trading and the growth of automated trading strategies. On the latter topic, Martin Scheck, ICMA's Chief Executive, will give a short overview of ICMA's ETP mapping study, which was published in October 2015 and has regularly been updated since then. Both topics mentioned above are also included in the BMCG's wider Work Programme for 2016. The 13 topics covered by the programme range from more general issues such as the further evolution of bond market liquidity or the consequences from the negative interest rate environment to impacts of specific regulations such as MiFID II or Solvency II on the bond market and also cover other regulatory initiatives such as the CMU project.

ECB: Operations Managers Contact Group (OMCG)

OMCG members last met on 3 November 2015 to discuss operational matters of common interest. A summary of the meeting as well as two presentations have been published on the OMCG webpage, including a presentation by SWIFT on the implementation progress of the ISO20022 standard, in particular from a foreign exchange (FX) perspective, and a presentation by the ECB about ongoing global work by regulators to create a Single Code of Conduct (SCC) of Best Practices in the FX space. The date for the next regular tri-annual meeting of the Group has not been announced yet, but should be around March 2016.

ECB: The Eurosystem's "Vision 2020"

On 14 October 2015, in a speech at the SIBOS 2015 conference in Singapore, Yves Mersch, Member of the ECB's Executive Board, outlined the Eurosystem's "Vision 2020" on the future of Europe's financial market infrastructure. In his speech Yves Mersch set out three key components of the Eurosystem's strategy to drive further integration of post-trade infrastructure in Europe. Probably most importantly, *t*he Eurosystem is exploring synergies between TARGET2 and T2S, with the ultimate goal of achieving a consolidated Eurosystem market infrastructure. In this context, it is assessing new service opportunities arising from bringing the two infrastructures closer together. In particular, enhancements to the TARGET2 services in the field of instant payments. Finally, the Eurosystem intends to increase harmonisation of its own collateralisation techniques and procedures and is considering the business case for a common Eurosystem collateral management system.

ECB: TARGET2-Securities (T2S)

On 31 August 2015, Monte Titoli, the Italian CSD, joined the T2S platform successfully but two months behind schedule, concluding migration Wave 1, which also saw the on-boarding of CSDs from Switzerland, Malta, Romania and Greece. Two months on, a further setback to the project timeline was announced. On 30 October 2015, Euroclear notified the market that its three ESES CSDs from Belgium, France and the Netherlands will not be ready to migrate to the common settlement platform as planned in February 2016. Following this announcement, the ECB, in cooperation with all participating CSDs, undertook a thorough assessment of the implications for the overall project timeline. As a result, the CSD Steering Group (CSG) agreed on 10 December 2015 a revised migration plan for the remaining waves with the last wave now scheduled to take place in September 2017, six months later than initially planned (see revised migration plan in the box).

Wave 2 28 March 2016	**Wave 3** 12 September 2016	**Wave 4** 6 February 2017	**Final Wave** 18 September 2017
Interbolsa (Portugal) National Bank of Belgium Securities Settlement Systems (NBB-SSS)	Euroclear Belgium Euroclear France Euroclear Nederland VP Lux (Luxembourg) VP Securities (Denmark)	Baltic CSDs (Estonia, Latvia, Lithuania) Centrálny depozitár cenných papierov SR (CDCP) (Slovakia) Clearstream Banking (Germany) KDD - Centralna klirinško depotna družba (Slovenia) KELER (Hungary) LuxCSD (Luxembourg) Oesterreichische Kontrollbank (Austria)	Iberclear (Spain) Euroclear Finland

Source: T2S

"The Eurosystem is exploring synergies between TARGET2 and T2S, with the ultimate goal of achieving a consolidated Eurosystem market infrastructure.

The latest edition of *T2S online*, published on 18 December 2015, provides some further details on the new migration timeline. Both Marc Bayle, Chairman of the T2S Board, and Mehdi Manaa, T2S Programme Manager, focus in their contributions on the new timeline and its implications for the overall project. Mehdi Manaa's section with *News from T2S* provides a detailed overview of the full list of revised Synchronisation Points in relation to each of the waves. Other updates covered include an interesting quantitative analysis of the first months of T2S operations, as well as a brief assessment of the significance of T2S for the project of European integration more broadly, including for the Eurosystem's "Vision 2020" (see above) and the Commission's CMU initiative. The link between T2S and CMU is also analysed in more detail in a recent T2S article.

The consequences of the announced delay of the ESES CSDs were discussed at the latest meeting of the T2S Advisory Group (AG) which was held on 16-17 November 2015. In addition, AG members reviewed the first months of T2S operations, especially since the migration of Monte Titoli, and received updates from the different T2S groups, including the CSG, the Change Review Group (CRG) as well as the Directly Connected Participants' Group (DCPG). An important focus of the meeting was moreover on the different activities of the T2S harmonisation work stream led by the Harmonisation Steering Group (HSG). Under this item, the HSG presented, among other things, the outcome of a fact finding exercise on *Conflict of Law Issues in T2S Markets*, an HSG note on the *Revision of the T2S Matching Fields Standard* and a new version of the *Catalogue of CSDs' Restriction Rules* (version 0.4). Moreover, the HSG introduced a first draft of the Sixth T2S Harmonisation Progress Report, which will be finalised at the next AG meeting. Finally, AG members unanimously approved Joël Mérère as new HSG Chairman, replacing the long standing Chairman of the Group, Yvon Lucas. A full summary of the latest AG meeting and a number of related documents and presentations are available on the AG webpage. The next meeting of the Group has been scheduled for 17-18 February 2016.

The latest T2S Info Session was held on 1 December 2015 in Copenhagen. Besides the usual T2S updates, the session hosted two panel discussions. The first panel focused on the role of T2S for the Nordic market, while the second group of panellists discussed the future of market infrastructure in Europe more generally, in light of the Commission's CMU initiative and the Eurosystem's "Vision 2020" project.

Finally, it is worth noting that new versions of three of the key technical T2S documents were published on 3 December 2015 and are now available on the T2S website. These include: (i) T2S General Functional Specifications (GFS) – Version 5.1; (ii) T2S User Detailed Functional Specifications (UDFS) – Version 2.1; and (iii) T2S User Handbook (UHB) – Version 2.1.

European Commission

The European Commission has launched a call for applications for a new informal expert group on post-trade: the European Post-Trade Forum (EPTF). The Group is being set up in the context of the Commission's CMU project and is mandated to help the Commission undertake a broad review of the progress towards the removal of remaining barriers to cross-border clearing and settlement, the so-called Giovannini barriers. This will include taking stock of the post-trade landscape in the EU following the implementation of recent legislative changes, but will also cover the impact of new technologies and other relevant market developments. The EPTF will build on previous work undertaken by its predecessor expert groups in post-trade such as most recently the European Post-Trade Group (EPTG), which has been discontinued. Relevant experts from trade associations and firms active in post-trade as well as independent experts were given until 21 December to apply as members of the new Group. The first meeting of the Group is expected to take place in the first quarter of 2016.

