ICMA
International Capital Market Association

QUARTERLY REPORT

ASSESSMENT OF MARKET PRACTICE AND REGULATORY POLICY

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SUSTAINABLE FINANCE

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ICMA

International Capital Market Association

The mission of ICMA is to promote resilient and well-functioning international and globally integrated cross-border debt securities markets, which are essential to fund sustainable economic growth and development.

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include public and private sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has some 600 members in more than 60 countries.

ICMA brings together members from all segments of the wholesale and retail debt securities markets, through regional and sectoral member committees, and focuses on a comprehensive range of market practice and regulatory issues which impact all aspects of international market functioning. ICMA prioritises four core areas – primary markets, secondary markets, repo and collateral markets, and the green, social and sustainability markets.

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"The only constant in life is change"[1]

By Janet Wilkinson

Never does one quote ring so true in a year as it does in 2020.

When we awoke at various time zones around the world on 1 January 2020, full of excitement for the year ahead, with new beginnings and fresh challenges, we had no anticipation or understanding the impact a global pandemic would have on our lives, and how even more constant change would become.

In Jean-Marc Mercier's Foreword for the Quarterly Report for the Third Quarter, he wrote about how COVID-19 has tested us, and three months later it still continues to do so. But, during those months, and throughout the whole year, the market has shown its ability to change and adapt, laying the foundations for new ways of working for future years to come. As we learn to live in a new world and with new ways of operating, I wanted to reflect on some of the key areas impacted by COVID-19, and in particular where we have seen some of the biggest changes in the secondary markets.

Automation and technology: 2019 has been quoted as the year of unparalleled change in automation and electronification in the secondary markets, driven by an increasing number of market participants and greater disintermediation. In March this year we saw record numbers of ticket and volume inquiry. However, that surge occurred at the time traders were first having to adapt to working remotely and not always with the desktop real-estate they were used to having in order to manage the increased volume. As a result, the market was often forced to revert to voice trades to execute part of their flow. We saw examples of quotes back from dealers being priced off from where they streamed, or screens being off altogether, forcing the investors to voice trade. This trend was not just prevalent in the credit markets, but also occurred in the rates markets and even in the foreign exchange markets. March also saw a spike in portfolio trading, with clients choosing this method of execution to ensure appropriate risk transfer and certainty of execution. The market and price volatility we saw in March and April, combined with the execution challenges, could cause acceleration or renewed interest in automation from both the buy side and sell side. The increase in bilateral voice trades occurring will most certainly lead to an increase in the possibility of more electronic bilateral trader or price dissemination. The hunt for liquidity, and the concern that this pandemic is here to stay for a while, means the collection and use of data is even more important, further driving the focus on automation and technology. The tools have been there for a while but more of us will now be forced to enquire and use them, causing further change.

1. Heraclitus.

Trust, communication and partnership: Almost overnight the way the buy side and sell side interacted with each other changed, as we saw the transition from office-based phone and face-to-face interaction to staff suddenly remotely working from home with a far more limited technical set-up. As organisations hurried to move their teams to work remotely, and as liquidity dried up, trust and communication remained key within organisations, particularly given the reduced visibility and therefore the requirement for heightened surveillance. Trust and communication became even more important externally between buy side and sell side. While the buy side relied on long established sell-side relationships, those dealers who were able to provide a consistent service of liquidity, market colour and strategic expertise were able to shine as others backed away. Moving forward I believe this hybrid model between well established and trusted voice relationships paired with a sophisticated electronic set-up (real-time axe display and prices for various sizes to illustrate the depth of the market, portfolio trading, algo-pricing) will be the optimum model for functioning secondary markets.

Market behaviour: This is a broad topic and could warrant a complete article on itself, but there are two points I want to highlight re the change in market behaviour we saw through March and continue to see. The first is the impact of ETFs on the market – where small ETF tickets completely repriced names and curves. As the ETF market continues to grow, with many market participants now using it as a source of liquidity, we can expect this impact to continue and to drive further periods of volatility and price action. Secondly, there is a greater scrutiny on a credit curve's liquidity where some names and sectors became illiquid overnight due to a structural shift caused by COVID-19, rather than being a poor performing company. While this will not necessarily impact the overall functioning of the secondary market, it is worth highlighting as it could further impact investor behaviour and asset allocation based on liquidity scores.

Central bank policy: COVID-19 presented an unprecedented challenge to global central banks and policy makers. Following March's global equity market sell-off, the world's largest central banks all responded with a huge wave of monetary stimulus. The Fed, ECB, Bank of England and other global central banks embarked on a huge policy response in order to support the global economy. This has had huge implications for the functioning of markets and behaviour of clients. With Quantitative Easing programmes in full swing, *trade activity has shifted more towards bond markets* (marginally at the expense of derivatives) as clients have looked to trade around QE operations. In addition to the monetary policy response, governments across the globe have launched initiatives that have sought to manage the effects of the virus and support their respective domestic economies. Large fiscal packages have been implemented in the UK, Europe and the US, and this has led to a huge increase in bond issuance, particularly in the corporate and SSA sectors. This surge in issuance has driven a *sharp increase in client trading volumes in both primary and secondary markets*. The increase in client volumes in fixed income has also led to an *increase in client activity in repo products.* With G10 policy rates at or close to all-time lows, bond yields continuing to grind lower, and spreads continuing to tighten, expect to see *increased appetite for yield enhancement products (across all major asset classes).*

This year has seen unprecedented change due to the pandemic, and we expect more to come in 2021. Going forward, we need to ensure proper functioning of the secondary markets and continue to build a stronger market foundation for the future.

My best wishes to all our members and their families. Keep safe and healthy. A very big thank you for your ongoing support.

Janet Wilkinson *is Managing Director, Head of Fixed Income & Currencies Flow Sales, EMEA, RBC Capital Markets and a Board Member of ICMA.*

A catalyst for change

By Martin Scheck

I hope that you and your families have remained well over the summer and managed to find some time to relax notwithstanding the restrictions we are under due to COVID-19.

Despite the operational difficulties, uncertainty and worry caused by the continuing waves of the pandemic, ICMA has remained fully operational throughout. Whilst remote working has served us well, our four offices are now all open and a cautious and phased return of staff has started, observing all relevant guidelines, and prioritising staff safety, although at present we have temporarily paused the process given the recent worsening situation. We remain vigilant and ready to adapt our approach at short notice.

Apart from remote working, the pandemic has been a catalyst for change in many areas, not merely to our work programme as we deal with the impact on the capital markets, but also on the way that we have been interacting with our members and other stakeholders. As you can imagine this has all been virtual for many months now and with a few exceptions this looks likely to continue for the remainder of 2020. This has been both positive and negative. Of course, it is not ideal and creates difficulties in building *new* relationships, but on the other hand it enables us to be extremely agile in providing topical webinars, virtual panels and calls at shorter notice for our members than if we organise these events physically. This has allowed us to be more engaged with our members in Asia and Africa and more responsive to their needs. It also enables our messages and information to be disseminated *far* more widely than merely to a physical audience. A good example is the series of podcasts we have arranged on various market topics. Having engaged a highly diverse range of speakers from all over the world and undertaken some 80 of these so far, with each generally lasting approximately 30 minutes, they have been downloaded in excess of 38,000 times.

Another area where the pandemic has sparked change is ICMA's education activities. Gone are the classroom courses and in person "in-house training" – at least for the time being – and we have retooled our online offering, both with courses for home study and also live-streamed courses by our experienced trainers. So far these are proving a success with high levels of registration - and are even more competitively priced than the classroom alternatives. Even when classroom courses resume, we expect the virtual route to be a major part of our future offering which will allow us to broaden our reach.

Aside from the operational aspects, the Association continues to focus on its core areas, and I just want to highlight five of these, some of which are also strands in the EU's new CMU Action Plan released on 24 September.

Firstly, on sustainability where our activities span Europe, Asia, and various other countries. ESG disclosure is a major theme and it is very challenging to balance the desire for transparency and rigour in this market segment with practical considerations, bearing in mind the time frames for creating the necessary data. We responded in detail to the ESAs' consultation on this with input from our buy-side and issuer members. The discussion regarding the European Green Bond Standard is important and reaching a critical stage, with a live consultation paper to which we are responding. It has been encouraging to see continued growth and diversification in the sustainable bond markets over the last few months – a continuation of the COVID-19 themed social bonds, a resurgence of green bond issuance including from first time sovereign issuers, and a couple of ground-breaking issues which are aligned with the new Sustainability-Linked Bond Principles we published early in the summer.

We have mentioned before the industry-wide initiative that ICMA has been leading to prepare for the implementation of SFTR, and you may recall that following our intervention the implementation was helpfully deferred by three months to 13 July. Whilst there remains a great deal more work for ICMA to shepherd the market through phases 3 and 4 of the implementation and tidy up some data issues, we were very pleased that the initial implementation has so far been successful.

You will probably have seen that the CSDR implementation has, after much discussion with the authorities by ICMA and others, been postponed by one year to February 2022. This provides us with a renewed opportunity to discuss our concerns about the mandatory buy-in provisions which are part of the settlement discipline segment of the CSDR with the authorities and legislators. We will continue to represent the market's interests and are offering our official sector stakeholders constructive alternative solutions which are less damaging to the operation of the market than the current proposed Regulation.

The LIBOR transition project is reaching a critical phase and we remain extremely heavily involved from a bond market perspective, with direct engagement in the relevant working groups in the EU, UK and Switzerland. Adoption of the new risk-free rates has gone well in the bond markets and the focus now is mainly on dealing with the outstanding legacy bond contracts which reference LIBOR – which is very challenging. The overall project is exceptionally complex with different dynamics in the derivatives, bond, loan, and other markets. Managing the interdependencies across products in a coordinated way, also across different geographies with differing legal frameworks, creates an intense workload.

Lastly, just a comment on Brexit - or rather post-Brexit - which is the subject of our Quarterly Assessment in this Quarterly Report. This is also reaching a critical stage as the transition period draws to an end and negotiations continue. Passporting will cease, but a free trade agreement is by no means certain and if there is one it may not include financial services in a meaningful way. Moreover, the extent and timing of any equivalence arrangements are unclear - so our work remains focused on the risk of disruption to financial services, and potential cliff-edge risks.

As you can see the agenda is packed and we can expect a very active back end of the year at ICMA. Your continued support and input is essential and I would like to say a big thank you to our committee and working group members.

Martin Scheck
martin.scheck@icmagroup.org

Post-Brexit: the way ahead in international capital markets *By Paul Richards*

Summary

Whether there is an EU/UK agreement before the end of the year or not, passporting rights will cease when the post-Brexit transition period ends on 31 December 2020. The Single EU Market will then become two separate markets. Market firms need to be ready for the loss of passporting rights. This assessment considers the issues that arise, both for market firms based in the EU and in the UK, under six main headings: loss of passporting rights; market access; regulatory equivalence; cliff-edge risks; the need for regulatory and supervisory cooperation; and the state of market preparations.

Introduction

1 Although the UK left the EU at the end of January 2020, and has not been involved in EU decision-making since then, the other changes in EU/UK relations arising from Brexit – including changes affecting capital markets – are still to come at the end of the transition (or "implementation") period. There was provision in the EU/UK Withdrawal Agreement to extend the transition period from the end of 2020 for up to a further two years, if both sides agreed by the end of June 2020. But, as expected, the UK formally decided in June not to extend the transition period, which will therefore end on 31 December 2020.

Loss of passporting rights

2 The EU and the UK are currently negotiating a Free Trade Agreement, which they hope to agree and ratify in the EU and the UK before the end of this year. It is not yet clear whether they will succeed in reaching an agreement or not. An agreement would need to be reached well before the end of the year in order to leave time for ratification in the EU and the UK. While an agreement is likely to be a better outcome for capital markets than no agreement, the key point for market participants is that, whether there is an EU/UK agreement before the end of the year or not, passporting rights[1] will cease when the transition period ends on 31 December 2020. The Single EU Market will then become two separate markets.[2]

3 The loss of passporting rights has significant implications for firms operating in capital markets across borders between the EU and the UK. Market firms need to be ready for the loss of passporting rights so as to keep to the minimum the risk of market disruption arising from the fragmentation of the Single Market into two separate markets. At the minimum, the loss of passporting rights means that market firms currently authorised to operate in the EU and the UK through one single establishment in either the EU or the UK will need to be authorised to operate in both the EU and the UK separately. Market firms have been warned by the authorities in both the EU and the UK to prepare for all eventualities, both in their capacity as market firms in their own right, but also by providing appropriate information to their clients.[3] In all cases, the

1. European Commission Communication: "Currently, financial services can be provided from the UK to the EU with a single authorisation or "passport" per relevant financial services area, issued by the UK authorities. EU operators can use the "passports" of their home state to provide financial services to and in the UK. As of 1 January 2021, authorisations to provide services from the UK across the EU will stop applying.": *Getting Ready for Changes,* 9 July 2020.

2. In addition to leaving the Single Market at the end of the transition period, the UK will also leaave the Customs Union and all EU international agreements. "As of 1 January 2021, the EU and the UK will be two separate regulatory and legal spaces.": European Commission Communication, *Getting Read for Changes,* 9 July 2020.

3. See, for example, ESMA: "On 1 January 2021, once the UK's transition period ends, financial market participants whose activity might be impacted should have fully implemented their preparatory measures to mitigate any risks stemming from the end of the transition period. All entities should also have provided appropriate information to their clients on any resulting consequences.": 17 July 2020.

time available to prepare has been shortened in practice by the market impact of the coronavirus (COVID-19) pandemic.

Market access

4 Once passporting rights cease at the end of the transition period, the UK is proposing to operate a Temporary Permissions Regime (TPR) and a Temporary Transitional Power (TTP):

- The TPR will allow EEA firms and funds currently using a passport to continue to operate in the UK for a maximum period of three years when passporting rights cease at the end of the transition period while they seek authorisation from the UK PRA/FCA.[4] This is intended to help the PRA and FCA ensure a smooth and orderly authorisation process and avoid risks to financial stability.
- The TTP will in general give regulated firms relief from the end of the transition period until 31 March 2022 in order to complete preparations to implement changes in UK law arising from the end of the transition period, subject to certain exceptions where transitional relief will not be granted.

5 There is no EU equivalent to the TPR at EU level, though transitional arrangements have been made in some EU Member States.[5] The FCA has set out the circumstances in which UK firms can undertake business in the EEA on the same legal basis as now after the end of the transition period. They include: whether an activity is covered by an EU decision on the UK's equivalence; whether an EU Member State has put in place a regime to provide continuity of business for a temporary period; whether there are local exemptions in the EEA country concerned; whether permission is given under local law or based on rules of local financial market infrastructure; and whether "reverse solicitation" is permitted without local authorisation. Otherwise, new regulatory permissions will be needed.[6]

6 Across the euro area, the ECB has recently reassessed banks' preparedness for the end of the transition period, focusing on three priorities: contingency planning to ensure banks are prepared for any stresses on funding and trading markets; strengthening risk management and governance arrangements to support banks' ability to manage their business safely in and from the EU; and reducing remote booking of EU activities (ie back-to-back booking), so that banks retain full local oversight of the business they originate and manage. The ECB has stated that banks should relocate assets if, or once, commensurate onshore risk management capability is in place. Staff relocations can be delayed only on account of new lockdown measures or travel restrictions arising from the COVID-19 pandemic. "The ECB's expectation is very clear: all activities related to European products or European customers should, as a general principle, be managed and controlled from entities located in the EU."[7]

Regulatory equivalence

7 Until the end of the transition period, law in the UK is subject to EU law, including for new EU legislation.[8] At the end of the transition period, outstanding EU law is due to be onshored into law in the UK. The question is what will happen after the end of the transition period, once passporting rights have ceased. The EU and the UK authorities have different views about access to cross-border financial services, following the loss of passporting rights. In a draft Treaty published in May, the UK proposed that "each party shall accord financial services and cross-border financial service suppliers treatment no less favourable than that it accords to its own like financial services and like financial service suppliers."[9]

8 The EU's approach to cross-border financial services with third countries (eg the UK) is to decide whether or not to grant regulatory equivalence. It is important to note that regulatory equivalence is a patchwork. There are provisions for equivalence in some but not all EU financial services regulations: the provisions do not cover capital markets (or financial services) as a whole. There are around 40 specific provisions which provide for equivalence in 17 EU Regulations and Directives, mostly in more recent EU legislation. Around 240 such decisions have been taken by the EU so far affecting 30 countries. Examples where equivalence has been granted include central clearing

4. See Bank of England website: "Under the TPR, a firm that is authorised to carry on regulated activities in the UK through Freedom of Establishment or Freedom of Services passporting can obtain a deemed Part 4A permission to carry on those activities for a maximum of three years from the end of the transition period, subject to HM Treasury's power to extend the duration of the regime by increments of twelve months."

5. European Commission Communication: "The provision of financial services from the UK to the EU will be possible subject to the relevant third country rules of the Member State concerned.": *Getting Ready for Changes,* 9 July 2020.

6. FCA, 3 February 2020.

7. Yves Mersch, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB: *Brexit: Banks Must Prepare for the End of the Transition Period,* 9 July 2020.

8. It is not yet clear how EU legislation "in flight" at the end of the transition period will be treated in the UK.

9. UK proposal for EU Free Trade Agreement, May 2020.

counterparties (CCPs) and central securities depositories (CSDs). In the case of investment firms, the European Commission has stated that a new and improved equivalence framework will enter into force in mid-2021 (ie six months after the end of the transition period). But there are no provisions for equivalence in insurance, commercial bank lending or deposit-taking.[10]

9 The determination of regulatory equivalence is not formally part of the EU/UK negotiations on a Free Trade Agreement. This is because the European Commission decides unilaterally on behalf of the EU whether to grant equivalence or not. Under the Political Declaration attached to the Withdrawal Agreement, the EU and the UK were due to complete their technical assessments of regulatory and supervisory equivalence by the end of June. The UK has completed its equivalence assessment of the EU's financial services regulatory and supervisory regime.[11] While the EU has been undertaking equivalence assessments of the UK's regime, the European Commission has already stated that it will not assess the UK in nine areas, including the direct provision of cross-border investment banking services, in the short or medium term.[12] Once assessments have been made, any determinations of equivalence by the European Commission are not expected to take place until later. Although determinations of equivalence are separate from the trade negotiations, they may in practice be subject to progress in the political negotiations.[13]

10 At the end of the transition period, when passporting rights cease, EU and UK rules will initially be the same. So the scope for regulatory equivalence should be considerable, unless the EU and the UK cannot agree on a level playing field intended to prevent unfair competition or on a framework for regulatory divergence later. On the first issue, the key question is whether the UK should be treated differently by the EU from other third countries because of its geographical proximity to the EU and the high degree of economic interdependence between them.

11 On the second issue, the key question is whether, once EU law has been onshored into law in the UK at the end of the transition period, the UK authorities will exercise their right for UK regulation to diverge from EU regulation in future, and if so in what way. The UK authorities have emphasised that:

(i) the UK "cannot outsource regulation and supervision of the world's leading complex financial system to another jurisdiction";[14]

(ii) the UK approach to regulation is based on common law, under which decision-making may be delegated to relevant authorities (eg the PRA and FCA), with appropriate oversight by – and accountability to – Parliament; this is different from the EU approach, which is based on civil law and involves detailed rule-making standardised across the 27 EU Member States;[15] and

(iii) the UK authorities have already proposed a number of changes in the UK to EU regulations to ensure that they work as effectively as possible in the UK context.[16]

12 The UK authorities have argued that regulatory divergence should not affect equivalence, as long as the EU and the UK are both seeking to achieve equivalent outcomes[17] (eg ensuring financial stability, market integrity, investor and consumer protection, fair competition, and the prevention of regulatory arbitrage). In particular, the FCA has stated that equivalence assessments should be conducted on an "outcomes basis": ie that each country's rules and supervision lead to equivalent outcomes, rather than needing to be identical.[18] The desired outcomes are, for example, the same when the EU and the UK are both implementing commitments made by the G20 at global level. So the question is whether the same rules are needed in practice to achieve the same outcomes. It is relevant to note that the EU has reached comprehensive agreements with other third countries (eg Canada and Japan), whose detailed rules are not the same as those of the EU.

10. European Commission Communication: *Getting Ready for Changes,* 9 July 2020.

11. Bank of England Financial Stability Report, August 2020.

12. Bank of England Financial Stability Report, August 2020.

13. Michel Barnier: "the time for decisions is in the autumn": evidence to the House of Lords EU Committee: *Financial Services After Brexit,* 27 March 2020.

14. Sir Jon Cunliffe, Deputy Governor for Financial Stability, Bank of England: *Governance of Financial Globalisation,* Berlin 11 February 2020.