European Securities and Markets Authority (ESMA)

On 11 December 2015, ESMA launched a consultation on *Access, Aggregation and Comparison of Trade Repository Data*. The proposals aim to improve current rules for TR access and to increase the comparability of the data. Proposed measures include the standardisation of both output formats and data exchange between TRs and NCAs, based on international ISO standards. They also include defining standard frequencies for the provision of direct and immediate access to TR data and the establishment of secure machine-to-machine connection and data encryption protocols. The deadline to respond to the consultation is 1 February 2016.

On 15 December 2015, ESMA published an updated list of Payment and Securities Settlement Systems designated by Member States under the Settlement Finality Directive. The updated list is available on the ESMA website.

European Banking Authority (EBA)

On 16 December 2015, the EBA submitted its final *draft Regulatory Technical Standards on Prudential Requirements for CSDs* to the European Commission. The RTS were prepared in the framework of the CSD Regulation, supplementing Technical Standards prepared by ESMA on other aspects of the law. Following their publication, the EBA draft Technical Standards will now be reviewed and adopted by the Commission and are then subject to scrutiny by both the European Parliament and the Council before entering into force in the course of 2016.

Global Legal Entity Identifier System (GLEIS)

An important step on the way to the completion of the global governance system for the Legal Entity Identifier was achieved on 7 October 2015 when the Global LEI Foundation (GLEIF) formally took over its role as central operating unit of the GLEIS. This completes the three-tier governance structure of the GLEIS, consisting of the GLEIF, a Swiss not-for-profit organisation serving as operational arm of the system, the LEI Regulatory Oversight Committee (ROC), a forum of over 60 national authorities responsible for the supervision of the GLEIF, as well as the Local Operating Units (LOUs) which handle the actual issuance and distribution of the 20-digit LEI codes in their respective jurisdiction. This separation of tasks is set out in a Memorandum of Understanding between the GLEIF and LEI ROC which was published on 7 October 2015 and which formally concludes the interim phase of the project. One of the main tasks that the GLEIF has taken over is the accreditation and monitoring of LOUs. As a first step, the GLEIF has thus launched a process to assess and confirm the status of the 27 existing pre-LOUs which had operated based on a provisional accreditation from the LEI ROC. All LEIs issued to date, over 400,000 by the end of December, will remain valid and are freely accessible through the Global LEI Index, a web based search tool launched by the GLEIF on 20 October.

A full account of the evolution and current set-up of the Global LEI System is also included in a recent progress report on *The Global LEI System and Regulatory Uses of the LEI* which was published by the LEI ROC on 5 November 2015. Besides the detailed description of the current GLEIS governance system, the report also includes in an annex a helpful overview of existing regulatory requirements around the world in relation to the use of LEIs, listing 48 final or draft rules in over 40 jurisdictions that already prescribe or encourage the use of LEIs today. The report was submitted to the

All LEIs issued to date, over 400,000 by the end of December, will remain valid and are freely accessible through the Global LEI Index.

FSB and G20 together with a letter summarising the main findings of both the report and the survey.

BIS: Committee on Payments and Market Infrastructures (CPMI)

As reported in this section of the previous edition of the Quarterly Report, regulators around the globe are increasingly looking at the potential implications for securities markets of digital currencies and particularly the underlying distributed ledger or blockchain technology. On 23 November 2015, the CPMI issued its own report on *Digital Currencies*. The report looks at the key features of digital currencies and blockchain technology as well as factors influencing their further development, including the role of regulation. Based on this analysis the report focuses on the potential implications of digital currencies and blockchain technology for central banks, in particular in relation to financial stability and monetary policy.

Another topic that is increasingly concerning regulators worldwide is cyber security. On 24 November 2015, CPMI-IOSCO issued some *Guidance on Cyber Resilience for Financial Market Infrastructures* for public consultation. The document does not aim to introduce additional standards for FMIs, but rather supplements the detailed *Principles for Financial Market Infrastructures* (PFMI), providing more specific guidance on some of the 24 Principles covered by the PFMI, in particular on governance, comprehensive risk management, settlement finality, operational risk and FMI links. Stakeholders have time until 23 February 2016 to submit any comments on the draft guidance to CPMI-IOSCO.

CPMI and IOSCO continue to jointly monitor the implementation of the PFMI in the different jurisdictions. This exercise is undertaken at three different levels. In parallel to the so-called Level 3 assessments which were launched in July 2015, Level 1 and Level 2 assessments are also still on-going. The latest Level 2 assessment report was published on 17 December 2015, looking in detail at the PFMI implementation in Australia.

In the context of its monitoring of PFMI implementation, CPMI-IOSCO is not only looking at the 24 Principles for FMIs but also at five responsibilities applicable to authorities supervising the different types of FMIs which are also included in the PFMI. While the same three-level monitoring scheme applies, in relation to the responsibilities it was decided to merge both Level 2 and Level 3 assessments into a single report which was issued on 30 November 2015. The detailed *Assessment and Review of Application of Responsibilities for Authorities* reviews the level of observance of the 28 jurisdictions participating in the implementation monitoring and revealed overall a high level of observance, with 16 out of 28 jurisdictions fully observing the five responsibilities for all FMI types.

Two consultative reports on the harmonisation of the Unique Trade Identifier (UTI) and on other key data elements for OTC derivatives issued by CPMI-IOSCO in late summer 2015 attracted significant interest. Following the end of the consultation period, all responses received have been published and are now available on the CPMI website. Since then, CPMI-IOSCO also published a third anticipated and closely related consultative report on the *Harmonisation of the Unique Product Identifier* (UPI) on 17 December 2015. The deadline for stakeholders to respond to this consultation is 24 February 2016.

IOSCO

On 22 December 2015, IOSCO published two final reports in relation to business continuity plans for trading venues and intermediaries. The report, *Mechanisms for Trading Venues to Effectively Manage Electronic Trading Risks and Plans for Business Continuity*, provides a comprehensive overview of steps trading venues should take to manage the risks associated with electronic trading and the ways they plan for and manage disruptions. A second report on *Market Intermediary Business Continuity and Recovery Planning* includes two standards for regulators and sound practices that regulators could consider as part of their oversight of market intermediaries. Both reports were prepared based on the outcome of two consultation reports published earlier this year.