15. See, for example, evidence given by the UK authorities to the House of Lords EU Committee: *Financial Services After Brexit*, 27 March 2020.

16. eg CSDR (settlement discipline provisions); SFTR (reporting by non-financial counterparties); Benchmark Regulation (wind-down of tough legacy LIBOR contracts); and PRIIPs.

17. Steven Maijoor, Chair of ESMA: "EU equivalence decisions taken in financial markets have been overwhelmingly outcome-based resulting in reliance on home country regulation and supervision.": June 2019.

18. Nausicaa Delfas, Executive Director of International, FCA: *FCA's National and International Response to Coronavirus and Brexit,* 6 May 2020.

13 Where UK regulation follows a different path from the EU, it is not yet clear whether, and if so how, the EU will respond.[19] But the European Commission has already stated that, in determining equivalence, it will consider not only the position at the outset, but also intentions in future;[20] and it will consider equivalence in terms only of the EU's interests rather than the interests of the EU and the UK together. If, once equivalence has been granted, the Commission considers that it is no longer appropriate, the grant of equivalence can subsequently be withdrawn with a minimum of 30 days' notice: a very short time for contingency planning by market firms.[21] Joint monitoring and arbitration to resolve disputes should in theory make it possible for both the EU and the UK to consider the regulatory consequences of divergence sufficiently in advance, but it remains to be seen whether this will be possible in practice.[22]

Cliff-edge risks

14 When passporting rights cease at the end of the transition period, and where regulatory equivalence has not been granted, cliff-edge risks are likely to arise.[23] (See Box.) There are a number of points to note:

- The Bank of England's assessment is that "most risks to UK financial stability that could arise from disruption to cross-border financial services, should the transition period end without the UK and EU agreeing equivalence or other arrangements for financial services, have been mitigated. This reflects extensive preparations made by authorities and the private sector." But "further action is needed to minimise disruption to cross-border financial services in some areas."[24]
- It is not yet clear to what extent the EU and UK authorities will agree on addressing remaining cliff-edge risks case by case, as they proposed to do in the event of "no deal" before Brexit, so as to minimise risks to financial stability arising from market disruption. As the previous agreements were conditional on "no deal" before Brexit, they will not necessarily apply at the end of the transition period unless the authorities decide that they should. But, if they did, this would reduce the risk of market disruption. It is therefore helpful that ESMA confirmed on 17 July that previously agreed MOUs with the FCA on cooperation and information exchange remain valid and will come into effect at the end of the transition period.[25] This should enable asset managers to continue to delegate the management of assets to the UK, at least for the time being.
- It is also important to note that "where equivalence is time-limited, the cliff is still there: it is simply further away."[26] So, in the European Commission's view, a time-limited decision on CCPs would allow EU-based CCPs to develop their capacity to clear relevant trades and EU clearing members to reduce their systemic exposure to UK market infrastructure. This is the only area in which the Commission has identified risks to financial stability.[27] As a result, on 21 September the Commission adopted a temporary equivalence decision for UK CCPs, which were recognised by ESMA on 28 September, and are regarded by ESMA as critical to the stability of the EU's financial system.
- While agreement to address cliff-edge risks is in the interests of both the EU and the UK, the outcome may depend on the political climate in which the negotiations take place.

19. In the case of the CSDR, the Commission is expected to delay the implementation of the settlement discipline provisions for a further year. In the case of the Benchmark Regulation, the Commission has proposed reforms for winding down tough legacy LIBOR contracts which are not the same as the UK.

20. "The UK Government's stated intention to diverge from the EU's regulatory and supervisory frameworks in the area of financial services after the transition period requires that the Commission assesses UK equivalence in each area on a forward-looking basis.": European Commission Communication: *Getting Ready for Changes,* 9 July 2020.

21. European Commission: "Equivalence decisions can be unilaterally withdrawn at any time, in particular if third-country frameworks diverge and the conditions for equivalence are no longer fulfilled.": Communication, *Getting Ready for Changes,* 9 July 2020. Equivalence has been withdrawn by the EU in two recent cases: equivalence for the trading of Swiss shares in the EU; and equivalence under the CRA Regulation in the cases of Australia, Brazil, Canada and Singapore.

22. Bank of England: "The UK Government has sought to include provisions for the structured withdrawal of equivalence as part of the broader FTA negotiations.": Financial Stability Report, August 2020.

23. President of the European Commission: "In case we cannot conclude an agreement by the end of 2020, we will face again a cliff-edge situation. This would clearly harm our interest, but it will impact the UK more than us.": European Parliament, 18 December 2019.

24. Bank of England Financial Stability Report, August 2020.

25. ESMA, 17 July 2020.

26. Yves Mersch, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB: *Brexit: Banks Must Prepare for the End of the Transition Period,* 9 July 2020.

27. European Commission Communication: *Getting Ready for Changes,* 9 July 2020.

Cliff-edge risks at the end of the transition period and steps to avoid them[28]

Investment services: The EU has stated that in the short to medium term it will not assess the equivalence of the UK's regulatory and supervisory regime to its own for the purposes of MiFIR Article 47, which covers investment services.[29] This would have allowed for material cross-border access to investment services, reducing the residual risk of disruption.

Cleared OTC derivative contracts: The UK Government has legislated to ensure that UK businesses can continue to use clearing services provided by EU-based clearing houses. On 21 September, the European Commission adopted a temporary equivalence decision of 18 months for the regulatory framework for UK CCPs, which were recognised by ESMA on 28 September.

Non-cleared OTC derivative contracts: The UK Government has legislated to ensure that EU banks can continue to perform life-cycle events on their non-cleared derivative contracts with UK businesses after the end of the transition period. The European Commission has not reciprocated in the case of UK-based banks' contracts with EU businesses. Some EU Member States have permanent national regimes which could enable life-cycle events on certain contracts to be performed.

Banking services: The UK Government has legislated to ensure that UK households and businesses can continue to be served by EU-based banks after the end of the transition period. The EU authorities have not taken similar action. As a result, major UK-based banks are transferring their EU clients to subsidiaries in the EU so that they can continue providing services to them. All material subsidiaries are now authorised, fully operational and trading.

Asset management: Cooperation agreements between the FCA, ESMA and EU NCAs have been agreed, and the FCA and ESMA have confirmed that they will apply from the end of the transition period. This enables EU asset managers to delegate the management of their assets to the UK. The UK Government has legislated for EU asset management firms to continue operating and marketing in the UK. And to operate in the EU, the largest UK asset managers have completed their establishment of EU authorised management companies.

Insurance contracts: EIOPA has published recommendations to national authorities supporting recognition or facilitation of UK insurance companies' continued servicing of EU contracts at the end of the transition period.

Personal data: The UK Government has legislated to allow the free flow of personal data from the UK to the EU after the transition period. If the EU does not deem the UK's data regime adequate, companies can add standard contractual clauses (SCCs) into contracts in order to comply with the EU's personal data transfer rules. UK firms are generally well advanced in implementing these clauses. In July, the EU Court of Justice ruled that the use of SCCs is a valid means of transferring personal data from the EU to non-EU countries.

Access to euro payments systems: UK firms will need to maintain access to TARGET2 to make high-value euro payments. UK banks intend to access TARGET2 through their EU branches or subsidiaries or correspondent relationships with other banks. The European Payments Council has confirmed that the UK will retain SEPA access after the end of the transition period subject to its continued compliance with the established participation criteria.

Ability of EEA firms to trade on UK trading venues: The EU and UK could deem each other's regulatory frameworks as equivalent for the purposes of relevant regulations, thereby comprehensively mitigating risks of disruption. ESMA has proposed excluding from the EU Trading Obligation EU shares which are traded on third country venues in the local currency of the third country. Absent a finding of equivalence, this would provide a partial mitigant to risks of disruption. It is unclear whether the proposal will be adopted before the end of the transition period.

Prudential requirements: UK regulators have confirmed that they will delay the application of some requirements for 15 months to end-March 2022. EU regulations will subject EU banks' and insurance companies' UK exposures to stricter capital and liquidity requirements.

Credit rating agencies: The FCA and ESMA have confirmed that their cooperation agreement will apply from the end of the transition period.

Settlement finality: Some but not all EEA countries have implemented national legislation intended to provide settlement finality protection in the event of insolvency of local firms using financial market infrastructure in non-EU countries.

Central securities depositories: The UK Government has legislated transitional provisions to allow CSDs established outside the UK to continue to provide CSD services in the UK after the transition period. But for UK CSDs to continue to provide CSD services to issuers in respect of securities issued under EU law after the end of the transition period, the UK and UK CSDs will respectively require either permanent or temporary equivalence and recognition from EU authorities.

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28. Bank of England Financial Stability Report, August 2020; European Commission announcement of 21 September and ESMA announcement of 28 September on CCPs.

29. European Commission Communication: "New and improved equivalence framework for investment firms will enter into force in mid-2021": *Getting Ready for Changes,* 9 July 2020.

Regulatory and supervisory cooperation

15 Besides cliff-edge risks of market disruption arising from the need for market firms to comply with the requirements of two separate EU and UK regulatory regimes, there is an additional risk of market disruption unless regulatory and supervisory cooperation between the EU and the UK continues after passporting rights cease.[30] The ESMA/FCA MOU announced on 17 July should help to reduce this risk. Both the EU and the UK have shared objectives in ensuring financial stability, market integrity, investor and consumer protection, fair competition and the prevention of regulatory arbitrage. It is also important to avoid extra-territorial conflicts between them.

16 How should regulatory and supervisory cooperation work? Large EU financial institutions active in London will need to be able to reassure the UK authorities about risks they import into the UK, as the Bank of England has made clear that It is committed to maintain a level of financial sector resilience which exceeds the requirements of international standards. The EU has a similar concern to ensure as far as possible that its regulatory system is not undermined by risks affecting the EU arising from the activities of financial firms in third countries outside its control, including the UK. Where the EU considers that systemic risks are greatest, EU regulatory and supervisory oversight can be expected to be the most intense. Finally, a degree of joint supervision will also be needed in some cases (eg colleges of supervisors for the financial market infrastructure).

17 It is not yet clear from the negotiations on the proposed Free Trade Agreement whether the EU and the UK will be able to agree on a chapter on financial services.[31] There is a case for setting out, either in the Agreement itself or in a publicly available MOU, the regulatory framework and supervisory arrangements within which both the EU and the UK will seek to cooperate in future. This should help reassure firms that EU/UK cooperation in capital markets will continue to be based on transparency, trust and mutual understanding in a predictable and sustainable way.

Preparations by capital market firms

18 Most large sell-side and buy-side market firms have prepared for the fragmentation of the Single Market into two separate markets in the EU and the UK by seeking and obtaining the necessary authorisations to operate in both the EU and the UK. In that sense, they are as well prepared as they can be, despite the impact of the COVID-19 pandemic. But firms also need to be prepared to address any remaining cliff-edge risks across borders between the EU and the UK when passporting rights cease at the end of this year. While EU/UK negotiations may help address cliff-edge risks, they are unlikely to eliminate them altogether. It is also not clear whether smaller firms are as well prepared as larger firms. Finally, all market firms need to work closely with their clients to help ensure that they are ready in time for the end of the transition period.

ICMA's role and approach to Brexit

ICMA's role is to encourage efficient and integrated capital markets, which are necessary to support sustainable economic growth.

ICMA's approach has been to focus on the potential impact of Brexit on international capital markets, particularly the need to address and avoid cliff-edge risks which arise when passporting rights between the EU and the UK cease.

ICMA is not lobbying for any particular financial centre. ICMA's members are based in London, the EU and more broadly.

ICMA has been discussing capital market preparations for the end of the transition period after Brexit with members through its main ICMA Market Practice and Regulatory Policy Committees, including ICMA's own documentation, and reporting to the Board.

ICMA is keeping in contact with the authorities in the UK, the EU and the euro area.

ICMA is cooperating with other trade associations by sharing information, wherever possible.

ICMA is keeping members up-to-date on Brexit by giving them regular assessments through the ICMA Quarterly Report and conference calls.

ICMA is keeping its Brexit webpage up-to-date, both with its own work, and also with electronic links to key documents published by the authorities in the EU and the UK and with links to the webpages of law firms and others.

Contact: Paul Richards
paul.richards@icmagroup.org

30. See, for example, the ESMA/FCA MOU announced by ESMA on 17 July 2020: "ESMA's previously published Brexit statements, in particular ESMA's general opinion to support supervisory convergence in the context of the UK withdrawing from the EU issued on 31 May 2017 and sector-specific opinions issued on 12 July 2017, remain relevant and should continue to be followed."

31. See, for example, the EU agreements with Canada (CETA) and Japan (EPA).

CMU: financing the recovery from COVID-19

By Daniel Mendes and Charlotte Bellamy

Introduction

More than six months have passed since the COVID-19 pandemic placed financial markets under severe stress and yet further impacts are still being observed as the world economy is expected to shrink by 4.5% this year.[1] In response, governments worldwide have adopted a wide range of policy initiatives to limit the human and economic impact of the pandemic. Fiscal, monetary and macro-financial policies are the core measures deployed in various jurisdictions, with some of them also adjusting their exchange rates and balance of payments[2]. In advanced economies such as the US, EU and UK, central bankers have cut interest rates and pumped money into the economy through quantitative easing programmes.

Authorities have also focused on financial markets regulation. A wide range of regulatory responses, for example in relation to forbearance, extensions of deadlines and relaxed prudential requirements, have been seen in the EU, UK and elsewhere.

In the capital markets field, in particular, the European Commission (EC) announced in July 2020 a *Capital Markets Recovery Package* (CMRP) and noted that these amendments are "at the heart of the CMU project". This article is concerned with recent developments with regard to the Capital Markets Union (CMU) project, the CMRP and ICMA's areas of focus.

CMU before the pandemic

The CMU is an EU economic growth policy originally launched under the Juncker Commission in September 2015 to establish a true single market for capital across the Member States. In its first version, the action plan put forward a wide range of goals including improving access to funding options for businesses, especially SMEs (thereby reducing risks related to over-reliance on bank financing) and offering new opportunities for savers and investors.

As an umbrella project, the first CMU encompassed a number of dedicated initiatives and legislative changes.[3] The project was unveiled in 2015 with the publication of the first *CMU Action Plan* and underwent a mid-term review in June 2017 to strengthen the existing actions and put forward new measures in response to evolving policy priorities.

As the political landscape changed, notably with a new Presidency and College of Commissioners taking office and mounting pressure to make EU economies more resilient and competitive, the completion of the Monetary Union through the CMU and the Banking Union was again put in the spotlight. Indeed, in her *Political Guidelines for the Next*

1. See OECD *Interim Economic Assessment*, September 2020.

2. A country-by-country report is available on the IMF's dedicated webpage on the *Policy Responses to COVID-19*.

3. For further information, please see the factsheet published by the EC and its *Legislative measures taken so far to build a CMU* webpage.

The CMRP announced by the EC in July 2020 is driven by an urgent need for capital flows.

European Commission 2019-2024, Ursula von der Leyen, President of the EC, emphasised the completion of the CMU and the Banking Union as some of the objectives envisaged as part of her tenure.

Against this backdrop, the EC put together a group of experts, known as the High-Level Forum (HLF) to provide their recommendations on the way forward for the CMU in 2019. The HLF's Final Report, published in June 2020, set out 17 recommendations on a wide range of issues. Overall, the HLF endorsed fully functioning, integrated capital markets and sustainable growth. The COVID-19 pandemic also played a key role in shaping the Final Report, as it poses new challenges to EU economies not originally anticipated by the EC. Indeed, the HLF's Final Report refers to COVID-19 as one of the rationales for completing the CMU.

ICMA published its preliminary thoughts on the Final Report and responded to an EC call for feedback in June 2020 highlighting a range of suggestions and concerns associated with the recommendations in the Final Report. Among these were:

- suggestions related to sustainable finance in the context of CMU;
- a concern that the impact of the proposed CSDR mandatory buy-in regime on banks' and non-banks' market making activity had not been considered;
- a concern that, while an EU consolidated tape for bonds had been discussed by the HLF, the Final Report did not include a formal recommendation in this area;
- a suggestion that the scope and purpose of the PRIIPs Regulation be reviewed (as well as any review of the disclosure requirements);
- support for a review of the European Long-Term Investment Funds (ELTIF) Regulation; and
- support for the proposal to recalibrate insurers' and banks capital charges in order to boost the securitisation market.

The new CMU Action Plan

On 24 September 2020, shortly before the publication of this article, the EC published a new *CMU Action Plan* and associated Annex building on the recommendations of the HLF Final Report.

Essentially, the new Action Plan is concerned with four key issues: economic recovery from COVID-19, green transition and transformation, a more inclusive economy (eg strong market-based pension schemes and increased access to capital by retail investors), and the EU's competitiveness globally.

These goals translate into 16 measures that are expected to make the EU economy more resilient and inclusive, consolidate the EU's attractiveness as a safe place for savers and long-term investors and build a so-called "genuine" single capital market by integrating national capital markets. In concrete terms, the EC is expected to take various actions, from internal assessments to proposing new, or amending existing, legislation.

ICMA is assessing the relevance and impact of these action points to its members and published its preliminary thoughts shortly after publication of the Action Plan. Many of ICMA's preliminary thoughts reiterated or aligned with the points ICMA raised in responding to the High-Level Forum's Final Report.

Capital Markets Recovery Package (CMRP)

While the new CMU Action Plan incorporates long-term goals such as allowing "the EU's economy to grow in a sustainable way", the CMRP announced by the EC in July 2020 is driven by an urgent need for capital flows to finance the recovery of the real economy in the near-term.

The CMRP aims to ease financial markets rules to help companies meet their funding needs and improve efficiency of the capital markets in the context of the COVID-19 pandemic. In particular, it includes proposals for a short-form prospectus for certain secondary equity issuances, adjustments to the securitisation regime and certain amendments to the MiFID II/R regime. These translate into targeted amendments to the Prospectus Regulation regime, the Securitisation Regulation and CRR and MiFID II/R.

The ICMA primary market community has been following closely the proposals to amend the MiFID II/R product governance regime. Further information is reported in the article on *The CMRP: MiFID II/R Product Governance* in this ICMA Quarterly Report. Elsewhere, the proposals to amend the Prospectus Regulation are not anticipated to have a significant impact upon ICMA primary market members operating in the wholesale debt capital markets. Further information can be found in the article entitled *Prospectus Regulation Developments* in this Quarterly Report.

With regard to secondary markets, ICMA welcomes the proposals related to costs and charges disclosure, suspension of best execution reports and alleviation of cost-benefit analysis requirements under MiFID II/R. However, in its September 2020 response to the EC consultation on the regime for research on small and mid-cap issuers and on fixed-income instruments, ICMA's Asset Management and Investors Council highlighted several implementation challenges with the partial review of unbundling rules, which is unlikely to revive SME coverage. It also recommended considering other policy options to support SME funding, ie amending rules on free trial and sponsored research. An article in the Asset Management section of the Quarterly Report draws particular attention to this discussion.

The CMRP awaits political agreement between the co-legislators at the time of writing. Given the pivotal role of capital markets in financing the recovery from the pandemic – which has been expressly highlighted in the new CMU Action Plan - as well as policy makers' desire to reduce reliance on bank-financing, there would seem to be political appetite for a achieving a compromise between the EC, European Parliament and Council soon. Indeed, legislative progress has been observed. For example, the European Parliament published a draft report on 18 September with amendments to the EC's proposal for amending MiFID II/R.

Following agreement and adoption, the amendments to the Prospectus Regulation and the Securitisation Framework will apply directly across the 27 Member States. As for MiFID II/R, the changes will need to be transposed into national legislation before they become applicable.

ICMA will continue to monitor and engage on issues that are of interest to its members under the CMRP.

Contacts: Daniel Mendes and Charlotte Bellamy
daniel.mendes@icmagroup.org
charlotte.bellamy@icmagroup.org

ICMA is assessing the relevance and impact of these action points to its members and has published its preliminary thoughts.


The role of the Eurobond markets in pan-European capital markets

By Ruari Ewing and Andy Hill

There has been a certain amount of official sector commentary that Europe faces a problem of there being no developed pan-European capital markets. Such commentary might seem odd to some, depending (as so often is the case) on what is meant.

- Is "pan-European" meant in a geographic/continental sense, in a political sense (eg EU, EEA) or in a currency zone sense (euro)? Is the concept meant in a maximalist sense – ie that wider, international, cross-border markets encompassing both "Europe" and other geographies do not count? And if not, why not?
- Does "capital markets" refer to all types of capital instruments or are only certain segments in mind? For example, shares, sovereign bonds, or corporate bonds (and issued by larger or smaller companies, higher or lower rated)? Furthermore, does one risk conflating lack of access to certain markets with doubts as to their existence or level of development?