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Macroprudential Risk

by David Hiscock

Published on 1 October 2015, *Capital Controls or Macroprudential Regulation?* is an IMF staff working paper. It explores which of these two approaches should be relied on by policy makers when facing the concern that international capital flows can create significant financial instability in emerging economies, given pecuniary externalities associated with exchange rate movements. The tractable model presented by the authors shows that it is desirable to employ both types of instruments, since macroprudential regulation reduces over-borrowing, whilst capital controls increase the aggregate net worth of the economy as a whole by also stimulating savings. In advanced countries, where the risk of sharp exchange rate depreciations is more limited, the role for capital controls is reduced, yet macroprudential regulation remains essential to mitigate booms and busts in asset prices.

The third BIS Research Network meeting on *Global Financial Interconnectedness* was held, on 1-2 October 2015. Following welcoming remarks by Jaime Caruana, BIS General Manager, the meeting comprised six sessions: (i) global liquidity; (ii) international interbank markets; (iii) information and risk sharing in networks; (iv) international spillovers; (v) harnessing new data sources; and (vi) international interconnectedness. There were also keynotes given by Richard Berner, Director, US Office of Financial Research and Darrell Duffie, Stanford University; and closing remarks delivered by Hyun Shin, BIS Economic Adviser and Head of Research.

Ever more extensive global financial linkages are changing in ways that have significant implications for policy; and Asia-Pacific countries have experienced a particularly rapid growth in financial flows since the crisis. Against this background, the BIS's Representative Office for Asia and the Pacific and the Reserve Bank of New Zealand co-hosted a conference, *Cross-Border Financial Linkages: Challenges for Monetary Policy and Financial Stability*, with a view to fostering research on implications of these important developments. On 2 October 2015, the opening speech and papers presented at the conference were published by the BIS.

Released on 6 October 2015, *Optimal Time-Consistent Macroprudential Policy* is a BIS working paper. It considers the observation that collateral constraints widely used in models of financial crises feature a pecuniary externality, namely that agents do not internalise how borrowing decisions taken in "good times" affect collateral prices during a crisis. The authors show that agents in a competitive equilibrium borrow more than a financial regulator who internalizes this externality. They also find, however, that under commitment the regulator's plans are time-inconsistent, and hence focus on studying optimal, time-consistent policy without commitment. This policy features a state-contingent macroprudential debt tax that is strictly positive at date "t" if a crisis has positive probability at t+1. Quantitatively, this policy reduces sharply the frequency and magnitude of crises, removes fat tails from the distribution of returns, and increases social welfare. In contrast, constant debt taxes are ineffective and can be welfare-reducing, while an optimized "macroprudential Taylor rule" is effective but less so than the optimal policy.

Also released on 6 October 2015, *Leverage on the Buy Side* is a BIS staff working paper which investigates the microeconomic determinants of leverage decisions by asset managers. It reports that investment funds (the "buy side") have significantly increased their share of global capital flows in recent years; as unconventional monetary policies in advanced economies have squeezed returns while reducing borrowing costs, which in principle creates an incentive for asset managers to use more leverage. The authors start by studying the recent behaviour of fund leverage in different asset categories at an aggregate level, finding that leverage appears to have increased significantly in funds focused on the fixed income markets of emerging economies. They then analyse the microeconomic factors that shape the leverage decision; and in line with theory, find that leverage rises with expected returns, and falls with market risk and borrowing costs. Transaction costs are also mentioned in the literature as another factor that should inhibit leverage. Lacking the requisite data, the authors introduce as proxies changes in capital controls and macroprudential policies, since they tend to affect expected returns in comparable ways. They find that tighter capital controls on inflows increase leverage rather than decrease it, but that macroprudential measures have no discernible effect.

The IMF's Global Financial Stability Report (GFSR) assesses key risks facing the global financial system. Launched on 7 October 2015, the latest edition reports that, despite an improvement in financial stability in advanced economies, risks continue to rotate toward emerging markets. The global financial outlook is clouded by a triad of policy challenges: emerging market vulnerabilities, legacy issues from the crisis in advanced economies, and weak systemic market liquidity. With more vulnerable balance sheets in emerging market companies and banks, firms in these countries are more susceptible to financial stress, economic downturn, and capital outflows. The prospect of the US gradually raising interest rates points to an unprecedented adjustment in the global financial system as financial conditions and risk premiums "normalise" from historically low levels alongside rising policy rates and a modest cyclical recovery. The report also examines the factors that influence levels of liquidity in securities markets, as well as the implications of low liquidity. Currently, market liquidity is being supported by benign cyclical conditions; yet, although it is too early to assess the impact of recent regulatory changes on market liquidity, changes in market structure, such as larger holdings of corporate bonds by mutual funds, appear to have increased the fragility of liquidity. Finally, the report studies the growing level of corporate debt in emerging markets, which quadrupled between 2004 and 2014. Global drivers have played an increasing role in leverage growth, issuance, and spreads; and, moreover, higher leverage has been associated with, on average, rising foreign currency exposures. Also, despite weaker balance sheets, firms have managed to issue bonds at better terms as a result of favorable financial conditions.

Chapter 2 of this GFSR, *Market Liquidity—Resilient or Fleeting?,* finds that the level of liquidity in financial markets has not shown a marked decline in most asset classes; however, low interest rates may be masking an erosion of its underlying resilience. Not enough time has passed for a full evaluation of the impact of recent regulatory changes to be made. Nonetheless, reduced market making seems to have had a detrimental impact on the level of market liquidity, but this decline is likely driven by a variety of factors; whilst in other areas, the impact of regulation is clearer (eg restrictions on derivatives trading (such as those imposed by the EU in 2012) have weakened the liquidity of the underlying assets. In contrast, regulations to increase transparency have improved the level of market liquidity. Meanwhile, changes in market structures appear to have increased the fragility of liquidity, with larger holdings of corporate bonds by mutual funds, and a higher concentration of holdings among mutual funds, pension funds, and insurance companies, associated with less resilient liquidity. The chapter recommends measures to bolster both the level of market liquidity and its resilience – since market liquidity is prone to suddenly drying up, policymakers should adopt pre-emptive strategies to cope with such shifts in market liquidity.

In its Risk Dashboard for the EU Banking Sector, published on 4 November 2015, the EBA gives an overview of the health of EU banks for the second quarter of 2015. While capital ratios have increased, the quality of loan portfolios remains weak, but EU banks profitability has increased compared to 2014. The EBA risk dashboard summarises the main risks and vulnerabilities in the banking sector on the basis of the evolution of a set of key risk indicators across the EU. Subsequently, on 5 November, the EBA published its 2016 EU-wide stress test draft methodology for discussion. The stress test will be

“The role for capital controls is reduced, yet macroprudential regulation remains essential to mitigate booms and busts in asset prices.

MACROPRUDENTIAL RISK

formally launched in the first quarter of 2016, will cover over 70% of the EU banking sector and will assess EU banks' ability to meet relevant supervisory capital ratios during an adverse economic shock.

On 12 November 2015, Mario Draghi, in his capacity as Chair of the ESRB, attended a hearing, in Brussels, before the Committee on Economic and Monetary Affairs of the European Parliament. In his introductory statement, Mario Draghi started by putting the recent activities of the ESRB in the wider context of what has been accomplished in the five years since its establishment. The institutional set-up, with clearly defined macroprudential mandates, is now in place. With the help of ESRB recommendations, macroprudential authorities have been able to identify clear intermediate financial stability objectives and establish a set of specific macroprudential instruments to achieve them, which are now in active use. The ESRB has also made substantial progress on the framework for the coordination of national macroprudential policy, which is essential in order to limit the scope of possible cross-border spillovers and regulatory arbitrage; and in achieving consistency in the setting of counter-cyclical capital buffer rates for third countries.

Mario Draghi then went on to highlight the ESRB's ongoing work on the extension of the macroprudential framework beyond banking, work that is seen to be even more important in the light of the plan being put forward by policy makers to develop CMU. Starting with financial market infrastructures, setting up a common EU recovery and resolution framework for CCPs is considered to be crucial – including from a macroprudential perspective. This is also important in the light of the clearing obligation for OTC interest rate swaps, which is expected to enter into force in 2016. The ESRB has expressed strong support for this clearing obligation, as well as for extending it to other instruments, in order to reap the benefits of a broad application of mandatory central clearing. In addition, an adequate recovery and resolution regime for insurance companies would also constitute an important building block in sound financial stability architecture. This need is evidenced by EIOPA stress tests, which showed that a significant part of the insurance sector would be severely hit by a simultaneous sharp fall in asset prices and prolonged low risk-free interest rates. Finally, the ESRB has flagged the potential of using margins and haircuts as a macroprudential instrument, in order to avoid sudden and large pro-cyclical increases in collateral requirements for SFTs and derivatives.

Making Supervisory Stress Tests More Macroprudential: Considering Liquidity and Solvency Interactions and Systemic Risk is a BCBS working paper, released on 24 November 2015. In the run-up to the financial crisis, banking supervisors largely followed a microprudential approach towards assessing banks, with many of the "first-generation" stress tests used by bank supervisors after the crisis focused on solvency risks. Some supervisors did also consider liquidity risks, but these risks were often viewed as independent of solvency risks. However, the failure to adequately model inter-linkages and the nexus between solvency risk and liquidity risk within and across banks led to a dramatic underestimation of the risks to, and vulnerabilities of, financial systems in many economies. Hence, this working paper suggests that authorities should emphasise developing integrated liquidity and solvency stress tests, offering several approaches to incorporating liquidity effects and their interactions with solvency that differ in their level of comprehensiveness and sophistication.

The Basel III Leverage Ratio (LR) is designed to restrict the build-up of leverage in the banking sector and to backstop the existing risk-weighted capital requirements (RWRs) with a simple, non-risk-weighted measure. But how should a minimum LR requirement be set? *Calibrating the Leverage Ratio*, published as a special feature in the 6 December 2015 edition of the BIS Quarterly Review, presents a conceptual framework for the calibration of the LR, focusing on the LR's cyclical and structural dimensions as well as its consistency with the RWRs. It then applies the framework to historical bank data. Subject to various caveats, the authors find that there is considerable room to raise the LR requirement above its original 3% "test" level, within a range of about 4-5%. They assert that doing so should help to constrain banks' risk-taking earlier during financial booms, providing a consistent and more effective backstop to the RWRs.

On 7 December 2015, Mark Carney, in his capacity as First Vice-Chair of the ESRB, attended a hearing, in Brussels, before the Committee on Economic and Monetary Affairs of the European Parliament. In his introductory statement, Mark Carney explained that the ESRB can help build the resilience to maximise the benefits of the openness of EU Member States and minimise the risks this openness entails; and outlined some specific contributions of the ESRB. The ESRB has promoted stronger macroprudential frameworks across the EU, encouraging national legislators to establish macroprudential authorities within their jurisdictions – with the ESRB *Handbook on Operationalising Macroprudential Policy in the Banking Sector* embodying practical information on how to set policy using the newly-established powers. With macroprudential policy still in its adolescence, the ESRB is helping it to mature.

Recent ESRB studies have evaluated the case for using margining to counteract pro-cyclical behaviour in derivatives and SFTs; and, this year, the ESRB assessed the value of including macroprudential buffers within the Leverage Ratio framework.

Another way that the ESRB has led has been to take a macroprudential perspective on how elements of the financial system can support long-term prosperity, eg in its examination of Solvency II. And, the ESRB is currently contributing in two ways to more resilient capital markets, as it is: (i) promoting a shared understanding of the fundamental drivers of market liquidity; and (ii) gathering consistent information on the nature and size of the risks associated with market-based finance. But in some cases shared understanding is not sufficient, so authorities also need shared ways of managing risks. The ESRB is the only hub where all the relevant authorities are present, including central banks, bank supervisors, and securities authorities; so through its regular dialogue the ESRB can establish and update best practices. In conclusion, all EU Member States, and more fundamentally all EU citizens, have a stake in EU financial stability; and the ESRB helps deliver this foundation of prosperity. Durable financial stability requires more than microprudential standards that bolster the resilience of individual firms, also requiring a macroprudential perspective with flexibility to respond to shocks wherever they occur; with higher standards for systemically important firms; and to increase levels of resilience when risks increase.

On 9 December 2015, EIOPA published its Second Biannual Report on Financial Stability in the (re) insurance and occupational pension fund sectors of the EEA. In both sectors EIOPA observes a challenging macro-economic and financial environment with persistent low interest rates. Also the "double-hit scenario" remains the key concern as it would lead to a situation where the value of assets decreases whilst the value of liabilities increases causing severe negative implications for the sustainability of the European (re)insurance and pension sectors.

On 16 December 2015, IOSCO published *A Survey of Securities Market Risk Trends 2015: Methodology and Detailed Results*, which provides a detailed analysis of responses to its annual Risk Outlook Survey (the views expressed in this publication are solely those of the IOSCO Research Department and do not necessarily reflect the views of IOSCO or its members). The survey is an annual exercise formulated to collect the views of financial market regulators and experts globally on those risk areas that are of concern; and this edition of the survey was conducted in March/April 2015. The main purpose of the survey is to gather views on risks to and within securities markets and to help identify or highlight pockets of risk that may not be captured by normal statistical analysis or desk research. The survey exercise now covers the three main objectives of IOSCO, the line of questioning having been expanded to include not only risks to financial stability, but also the risks to investor protection and to the fair, efficient and transparent operation of markets.