These questions are important, as appropriately addressing any "problem" (and avoiding unintended consequences[1]) effectively requires, as a preliminary, its clear enunciation.

There is at least one set of developed capital markets encompassing the whole of Europe in the geographic sense (so also including Europe's smaller political and currency areas). Those are the institutional cross-border markets for investment grade corporate bonds ("Eurobonds"), but which also involve significant official sector participation (mainly supranational and agency borrowers, but occasionally sovereigns also). Though emanating from Europe, they have become pretty much worldwide (albeit with various layers of practice specificities, some of which can be driven by localised considerations), clearing mainly through two international central securities depositories (ICSDs).

From a "primary" bond market (syndicated new issuance) perspective, borrowers and investors from any European (or non-European) country can participate in the "big pool" of the Eurobond markets[2] – though "bigger fish" tend to get more noticed, and so tend to get more commercial traction (with more attractive borrower pricing).

This should be unsurprising from a borrower perspective, as smaller "names", with less to borrow (below several hundred million euros at a time), present less investment volume, compared to larger names, over which investors' can spread their (fixed) investment costs (notably logistics and due diligence). Smaller names are also likelier to be more illiquid, so potentially facing pricing that is less attractive compared to their other funding options. Furthermore, smaller size often correlates with higher credit risk (larger branches are less likely to break in the wind) and so again with pricing attractiveness. (A further, similar, effect may come in terms of borrowers' credit ratings being subject to the "ceiling" of their country's sovereign credit risk rating.)

1. Including adversely impacting market segments that operate effectively across Europe with new rules and other changes aimed at different segments (especially when ease of doing business is at a premium due to the pandemic).

2. The Eurobond markets operate on a withholding tax-free basis. Also, investment grade risk analysis is focused on "probability of default" rather than "loss given default" that is more characteristic of high yield risk, with national insolvency idiosyncrasies being less material.

There is at least one set of developed capital markets encompassing the whole of Europe in a geographic sense: the Eurobond markets.

Since the vagaries of economic history have resulted in larger, investment grade, borrowers being unevenly distributed between countries (as well as countries having differing sovereign credit risks), it is understandable, from the perspective of countries with fewer large, higher-rated, corporates and lower sovereign credit ratings, that one might not perceive the existence of developed bond markets stretching across Europe (let alone beyond). However, this does not mean that they do not exist or that they are undeveloped.

From a "secondary" bond market (trading) perspective, market makers (usually large international banks) play a central role in liquidity provision. Since the probability of a seller being able to find a buyer at exactly the same time (the concept of "immediacy") is likely to be low, for bond markets to function efficiently requires the service of market makers. While market makers do not necessarily run large inventories (less so in recent years), and are unlikely to hold positions in every bond for which they are a liquidity provider, they nonetheless stand by ready to show clients prices (bids or offers) on request. This requires the market maker being able to take the other side of the client trade, taking the position, long or short, onto their own trading books, and running this position until a time when it can be offlaid, either with another client or in the wider market. The ability to provide this service, apart from a willingness to assume and mange market risk, requires balance sheet capacity, as well as access to funding and hedging markets, including repo, interest rate swaps, bond futures, and credit default swaps.

Thus, bond markets could be defined along the lines of secondary trading. In the case of sovereign bonds (rates), they are usually structured along the lines of issuers. That is a bank will likely have different trading desks dedicated to trading Germany, Italy, France, etc, with smaller markets possibly being grouped together in the same book (eg Belgium and Netherlands, or "Nordics"). For investment grade corporate bonds (IG credit), this is generally structured along the lines of currency and sector. For example, euro telecoms, autos, financials, etc. So at least in the case of IG credit, one could argue that there is a secondary pan-European market. It could also be noted from a credit market perspective that both repo and credit default swaps (CDS) can be considered pan-European.

Where European bond markets appear more fragmented is in the post-trade space, particularly with respect to sovereign bonds issued in the domestic CSDs. Here the ecosystem is characterised by multiple settlement systems, payment systems and CCPs, though initiatives such as TARGET2 Securities are going a long way to addressing this.

Europe may indeed be facing an important challenge in developing some pan-European capital markets (such as domestically auctioned and cleared sovereign bonds, unrated SME shares and bonds) – just not in the Eurobond markets that in EMEA in 2019 raised circa USD2.2 trillion in new capital (Source: Dealogic 2019 full-year EMEA DCM volume).

Incidentally, the largely institutional nature of contemporary Eurobond markets has been largely driven by retail consumer protection laws that have accentuated the relative inefficiency of retail capital raising – see further ICMA's CMU responses of April 2015 (at #91-103) and of March 2017 (at #64).

Contacts: Ruari Ewing and Andy Hill
ruari.ewing@icmagroup.org
andy.hill@icmagroup.org

Transparency and liquidity in the European bond markets

By Andy Hill

Background

The state of liquidity in the European bond markets has been hotly debated for a number of years, with the growing realisation that due to a culmination of factors market liquidity has been in serial decline for more than a decade. There is an ongoing parallel discussion on the issue of transparency in the European bond markets. While it is broadly recognised that a degree of price transparency is fundamental for market efficiency and integrity, the intersection of transparency and liquidity is a far more complex consideration, yet an important one from the perspective of market development.

In recent years ICMA has been pivotal in highlighting the challenges to European bond market liquidity, largely based on the guidance and input of its Secondary Market Practices Committee (SMPC). At the same time, mainly through the work undertaken by its MiFID II/R Working Group (MWG), ICMA has been a market leader in the discussions around European bond market transparency.

Determining bond market liquidity is as much an art as a science.

In September, ICMA's SMPC published the discussion paper, *Transparency and Liquidity in the European Bond Markets*. This attempts to pull those two workstreams together in order to explain how bond market structure and dynamics are very different to those of equity markets, that this is the basis for how liquidity is created in bond markets, and why this is central to any considerations around the framework for European bond market transparency, including any proposed future regulation related to the provision and design of a consolidated tape for bonds.

What do we mean by liquidity?

The starting point for the paper is: what do we mean by liquidity and how do we measure it? Importantly, it suggests that this is very much driven by how liquidity is created, noting that the market structure for bonds is fundamentally different to that of equities and other non-bond markets. It suggests that measuring liquidity in bond markets is complex, possibly requiring the observation of multiple variables and data points. Furthermore, it is largely subjective. It is unlikely that any two observers would agree on the same methodology. Finally, liquidity is dynamic. What may appear liquid today could be illiquid tomorrow. Therefore, determining bond market liquidity is as much an art as a science.

Does transparency help or hinder?

It then turns to the issue of bond market transparency, recognising that public transparency and access to market data can support market efficiency: facilitating price discovery and market integrity, providing a level playing field for all market participants, and even underpinning liquidity by creating greater investor confidence. However, too much transparency can have an adverse effect on market efficiency and liquidity, either forcing liquidity providers to adjust their pricing (assuming that they do not withdraw liquidity completely) or amplifying market moves in response to any request for quote or partial execution. In both cases it is the investor who ultimately suffers.

MiFID II/R transparency

The paper discusses the complexities and market impacts of the MiFID II/R transparency framework, identifying possible areas for refinement and the potential for simplification. In particular, it restates the ICMA proposal for ESMA to create an industry advisory body (the "Data Advisory Group") to work with ESMA on both improving the quality of published post-trade data (which is broadly recognised as one of the major obstructions to the effectiveness of the regime) as well as in informing the design and calibration of any future framework.

Consolidated tape for bonds

The paper explores the case for a European consolidated tape (CT) for bonds. While ICMA's members are broadly supportive of an EU CT for bonds, the report again highlights the importance of getting the design and calibration of a post-trade transparency regime right. In the case of a CT that is based on poor quality data, it will not be utilised, while a CT that provides too much information will destroy market liquidity, so putting investors at risk. It is important to remind ourselves that a consolidated tape is not an end in itself, rather it is a means to improved market efficiency.

Conclusion

The paper concludes that, so far, MiFID II/R has not had any discernible impact on European bond market liquidity, but nor has it delivered on the promise of meaningful public transparency. Data quality seems to be the most pressing challenge for the EU framework, rather than design. However, there remains the opportunity to enhance both, particularly through the MiFID II/R review, expected to be in early 2021. ICMA, with its members, will continue to engage with ESMA and the European Commission to ensure that the EU has a transparency regime that is not only fit for purpose, but that supports the development of a healthy, efficient, and liquid pan-European bond market, attracting investors and capital raisers from across Europe and the globe. As Europe rebuilds its economy following the COVID-19 pandemic, this could be more important than the original architects of the regulation ever imagined.

Contact: Andy Hill
andy.hill@icmagroup.org

A consolidated tape is not an end in itself, rather it is a means to improved market efficiency.

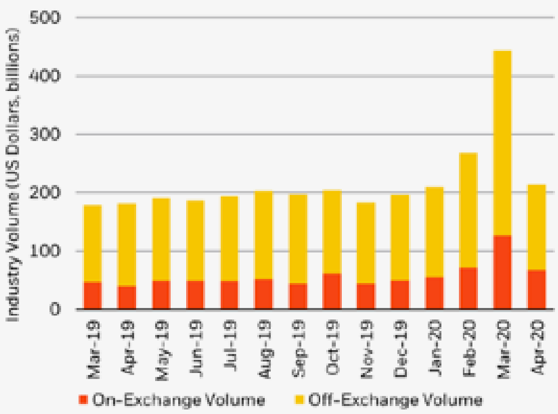

Lessons from COVID-19: bond ETFs

By Joanna Cound and Stephen Fisher, BlackRock

Unprecedented market volatility resulting from the COVID-19 pandemic presented ETFs with the most significant test they have faced since the 2008 global financial crisis (GFC). As liquidity in underlying markets deteriorated during the sell-off, especially in fixed income, ETFs continued to trade efficiently, playing a leading role in price discovery for investors and banks as they gave transparency to the values at which investors were prepared to exchange risk.