The report offers a synthesis of expert opinions, with the main areas of concern highlighted by the report being:

- In the areas of financial stability, cyber-security threats to financial markets are now considered a prominent risk by respondents, while microprudential risks are clustered around the areas of corporate governance, financial risk disclosure, shadow-banking activities, harmful conduct and especially, regulatory policy.
- Most respondents saw financial stability risks to the system either being transmitted or amplified by securities markets. Regarding the economy, respondents thought that banking vulnerabilities, housing markets and capital flow volatility would have considerable impact on the real economy if these risks materialised.
- In the area of investor protection, survey participants identified harmful conduct as the top risk; harmful behaviour by capital market participants damages the proper function of the

The "double-hit scenario" remains the key concern as it would lead to a situation where the value of assets decreases whilst the value of liabilities increases.

capital market, harms the investing public and undermines public confidence and trust in capital markets.

- Market liquidity, especially that of secondary trading in bond markets, was considered by respondents to be the biggest challenge to fair and efficient markets – an interesting finding given that much of the recent global commentary has been about the systemic implications (not market-efficient implications) of such a risk.

On 16 December 2015, ESMA issued its latest Risk Dashboard for the European securities markets, covering the third quarter of 2015. Overall, the report found that risk levels remained high compared to the last quarter – including elevated risks for investors, infrastructures and services, and the financial system at large. Market risks indicators continued to remain at "very high", following a continuous build-up in the preceding quarters. Key risk drivers were the low-interest-rate environment, high asset valuations, potential spill-overs from emerging markets and fiscal and political developments within the EU. Looking into 2016, ESMA's market risk outlook remains unchanged at "very high".

Also on 16 December 2015, the ESRB published a report on the *Systemic Risks Arising from the Activities of European Insurers and Re-insurers,* contributing to the ongoing debate on the systemic relevance of this sector. The ESRB has identified four main ways in which insurers and reinsurers can be the source of systemic risks and amplify these. To address systemic risks stemming from the insurance and reinsurance sector, Competent Authorities may make use of a variety of tools, some of which are available under the Solvency II framework. The report recommends further analysing their effectiveness and the potential need for specific macroprudential tools.

On 17 December 2015, the General Board of the ESRB held its 20th regular meeting. In summary, the associated press release reports that the risk of re-pricing in financial markets and a resultant increase in vulnerability of financial institutions' balance sheets was highlighted by the General Board as the main concern as regards financial stability in the EU; and that the current low global interest rate environment may have unintended effects on some economic sectors or in some countries that may require the use of targeted macroprudential measures. The General Board also discussed the possible systemic risks arising from the transition to a low-carbon economy under adverse conditions; and considered the adverse scenario which the ESRB is preparing for the 2016 EU-wide EBA stress test of the banking sector. Alongside this meeting report, the ESRB published reports on residential and commercial real estate and financial stability in the EU; and released the 14th issue of its Risk Dashboard.

On 21 December 2015, the EBA published its eighth semi-annual report on *Risks and Vulnerabilities in the EU Banking Sector*. The report shows that EU banks have continued to strengthen their capital position and to improve asset quality. However, the level of non-performing exposures remains high and profitability is still weak. The report also analyses the exposures towards emerging market countries and non-bank financial intermediaries.

Published by ESMA, on 23 December 2015, Working Paper No. 2, 2015 on *Monitoring Systemic Risk in the Hedge Fund Sector* proposes new measures for systemic risk in the hedge fund sector. These measures are based on the ability of hedge funds to influence (and be influenced by) the performance trend of the entire hedge fund sector. The proposed measures display a high ability to identify periods of financial distress, are robust to modifications in the underlying econometric model and deliver an innovation in the monitoring of systemic risks in the fund industry.

Published on 29 December 2015, *Will Macroprudential Policy Counteract Monetary Policy's Effects on Financial Stability?* is an IMF staff working paper which models monetary policy's transmission to bank risk taking, and its interaction with regulatory action. Regulators have an optimization problem, where they use a leverage ratio as a macroprudential tool to maintain financial stability, while seeking to take account of the impact on credit provision. The authors find that a change in the monetary policy rate tilts the regulator's entire trade-off, showing that the regulator allows interest rate changes to partly "pass through" to bank soundness by not neutralizing the risk-taking channel of monetary policy. Thus, monetary policy affects financial stability, even in the presence of macroprudential regulation.

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ICMA CAPITAL MARKET RESEARCH AND LECTURES

ICMA Capital Market Research

Perspectives from the Eye of the Storm: The Current State and Future Evolution of the European Repo Market
Published: 18 November 2015
Author: Andy Hill, ICMA

Impact Study for CSDR Mandatory Buy-ins
Published: 24 February 2015
Author: Andy Hill, ICMA

The Current State and Future Evolution of the European Investment Grade Corporate Bond Secondary Market: Perspectives from the Market
Published: 25 November 2014
Author: Andy Hill, ICMA

Continually Working to Develop Efficient and Effective Collateral Markets
ERC Occasional Paper
Published: 4 September 2014
Author: David Hiscock, ICMA

Covered Bond Pool Transparency: the Next Stage for Investors
Published: 21 August 2014
Author: Prepared for ICMA by Richard Kemmish Consulting Ltd

Collateral is the New Cash: The Systemic Risks of Inhibiting Collateral Fluidity
Published: 3 April 2014
Author: Andy Hill, ICMA

Avoiding Counterproductive Regulation in Capital Markets: A Reality Check
Published: 29 October 2013
Author: Timothy Baker, Senior Adviser to ICMA

Collateral Damage: the Impact of the Financial Transaction Tax on the European Repo Market and its Consequences for the Financial Markets and the Real Economy
Published: 8 April 2013
Author: Richard Comotto, ICMA Centre

Economic Importance of the Corporate Bond Markets
Published: 8 April 2013
Author: Timothy Baker, Senior Adviser to ICMA

ICMA Capital Market Lectures

Robert Parker, Senior Advisor, Credit Suisse
6 October 2015, London
Navigating Economic, Capital Markets and Investment Risk

Elizabeth Corley, Chief Executive Officer, Allianz Global Investors GmbH
13 April 2015, London
Capital Markets Evolution

Sir Nigel Wicks
31 March 2015, London
Political Risk - the New Normal?