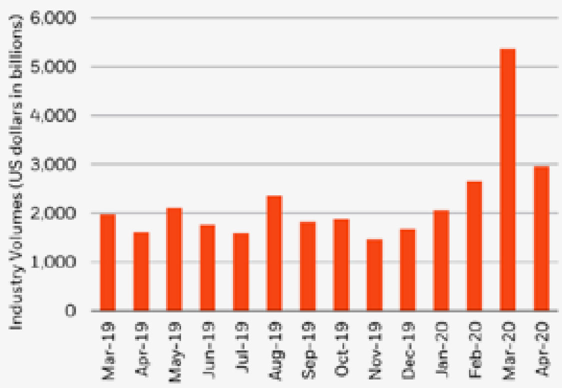
Secondary market trading volumes increased significantly in March 2020 as the market responded to news relating to the COVID-19 pandemic. While trading volumes in March were higher across all ETF asset classes, the increase in fixed income ETF trading activity was particularly noteworthy (see Exhibits 1 and 2). As the underlying cash bond market liquidity deteriorated, many investors turned to ETFs for bond market exposure. In the US, fixed income ETF volumes reached an average of $33.5 billion per day in March 2020, more than three times the 2019 daily average. Similarly, in Europe, during the first quarter of 2020, UCITS fixed income ETFs traded an average of $18.75 billion per week, more than 1.3 times the 2019 weekly average of $14.25 billion.

Exhibit 1: Total monthly secondary market trading volumes in the European ETF Industry
March 2019 – April 2020



Source: BlackRock and Bloomberg, as of April 30, 2020.

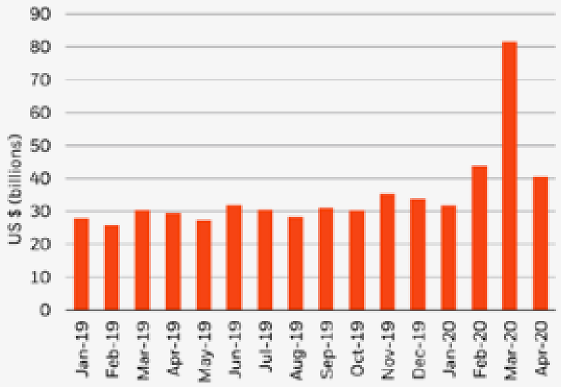
Exhibit 2: Total monthly secondary market trading volumes in the US ETF Industry
March 2019 – April 2020



Source: BlackRock and Bloomberg, as of April 30, 2020.

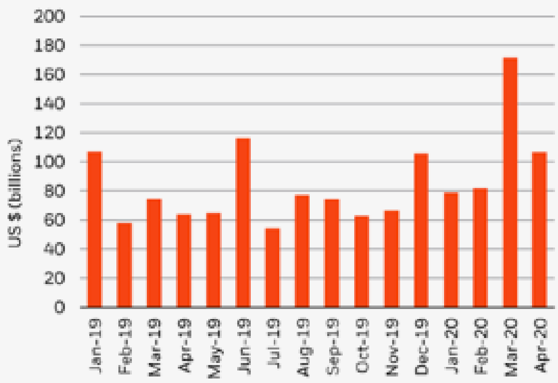
Similar to secondary market activity, primary market activity was elevated in the first quarter of 2020 (see Exhibits 3 and 4). Participation from authorized participants (APs) was broad, with 22 different APs creating and redeeming shares of iShares ETFs in Europe and 24 in the US during March 2020. Contrary to claims that market makers and APs are likely to step away in times of market stress, the ETF ecosystem functioned efficiently amidst the volatility and surging volumes.

Exhibit 3: Primary Market Activity in Europe
January 2019 – April 2020



Source: BlackRock and Bloomberg. As of May 4, 2020.

Exhibit 4: Primary Market Activity in the US
January 2019 – April 2020

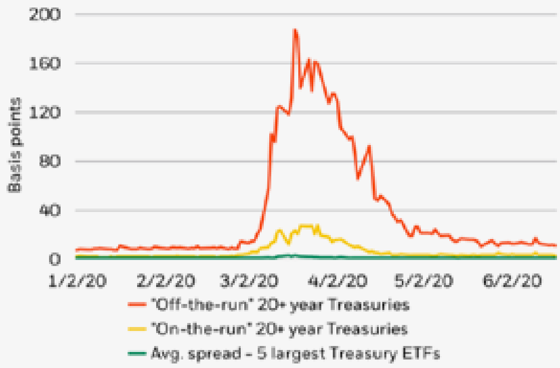


Source: BlackRock and Bloomberg. As of July 22, 2020. **This graph has been updated in the version of this paper, dated July 24, 2020.**

During the recent bout of market volatility, bid-ask spreads in ETFs widened in-line with the market. This widening was largely due to elevated trading volumes and the hedging costs that market makers were experiencing as a result of exceptional levels of volatility and a lack of liquidity in underlying assets.

Despite this, in many instances, it was cheaper to trade the ETF than the basket of underlying securities**.** While the spreads on Treasury ETFs can be tighter than the spreads on underlying Treasuries in normal market conditions, this advantage was magnified during the recent market turbulence (see Exhibit 5). This means that it was generally more cost-effective for investors to access the corporate bond market using ETFs than to do so by buying or selling the individual bonds.

Exhibit 5: Bid-ask spread comparison (Treasury ETFs versus Treasuries)



Source: Bloomberg, NYSE, BLK. As of June 17, 2020.

Over this period, one widely observed behaviour was that the prices of many fixed income ETFs deviated from the value of their underlying securities, or net asset value (NAV). Rather than exposing a flaw in the ETF structure, these discounts highlighted how fixed income ETF prices can provide a window into underlying market conditions, transmitting real-time information and providing price discovery for market participants. The NAV of an ETF is generally calculated once daily, using pricing services that maintain their own methodologies. Inputs for NAV calculation are typically actual trades (for bonds that traded that day) and/or estimates for bonds that trade infrequently or did not trade at all that day. Because prices from pricing services, and therefore NAVs, can be based largely on estimates, they are determined in a different way than the prevailing market sentiment reflected in real-time ETF prices. Typically, an ETF's price is in-line with its NAV, but it is possible for ETFs to trade at prices above (premium) or below (discount) NAV. ETF market prices adjust quickly in rapidly changing markets, so the trading price of the ETF can be a source of price discovery of where investors are valuing the underlying portfolio of bonds.

These differences are usually insignificant for most ETFs but can be inflated during periods of market stress or high volatility. For example, when market volatility spiked on 12 March, shares of a UCITS ETF providing exposure to US dollar investment grade credit closed (on local European exchanges on which it was listed) at a price that was roughly 7.5% below its end-of-day NAV. Rather than this phenomenon reflecting an instrinsic problem with the ETF, the ETF's market price reflected the actual market-clearing price for bonds that traded less frequently. This provided a more real-time source of price discovery compared to the NAV. In fact, the ETF changed hands more than 1,000 times on exchange and over the counter, while its top five underlying holdings traded an average of only 37 times each. This phenomenon extended through April's "risk on" period in investment grade credit; on 9 April, the same ETF traded 537 times, while its top five underlying bonds each traded fewer than 20 times.

Exhibit 6: Divergence between ETF price and NAV

$IG end of day premium / discount to NAV
(January 2020 – May 2020)

Source: Bloomberg, as of June 1, 2020. Data for the largest by assets under management of a US investment grade corporate bond ETF.

This was not limited to the credit market; we saw similar examples across municipal bonds and Treasuries as well. At a time when bond market liquidity was challenged, bond ETFs provided price discovery and proved to be an integral part of the fixed income ecosystem.

As we have discussed above, ETFs were resilient through the recent period of volatility and were additive to the overall functioning of markets. That said, we have identified areas of improvement to further strengthen the ecosystem of bond ETFs and the Capital Markets Union to the benefit of investors and issuers. A lack of common reporting standards has prevented commercial providers from creating a centralized record of all ETF trade reports, resulting in an uneven playing field that favours sophisticated investors with the capacity to aggregate data (versus retail investors who are unable accurately to assess the liquidity ETFs provide). And as noted above, the COVID-19 crisis has also highlighted the opacity and fragmentation of underlying bond markets, which led to ETFs becoming a price discovery tool. This reinforces the need for an *EU Consolidated Tape for Bond Markets* as promoted and demonstrated by ICMA. In our view, a single CTP should be mandated and overseen by European Securities and Markets Authority, which would specify the request for proposal appropriately with clear delivery guidelines and other technical specifications. The Consolidated Tape could be delivered widely and at reasonable cost. Our preference is for it to be funded by a cost-plus-margin fee charged to users, with a portion of the revenue generated used to compensate APAs (Approved Publication Arrangements) and trading venues for the data they input to the Consolidated Tape.

In conclusion, ETF performance throughout the market volatility in the first part of 2020 demonstrated how ETFs can add stability to capital markets. In the face of record volatility, ETFs performed as designed. Instead of stepping away, APs and market makers were engaged, facilitating heightened ETF trading volumes. In fixed income, ETFs offered price transparency and liquidity to an otherwise opaque, illiquid bond market. Throughout the pandemic and resulting market volatility, investors increasingly turned to ETFs to allocate capital and manage risk in their portfolios. While there are some areas that can be improved to further benefit investors, ETFs generally functioned well and delivered on investor expectations during the most turbulent market conditions in over a decade.

Joanna Cound *is Head of Public Policy, EMEA, BlackRock, and a Member of the ICMA Board, and* **Stephen Fisher** *is Managing Director, Global Public Policy, BlackRock, and Co-Chair of the ICMA Regulatory Policy Committee.*

Germany's role in developing sustainable markets further

By Dr. Tammo Diemer, Deutsche Finanzagentur

Europe aims to be climate-neutral by 2050. This will require trillions of euros of investment over the next 30 years. Sustainable finance will be key in channelling more investments towards the transition to a more environmentally conscious economy. The green bond market, established by many dedicated market participants, enables investors to target green projects, green lending and green spending. As a sovereign issuer, Germany will make an active contribution to the development of this market with our innovative "twin bond" concept.

How to channel more investments towards the transition to a more environmentally conscious economy?

This would be easy if issuers of green bonds offered a higher yield relative to their conventional bonds at the same level of risk. However, higher yields for green bonds make no economic sense, neither for the issuer nor for the environment.

In the upcoming transformation phase, it will be relatively more expensive to provide or manufacture the same products in an environmentally friendly way than following the established ways. Therefore, investments and expenditures in favour of the environment ideally should have more favourable refinancing costs in order to motivate those activities. Green bond investors can be sure that their financial engagement is invested in an environmentally friendly way and they benefit from the additional transparency of this financial product. Hence, even green bond investors might be willing to forego returns compared to investments into conventional bonds.

However, there may be additional aspects that have a price effect. For example, the tradability of the bond, in particular a potentially insufficient ability to liquidate a green bond position, may have a negative contribution to the price discovery. Similarly, an issuer may aim for a diversification of its investor base and therefore accept higher funding cost for a green bond.

When is a so-called Greenium justifiable?

In our opinion, the green element of a bond should contribute to the price discovery process and should lead to higher prices for green bonds compared to conventional bonds. This holds true if the green bond has the same properties as a conventional bond of the same issuer, in particular the same capability to be liquidated. The twin bond concept fulfils this prerequisite.

The twin bond concept

All green securities will be issued with the same characteristics as their traditional counterparts, with the same maturity and coupons, functioning as twin bonds. However, the issuance volume will differ: conventional securities will be placed at a significantly larger volume than their green twin. They will also have different international securities identification numbers.

To ensure secondary market tradability comparable to conventional federal securities, the German Finance Agency will support the green twins' liquidity through its activities in the secondary market. Member banks of the Bund Issues Auction Group will be able to conduct combined sale-and-purchase transactions or single sale or purchase transactions directly with the issuer on a daily basis. The secondary market operations will support the green twins to benefit from the same liquidity as conventional twins when it comes to investors' ability to liquidate their positions for cash.

Through this approach, and with the goal of issuing green twins for all standard maturities on the conventional curve, the Government will address the various maturity requirements of different investor types. It will therefore reach the broadest spectrum of potential green investors.

Germany's role in the sustainable financial market

Conventional German Federal securities serve as interest rate benchmarks for the entire euro area. The introduction of Green German Federal securities is therefore suitable to substantially strengthen and develop the market for green and sustainable forms of investment, both globally and in Germany. It is the German Federal Government's ambition to establish Green German Federal securities as the interest rate benchmark for the euro green finance market within a short period of time. Market participants with different investment horizons will have easy access to green benchmark bonds with high liquidity.

Use of proceeds

Germany's green bond framework follows the ICMA Green Bond Principles and is in line with key elements of the draft European Union Green Bond Standard. The framework includes investments into clean transport systems, renewable energy, and helping emerging markets transition to more environmentally sustainable economies.

Inaugural transaction

The launch of the first green twin bond on 2 September was met with a strong reception from investors, ratings agencies and other issuers. The green element showed a value in the primary market for the issuer and outperformance in the secondary market for the investor. After a promising start, Germany is set to establish itself as a permanent issuer on the green bond market.

Dr. Tammo Diemer *is a Member of the Executive Board, Deutsche Finanzagentur.*



Asian bond markets: recent trends and development

By Donghyun Park, Shu Tian, and Mai Lin Villaruel.
Asian Development Bank

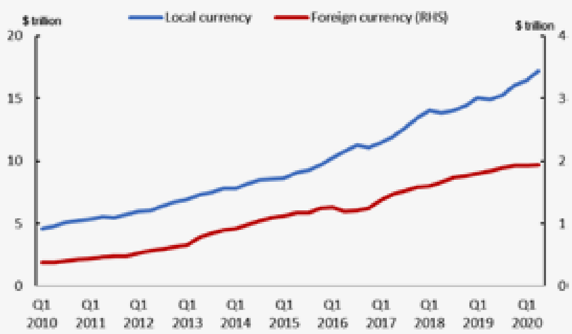
Bond market development

The bond markets in emerging East Asia (a region which includes the major countries of Southeast Asia – Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam – along with People's Republic of China (PRC); Hongkong, China (Hong Kong); and Republic of Korea) continue to expand to help meet the funding needs of both public and private sectors to contain the COVID-19 virus and tackle its economic and social impacts. The regional bond market expanded during the first two quarters of 2020, with local currency (LCY) bonds playing a bigger role (Figure 1). By the end of June 2020, the local currency bonds outstanding in emerging East Asian markets expanded by 5.0% quarter-on-quarter (q-o-q) and 15.5% year-on-year (y-o-y), reaching a total of $17.2 trillion at the end of June 2020. Meanwhile, foreign currency bonds increased steadily as well, growing by 0.7% q-o-q and 5.5% y-o-y to reach $1.9 trillion in Q2 2020.

Government bonds still dominate the region's bond markets, accounting for almost 70% of total outstanding bonds at the end of Q2 2020. While more than 90% of the region's bonds are in local currency, the share of LCY bonds inched higher in Q2 2020 relative to 2019, signalling the primary role of LCY financing in post-COVID recovery.

As a joint effort of ASEAN+3 (a region which includes the ten countries of Southeast Asia along with People's Republic of China, Japan, and Republic of Korea) governments to develop local currency bond markets in the region, the Asian Bond Market Initiative (ABMI) plays an important role in bond market development in ASEAN+3 economies. Asian Development Bank serves as the secretariat in implementing ABMI's key activities and maintains ABMI's information platform, AsianBondsOnline (https://asianbondsonline.adb.org/), the most comprehensive source of information on regional bond markets.

Figure 1. Bond market size in emerging East Asian economies



RHS = right-hand side.

Note: Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Source: *AsianBondsOnline*. https://asianbondsonline.adb.org/ and *AsianBondsOnline* estimates.

Foreign holdings in emerging East Asian bond markets

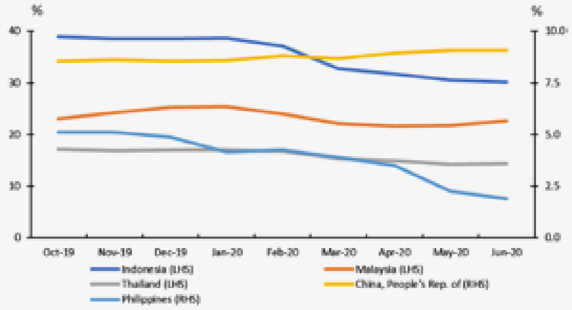
Foreign holdings in most emerging East Asian bond markets declined sharply in March and April but have stabilized since May. Heightened risk aversion during the March market turmoil led to a drop in foreign holdings of local currency bonds for most emerging East Asian economies. The Indonesian local currency government bond market witnessed the largest decline in foreign holdings, from 38.6% at the end of December 2019 down to 32.7% by end of March. The corresponding figures for the Malaysian and Thai local currency government bonds also dropped, from 25.3% and 17.0% as of end of December 2019 to 22.2% and 15.3% by end of March, respectively. Meanwhile, foreign holdings in the PRC market remained stable (Figure 2).

In Indonesia, where foreign holdings declined in Q1, domestic institutions such as banks increased their share of holdings in domestic bond markets from 21.1% at the end of December to 33.3% by end of June. Other types of domestic institutions (including central bank and government) increased their holdings in Thailand and Malaysia.

With improved sentiment, foreign portfolio investment gradually stabilized after substantial outflows in March. Foreign portfolio investment in both equity and debt markets witnessed outflows starting in February, with outflows from equity markets peaking at $11.2 billion in the week of March 13. Outflows from debt markets peaked at $4.1 billion in the week of March 20 (Figure 3).

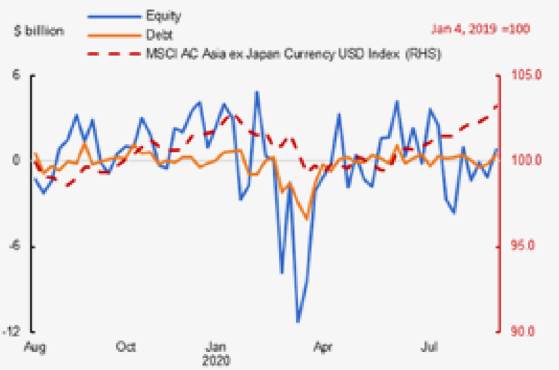
As financial markets stabilized in late March, portfolio outflows slowed and started to return in May. Between June and August, cumulative portfolio investment in major Asian equity and debt markets reached $5.7 billion and $2.4 billion, respectively. Meanwhile, emerging Asia currencies depreciated around late March but have strengthened since June.

Figure 2. Foreign holdings of local currency government bonds in emerging East Asian markets



LHS = left-hand side, RHS =right-hand side.
Source: *AsianBondsOnline*. https://asianbondsonline.adb.org/

Figure 3. Foreign portfolio investment in select emerging East Asian financial markets



MSCI AC = Morgan Stanley Capital International All Country, RHS = right-hand side, USD = United States dollar.

Note: Total equity flows includes economies of China, P.R.; Indonesia; Philippines; Republic of Korea; Thailand; and Viet Nam. Total debt flows include economies of Indonesia, and Thailand only.

Source: Institute of International Finance Capital flow tracker database (accessed 31 August 2020)

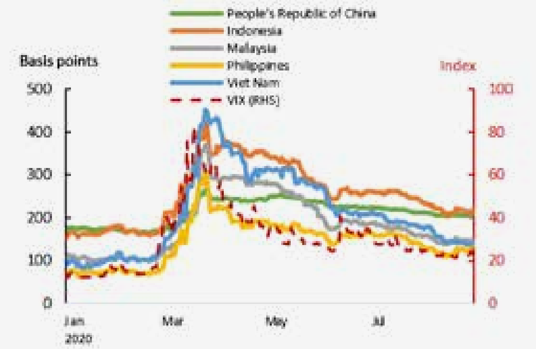
With improved sentiment, foreign portfolio investment gradually stabilised after substantial outflows in March.

Recent market dynamics

Risk appetite soured in the first quarter but has partly recovered since April. The spread of COVID-19 around the world and the oil price crash shook financial markets in March. The JP Morgan Emerging Markets Bond Index–Global (EMBIG) sovereign spreads of four ASEAN markets (Indonesia, Malaysia, the Philippines, and Viet Nam) and the People's Republic of China (PRC) widened amid the March turmoil, with average bond spreads in these markets jumping to 364 basis points (bps) on 23 March, the largest increase this year (Figure 4). The Chicago Board Options Exchange Market Volatility Index (VIX) also climbed from an average of 13.7 points in January to an average of 57.2 points in March. Financial markets started to stabilize in April, supported by the introduction of fiscal stimulus packages, accommodative monetary policies, and pandemic containment measures. By the end of August, average bond yields spread narrowed to 171 bps and the VIX dropped to 26.4 points. However, risk sentiment has not yet recovered to pre-pandemic level. As of 31 August, the average bond yield spread for four ASEAN markets and PRC remained 48 bps above the pre-pandemic levels of 2 January.