Ignazio Angeloni, Member of the Supervisory Board, European Central Bank
27 January 2015, Frankfurt
Transparency and Bank Supervision

Mario Nava, Director of the Financial Institutions Directorate, European Commission
4 November 2014, Brussels
Perspectives of financial regulation and growth

Benoît Cœuré, Member of the Executive Board of the European Central Bank
19 May 2014, Paris
Euro Area Financial Markets: Overcoming Fragmentation

Charles Roxburgh, Director General, Financial Services, Her Majesty's Treasury
8 May 2014, London

David Wright, the Secretary General, International Organization of Securities Commissions (IOSCO)
1 April 2014, London
The Major Challenges facing IOSCO as the World Shifts towards Market Based Financing

Mark Boleat, Chairman, Policy and Resources Committee of the City of London Corporation
4 March 2014, London
Britain and the EU, a City perspective

David Lawton, Director, Markets at the Financial Conduct Authority
3 February 2014, London (jointly with AFME)
Price: the Cornerstone of Markets

Peter Praet, Chief Economist, European Central Bank
12 December 2013, London
Monetary Policy in a Changing Regulatory Environment

Thomas Wieser, President of the EU Economic and Financial Committee
18 November 2013, Brussels
Euro Area and the Short to Medium Term Outlook

Verena Ross, Executive Director, European Securities and Markets Authority (ESMA)
11 November 2013, London
ESMA and the EU Regulatory and Legislative Agenda

New ICMA workshop: Beyond Regulation – *Ethics and Capital Markets*

Every financial crisis brings with it the rallying call for more rules. Since the financial crisis of 2007-2008, the deluge of regulation has been on an unprecedented scale covering every area of banking and capital markets and a growing army of compliance officers has been recruited to ensure market participants adhere to the relevant laws, regulations, and standards.

But is that enough? Continuing revelations about the LIBOR rigging scandal seem to suggest that compliance with the rule book has still failed to change some areas of market behaviour.

Sir Richard Lambert's Review of Standards in Banking, published in May 2014, noted: "The fatter the rulebooks, the more likely it is that people will choose to be governed by the letter of what is written down, rather than by the spirit of what is intended. Banks will not earn trust simply by following the rules." The Review exhorts banks "to take moral responsibility for their own actions, and recognise that integrity is not something that can be imposed by regulators".

A survey of 1,223 participants employed by US and UK financial services firms, by the University of Notre Dame, Indiana and the US law firm, Labaton Sucharow in January 2015, concluded that: "Nearly seven years after the global financial crisis … our survey clearly shows that a culture of integrity has failed to take hold". Among the responses, 25% of individuals said they would likely engage in insider trading to earn US$10 million if there was no chance of getting arrested and 33% of financial services professionals felt the industry had not changed for the better since the financial crisis.

Mark Carney, Governor of the Bank of England, observed in his Mansion House speech in June 2015, on announcing the final report of the Fair and Effective Markets Review (FEMR), that there had been an "ethical drift" in the financial markets, where "unethical behaviour went unchecked, proliferated and eventually became the norm". Similarly Ignazio Angeloni, a member of the Supervisory Board of the ECB has said: "The regulatory bodies – the Financial Stability Board (FSB), the Basel Committee on Banking Supervision and especially, in Europe, the Commission, the Council and the European Parliament – have embarked on a broad-ranging reform programme ... But will this be enough? … Something deeper needs to happen: the underlying ethical behaviour in the financial sector has to improve as well. "

The debate has clearly moved on from compliance to ethics, and while the terms are often used synonymously they are quite different concepts. Ethics are the moral principles and values that guide a person or an organisation on the difference between right and wrong and in choosing to do what is right. Compliance is simply following the law, while ethics is doing the right thing regardless of what the law says.

There is no general or global consensus for defining ethical behaviour for individuals – it may change from time to time and from one place to another. Some take an absolutist approach to ethics and maintain that certain things are right and other things are wrong, and that these things are fixed for all time and for all people. Others believe that whether an action is right or wrong is relative and may be determined by consequences.

Most people, however, intuitively understand what is meant by "common decency and good citizenship", and as individuals, we define ourselves and are, in turn, are defined by our principles and responsibilities. We possess a "moral compass", defined via values, which direct how we treat others and conduct ourselves.

Business ethics is simply the extension of these ethical values to business behaviour. Ethics matter in business because they underpin trust, which is fundamental to business relations and fundamental to the market place.

But how can the industry address the ethical lapses that have characterised some market behaviour in recent years? Ethics training can help. The goal of ethics training is not to change people's ethics — that is, make bad people good — but, rather, to enhance people's sensitivity to ethical issues and provide them with tools for resolving ethical dilemmas effectively and rejecting self-serving rationalization of their behaviour.

With this aim in mind, ICMA is introducing a one-day workshop entitled *Ethics and the Capital Markets*. The course seeks to define ethics and the development of ethical values. It looks at the principal ethical theories from moral philosophers to economists.

The workshop considers the purpose of business and how moral values play a key role in the modern business environment. Finally, it will examine ethical issues in the financial markets by working on case studies drawn from today's international debt markets.

If trust and integrity are to return to centre stage in the capital markets then mere compliance with the rules is not enough. This workshop aims to help market participants to redefine their moral compass.

Ethics and the Capital Markets: An ICMA Workshop

London, 1 March, 16 June, 16 September and 6 December 2016

diary

ICMA organises over 100 market-related events each year attended by members and non-members.

For full details see www.icmagroup.org

Conferences and seminars

27 JAN

ICMA European Repo and Collateral Council Annual General Meeting, Luxembourg, 27 January

The ERCC Annual General Meeting provides a good opportunity to hear about the various issues that are facing the market and the steps being taken to develop and grow the market, alongside formal business. The AGM this year features expert panels on: The Future of Securities Financing Transactions; Collateral Management; and Capital Markets Union – what does it mean for Securities Financing Transactions? This event will be hosted by Clearstream.

Register

9 FEB

ICMA Capital Market Lecture by Lachlan Burn, London, 9 February

The first Capital Market Lecture of 2016 features Lachlan Burn, a partner of Linklaters the global law firm. He specialises in capital markets work, including debt, equity and derivative securities. He is a member of the Primary Markets Group of the London Stock Exchange and ICMA's Legal and Documentation Committee.

Register

10 FEB

ICMA ERCC Operations Seminar 2016: Future Challenges in Repo Post-Trade Processing

Securities financing markets are undergoing radical change, including from an operational perspective. This is not least the result of several regulatory initiatives currently under way, including SFTR and CSDR. The ICMA Post-Trade seminar will focus on the future challenges for SFT post-trade processing and will offer a platform to reach cross-industry agreement on the way forward.

Register

10 FEB

Annual ICMA and NCMF Joint Seminar: Capital Markets Union and market based funding

This annual joint seminar on developments in international and Nordic capital markets will again feature presentations on the state of the regulatory landscape for financial services, including the implications of MiFID II for bond and repo market liquidity and the Swedish Securitisation Market.

Register

8-9 JUN

ICMA CBIC and The Covered Bond Report Conference 2016, Frankfurt, 8-9 June

The ICMA Covered Bond Investor Council (CBIC) and The Covered Bond Report's 2016 Covered Bond Investor Conference will focus on topical investors' issues and provide an ideal opportunity for those wishing to engage in a constructive dialogue with the buy-side.

Register

SAVE THE DATE

The ICMA AGM and Conference 2016
Dublin, 18-20 May
Registration opens 1 February

diary

ICMA Workshops

10 FEB

European Regulation: An Introduction for Capital Market Practitioners, London, 10 February

Against a background of far-reaching regulatory change ICMA's one-day, fast-track course on European regulation for capital market practitioners gives a overview of the new regulatory landscape for financial institutions in Europe. It puts the major European regulatory initiatives into the context of the global reforms agreed by the G20 and explains the European legislative process, while taking a look at specific regulations affecting the capital framework of banks, investor protection and disclosure.

Register

23 FEB

Bond Syndication Practices for Compliance Professionals and Other Non-bankers, London, 23 February

This workshop aims to give compliance professionals an in-depth and thorough understanding of the current practices that are involved in launching a deal in the international debt capital market.

The course explains precisely how the deal is done, starting with first steps in the pre-launch process – looking at the pitch book, the mandate, the roadshow and the prospectus – through syndication, including book building and allocation, up to and including the final public launch of the issue.

Register

7-9 MAR

Repo and Securities Lending under the GMRA and GMSLA, London, 7-9 March

This ICMA and ISLA workshop analyses how repo and securities lending transactions operate within the framework provided by the Global Master Repurchase Agreement (GMRA) and the Global Master Securities Lending Agreement (GMSLA), and highlights the issues that need to be addressed by users. These two separate but increasingly overlapping master agreements are the essential underpinnings of the cross-border repo and securities lending markets.

Register

11-12 APR

Professional Repo and Collateral Management, London, 11-12 April

The ICMA European Repo and Collateral Council will present its 2016 Professional Repo and Collateral Management Course in London on 11-12 April 2016. This industry-run course caters to the needs of professional repo market participants and is provided at subsidised rates to ICMA members, underlining the association's commitment to education and the development of this financing product. This annual event has established itself as the repo industry's principal educational forum. Although designed for new repo market practitioners, the breadth and depth of the course attracts a wide range of delegates, including legal, compliance, accounting and operations staff, analysts, staff from market infrastructures, rating agencies, regulators, central bankers and others.

Register

ICMA Executive Education Courses in 2016

New courses for 2016

Introduction to Fixed Income

This year for the first time we will be running a new entry level course for anyone new to bond markets - the Introduction to Fixed Income. This is a three-day, classroom-based course focused specifically on giving a thorough understanding of the basics of fixed income cash and derivatives markets. It is intended for bond market beginners who have no experience of how these markets work and assumes no prior knowledge or experience in the area.

As an alternative to the established Financial Markets Foundation Course, which covers a wider range of securities and markets, the Introduction to Fixed Income will concentrate on giving candidates a clear understanding of the fundamentals of bonds and bond markets. This will include an overview of who issues bonds and why; the features of different types of bonds; the issuing process and how bonds are traded. The basic analytical skills required for valuing bonds will be covered, with the calculation of prices, yields and spreads explained. Finally, the course will look at the big picture with references to current monetary policy, quantitative easing and how this relates to the underlying yield curve.

Introduction to Primary Markets

Also in 2016 we will be running the new Introduction to Primary Markets course for the first time. Intended for individuals who have little or no experience in the origination and syndication of international fixed income issues this entry-level qualification requires only the most basic understanding of debt and equity. This course offers participants a broad overview of international finance, from the different entities requiring finance and the roles of the banks and securities markets in providing it to the key contractual documents required in launching an international financing and the key regulations that impact the primary markets. The three day classroom based course serves a valuable basis for the more advanced and detailed study offered in the established Primary Market Certificate.

For the full course listing see **www.icmagroup.org/education**

Register for online learning in 2016

In 2015 our online learning programmes made our industry-recognised certificate programmes accessible to many more of our members (and others) around the world. You can benefit from the flexibility that the programmes offer to study in your own time and from where you choose, while enjoying the fully supportive student experience through online interactions with tutors and fellow students.

Register now for the online Financial Markets Foundation Course (FMFC), Fixed Income Certificate (FIC), and Securities Operations Foundation Course (SOFC) which will be starting in early 2016, as well as our classroom based programmes, by visiting **www.icmagroup.org/education**

Level I: Introductory Programmes

Financial Markets Foundation Course (FMFC)
London: **4-6 May 2016**
Luxembourg: **8-10 June 2016**

Financial Markets Foundation Course (FMFC) Online Programme
Next start date: **1 February**
(register by 22 January 2016)

Introduction to Fixed Income (IFI)
London: **13-15 April 2016**

Introduction to Primary Markets (IPM)
London: **13-15 April 2016**

Securities Operations Foundation Course (SOFC)
Nicosia: **2-4 March 2016**
London: **7-9 March 2016**
Brussels: **13-15 April 2016**

Securities Operations Foundation Course (SOFC) Online Programme
Next start date: **1 February**
(register by 22 January 2016)

Level II: Intermediate Programmes

Fixed Income Certificate (FIC)
Barcelona: **24-30 April 2016**
London: **20-24 June 2016**

Fixed Income Certificate (FIC) Online Programme
Next start date: **1 March 2016**
(register by 25 February 2016)

Operations Certificate Programme (OCP)
Brussels: **17-23 April 2016**

Primary Market Certificate (PMC)
London: **9-13 May 2016**

Level III: Specialist Programmes

ICMA Guide to Best Practice in the European Repo Market
London: 1 April 2016
London: 31 October 2016

Collateral Management
London: **28-29 April 2016**

Securities Lending & Borrowing – Operational Challenges
London: **2-3 May 2016**

Corporate Actions - An Introduction
London: **10-11 May 2016**

Corporate Actions - Operational Challenges
London: **12-13 May 2016**

Inflation-linked Bonds & Structures
London: **16-17 May 2016**

Credit Default Swaps – Pricing, Application & Features
London: **1-2 June 2016**

Credit Default Swaps – Operations
London: **3 June 2016**

Fixed Income Portfolio Management
London: **16-17 June 2016**

Trading & Hedging Short-term Interest Rate Risk
London: **27-28 June 2016**

Trading the Yield Curve with Interest Rate Derivatives
London: **29-30 June 2016**

For more information contact: education@icmagroup.org or visit www.icmagroup.org/education

ABCP Asset-Backed Commercial Paper
ABS Asset-Backed Securities
ADB Asian Development Bank
AFME Association for Financial Markets in Europe
AIFMD Alternative Investment Fund Managers Directive
AMF Autorité des marchés financiers
AMIC ICMA Asset Management and Investors Council
ASEAN Association of Southeast Asian Nations
BBA British Bankers' Association
BCBS Basel Committee on Banking Supervision
BIS Bank for International Settlements
BMCG ECB Bond Market Contact Group
BRRD Bank Recovery and Resolution Directive
CAC Collective action clause
CBIC ICMA Covered Bond Investor Council
CCBM2 Collateral Central Bank Management
CCP Central counterparty
CDS Credit default swap
CFTC US Commodity Futures Trading Commission
CGFS Committee on the Global Financial System
CICF Collateral Initiatives Coordination Forum
CIF ICMA Corporate Issuer Forum
CMU Capital Markets Union
CNAV Constant net asset value
CoCo Contingent convertible
COGESI Contact Group on Euro Securities Infrastructures
COP21 Paris Climate Conference
COREPER Committee of Permanent Representatives (in the EU)
CPMI Committee on Payments and Market Infrastructures
CPSS Committee on Payments and Settlement Systems
CRA Credit Rating Agency
CRD Capital Requirements Directive
CRR Capital Requirements Regulation
CSD Central Securities Depository
CSDR Central Securities Depositories Regulation
DMO Debt Management Office
D-SIBs Domestic systemically important banks
DVP Delivery-versus-payment
EACH European Association of CCP Clearing Houses
EBA European Banking Authority
EBRD European Bank for Reconstruction and Redevelopment
ECB European Central Bank
ECJ European Court of Justice
ECOFIN Economic and Financial Affairs Council (of the EU)
ECON Economic and Monetary Affairs Committee of the European Parliament
ECP Euro Commercial Paper
ECPC ICMA Euro Commercial Paper Committee
EDGAR US Electronic Data Gathering, Analysis and Retrieval
EEA European Economic Area
EFAMA European Fund and Asset Management Association
EFC Economic and Financial Committee (of the EU)
EFSF European Financial Stability Facility
EFSI European Fund for Strategic Investment
EGMI European Group on Market Infrastructures
EIB European Investment Bank
EIOPA European Insurance and Occupational Pensions Authority
ELTIFs European Long-Term Investment Funds
EMDE Emerging market and developing economies
EMIR European Market Infrastructure Regulation
EMTN Euro Medium-Term Note
EMU Economic and Monetary Union
EP European Parliament
ERCC ICMA European Repo and Collateral Council
ESA European Supervisory Authority
ESFS European System of Financial Supervision
ESMA European Securities and Markets Authority
ESM European Stability Mechanism
ESRB European Systemic Risk Board
ETF Exchange-traded fund
ETP Electronic trading platform
EURIBOR Euro Interbank Offered Rate
Eurosystem ECB and participating national central banks in the euro area
FAQ Frequently Asked Question
FASB Financial Accounting Standards Board
FATCA US Foreign Account Tax Compliance Act
FATF Financial Action Task Force
FCA UK Financial Conduct Authority
FEMR Fair and Effective Markets Review
FICC Fixed income, currency and commodity markets
FIIF ICMA Financial Institution Issuer Forum
FMI Financial market infrastructure
FMSB FICC Market Standards Board
FPC UK Financial Policy Committee
FRN Floating-rate note
FSB Financial Stability Board
FSC Financial Services Committee (of the EU)
FSOC Financial Stability Oversight Council (of the US)
FTT Financial Transaction Tax
G20 Group of Twenty
GDP Gross Domestic Product
GMRA Global Master Repurchase Agreement
G-SIBs Global systemically important banks
G-SIFIs Global systemically important financial institutions
G-SIIs Global systemically important insurers
HFT High frequency trading
HMRC HM Revenue and Customs
HMT HM Treasury
IAIS International Association of Insurance Supervisors
IASB International Accounting Standards Board
ICMA International Capital Market Association
ICSA International Council of Securities Associations
ICSDs International Central Securities Depositaries
IFRS International Financial Reporting Standards
IIF Institute of International Finance
IMMFA International Money Market Funds Association
IMF International Monetary Fund
IMFC International Monetary and Financial Committee
IOSCO International Organization of Securities Commissions
IRS Interest rate swap
ISDA International Swaps and Derivatives Association
ISLA International Securities Lending Association
ITS Implementing Technical Standards
KfW Kreditanstalt fűr Wiederaufbau
KID Key information document
KPI Key performance indicator
LCR Liquidity Coverage Ratio (or Requirement)
L&DC ICMA Legal & Documentation Committee
LEI Legal entity identifier
LIBOR London Interbank Offered Rate
LTRO Longer-Term Refinancing Operation
MAD Market Abuse Directive
MAR Market Abuse Regulation
MEP Member of the European Parliament
MiFID Markets in Financial Instruments Directive
MiFID II Revision of MiFID (including MiFIR)
MiFIR Markets in Financial Instruments Regulation
MMCG ECB Money Market Contact Group
MMF Money market fund
MOU Memorandum of Understanding
MREL Minimum requirement for own funds and eligible liabilities
MTF Multilateral Trading Facility
NAFMII National Association of Financial Market Institutional Investors
NAV Net asset value
NCA National Competent Authority
NCB National Central Bank
NSFR Net Stable Funding Ratio (or Requirement)
OAM Officially Appointed Mechanism
OJ *Official Journal of the European Union*
OMTs Outright Monetary Transactions
ORB London Stock Exchange Order book for Retail Bonds
OTC Over-the-counter
OTF Organised Trading Facility
PD Prospectus Directive
PD II Amended Prospectus Directive
PMPC ICMA Primary Market Practices Committee
PRA UK Prudential Regulation Authority
PRIIPs Packaged Retail and Insurance-Based Investment Products
PSI Private Sector Involvement
PSIF Public Sector Issuer Forum
QE Quantitative easing
QIS Quantitative impact study
QMV Qualified majority voting
RFQ Request for quote
RM Regulated Market
RMB Chinese renminbi
ROC Regulatory Oversight Committee of the Global Legal Entity Identifier System
RPC ICMA Regulatory Policy Committee
RSP Retail structured products
RTS Regulatory Technical Standards
RWA Risk-weighted assets
SEC US Securities and Exchange Commission
SFT Securities financing transaction
SGP Stability and Growth Pact
SI Systematic Internaliser
SLL Securities Law Legislation
SMEs Small and medium-sized enterprises
SMPC ICMA Secondary Market Practices Committee
SMSG Securities and Markets Stakeholder Group (of ESMA)
SPV Special purpose vehicle
SRF Single Resolution Fund
SRM Single Resolution Mechanism
SRO Self-regulatory organisation
SSAs Sovereigns, supranationals and agencies
SSM Single Supervisory Mechanism
SSR EU Short Selling Regulation
T+2 Trade date plus two business days
T2S TARGET2-Securities
TD EU Transparency Directive
TFEU Treaty on the Functioning of the European Union
TLAC Total Loss-Absorbing Capacity
TMA Trade matching and affirmation
TRs Trade repositories
UKLA UK Listing Authority
VNAV Variable net asset value

ICMA welcomes feedback and comments on the issues raised in the Quarterly Report. Please e-mail: regulatorypolicynews@icmagroup.org or alternatively the ICMA contact whose e-mail address is given at the end of the relevant article.

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