To maintain financial stability and mitigate the impact of COVID-19, most major central banks in emerging East Asian markets cut interest rates at least twice this year, releasing abundant liquidity into the financial sector and lowering borrowing costs in the markets. Lower interest rates across the region also contributed to lower government bond yields in most emerging East Asian markets since the market turmoil in March. The Philippines, which saw the biggest cumulative rate cut since January, by 175 basis points, also saw the biggest drop in yields from March levels. By 31 August, government bond yields in most emerging East Asian markets fell below their December 2019 levels (Figure 5). At the end of Q1, in a few smaller regional bond markets, government bond yields were higher than in December 2019 despite policy rate cuts. This points to the importance of financial market depth in stabilizing asset prices.

Figure 4. Bond yield spreads and volatility index, selected Asian economies



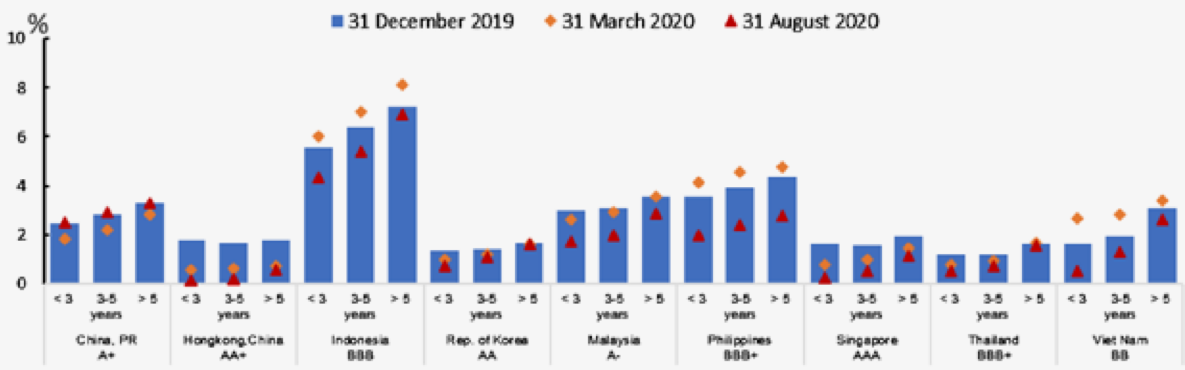
Notes:

1. JP Morgan Emerging Markets Bond Index Global (EMBIG) sovereign spreads were used for bond yield spreads.

2. Chicago Board Options Exchange Volatility Index was used for volatility index.

Source: Bloomberg LP (accessed 31 August 2020).

Figure 5. Government bond yield in major emerging East Asian markets



Notes: 1. Government bond yields are based on average yields of each maturity bucket.
2. S&P Global Rating is used for the sovereign rating classification.
Source: Bloomberg LP (accessed 01 September 2020).

Donghyun Park, *Principal Economist,* **Shu Tian,** *Economist,* **Mai Lin Villaruel,** *Economics Officer, Economic Research and Regional Cooperation Department, Asian Development Bank*

Summary of practical initiatives by ICMA

Primary markets

1 *MiFID II/R and investor protection*: ICMA is working with its members on primary market aspects of the AFM's 27 August MiFID II/R review, and seeking to follow co-legislator discussions of the Capital Markets Recovery Package in respect of MiFID II/R. ICMA also responded to an FCA consultation on speculative illiquid securities.

2 *Capital Markets Union (CMU):* ICMA worked on primary market aspects of ICMA's response on 30 June to the European Commission's consultation on the final report of the High-Level Forum on CMU and is reviewing the European Commission's new CMU Action Plan published on 24 September.

3 *Prospectus Regulation:* ICMA responded to the Prospectus Regulation-related questions (among others) in the European Commission's consultation on a new renewed sustainable finance strategy and the FCA's consultation CP20/3 on climate-related disclosures; and is considering questions relating to ESG-related disclosure more generally. ICMA has also liaised with ESMA and national regulators as well as members on new requirements relating to machine-readable data.

4 *Bank recovery and resolution:* The ICMA Legal & Documentation Committee and European Repo and Collateral Council submitted a joint response to the EBA's consultation relating to contractual recognition of resolution stay powers under Article 71a of BRRD. ICMA continues to discuss the implications of these new requirements with members.

5 *Deal announcement and new issue processes:* Following discussions among buy-side and sell-side market participants on new issue processes, ICMA has updated the form of deal announcement in the ICMA Primary Market Handbook.

6 *Book updates:* Following discussion in the ICMA Primary Market Practices Committee, ICMA has published a basis for book updates in the Primary Market Handbook.

7 *Stabilisation:* Following the implementation of MAR, ICMA has published updated stabilisation materials in the ICMA Primary Market Handbook.

8 *Post-trade:* ICMA is working on the primary market implications of various emerging post-trade initiatives, including: the ECB AMI-SeCo Collateral Management Harmonisation Task Force consultation on corporate action harmonisation; EDDI; and reforms to the ICSD syndicated closing process following CSDR implementation.

9 *Primary markets technology directory:* ICMA's directory covers existing and emerging platforms and technology solutions in primary markets and was initially launched in December 2018. It is reviewed regularly and the latest update was published at the beginning of October. The purpose is to help inform ICMA members and thereby create greater transparency. The directory is available on ICMA's website.

10 *Primary markets and Brexit:* ICMA is considering the changes that will be required to its Primary Market Handbook to reflect the end of the transitional phase of the UK's departure from the EU.

11 *ECP documentation:* ICMA has published an updated suite of ECP documentation in its Primary Market Handbook.

Secondary markets

12 *The European Investment Grade Corporate Bond Secondary Market and the COVID-19 Crisis:* On 28 May, ICMA published this report, prepared by Andy Hill with the ICMA Secondary Market Practices Committee, on how the European investment grade corporate bond secondary market performed during the COVID-19 crisis. The report has been shared with a broad range of regulators, who have responded with keen interest.

13 *CSDR mandatory buy-ins:* ICMA has written to the European Commission and ESMA outlining industry concerns relating to timely implementation of the CSDR mandatory buy-in provisions. The letter highlights the ongoing lack of regulatory clarification required by the industry to facilitate successful implementation, as well as asking the authorities to review the design and application of the buy-in framework in the light of recent market events.

14 *CSDR cash compensation:* A briefing note outlining the deficiencies identified in the CSDR provisions for cash compensation in the case of bond markets, as well as highlighting some of the potential market solutions under discussion, including the significant challenges associated with these, has been produced in conjunction with the ICMA dedicated CSDR Cash Compensation Workstream, part of ICMA's CSDR Settlement Discipline Working Group.

15 *CSDR buy-in agents*: ICMA has prepared a briefing note outlining the implementation challenges stemming from the CSDR requirement to appoint a buy-in agent at the start of the buy-in process. The concern is that there will not be an adequately developed market structure to support the buy-in process following go-live.

16 *ICMA Secondary Market Rules & Recommendations (SMR&Rs):* ICMA is in the process of finalising a member consultation framework for updating its Buy-in and Sell-out Rules (part of the ICMA SMR&Rs) to align with and support implementation of the CSDR mandatory buy-in provisions.

17 *Consolidated tape for EU bond markets:* ICMA has published a report into considerations surrounding the establishment of an EU consolidated tape for bond markets. This report was prepared in response to a request from DG FISMA in the European Commission for a bespoke study assessing the feasibility of implementing a consolidated tape for EU post-trade raw bond data.

18 *Transparency and liquidity in the European bond markets*: ICMA has finalised a discussion paper that explores the interaction between bond market transparency and liquidity, which builds on recent work undertaken by the SMPC and the MIFID II/R Working Group.

19 *ICMA Secondary Markets Newsletter:* ICMA has launched a new Secondary Markets Update which provides a quick summary of ICMA's current initiatives and workstreams, pertinent news and regulatory updates affecting the secondary bond markets. It is to be published on a bi-monthly basis.

20 *Bond market transparency directory:* ICMA has expanded its Bond Market Transparency Directory to include pre-trade reporting obligations, in addition to post-trade obligations across multiple jurisdictions from Europe, the Americas and Asia-Pacific. The purpose of the mapping is to provide a consolidated view to compare both regulatory rules and best practice guidance on bond trade reporting transparency regimes, as well as details on reporting fields and exceptions.

21 *ETP mapping directory:* ICMA's mapping directory of Electronic Trading Platforms (ETPs) currently lists a total of 43 electronic execution venues, Order Management Systems (OMS) and information networks. It is intended to help market participants understand what execution and non-execution venues are available for cash bonds. The revised mapping is available on ICMA's website.

Repo and collateral markets

22 *ERCC Guide to Best Practice:* ICMA has published an updated version of the European Repo and Collateral Council (ERCC) *Guide to Best Practice in the European Repo Market*. The Guide had last been updated in December 2018.

23 *GMRA and CSDR mandatory buy-ins:* ICMA is in the process of developing an Annex to the GMRA to support implementation of the CSDR mandatory buy-in provisions.

24 *ESMA consultation on Clearing Solutions for Pension Scheme Arrangements:* The ICMA ERCC responded to the ESMA consultation on clearing solutions for PSAs in June 2020. The ERCC is also represented in the European Commission's Expert Group on Pension Scheme Arrangements.

25 *Updated version of ICMA's SFTR recommendations:* On 7 September, ICMA's ERCC published a third update to the ICMA *Recommendations for Reporting under SFTR*. This detailed ICMA guide has been developed by the ERCC's SFTR Task Force over a considerable period of time and was initially published on 24 February. The document aims to help members interpret the regulatory reporting framework specified by ESMA and sets out complementary best practice recommendations to provide additional clarity and address ambiguities in the official guidance.

26 *SFTR reporting go-live and follow-up:* On 13 July, SFTR reporting successfully went live. Based on feedback from members of the ERCC's SFTR Task Force, ICMA has created a log of the key reporting issues encountered by firms during the first weeks of reporting. The document has been shared with ESMA and some NCAs.

27 *SFTR public data:* All trade repositories (TRs) authorised under SFTR are required to publish, on a weekly basis, summary statistics from the previous reporting week. ICMA collects this data from the TRs, consolidates it and publishes the information in an aggregated and tabulated form on the ICMA website. The SFTR public data complements existing ICMA publications on repo, such as the semi-annual European repo survey.

28 *ESMA consultation on SFT position calculations:* On 15 September, ICMA's ERCC submitted a response to ESMA's consultation on draft Guidelines for the calculation of SFT positions by trade repositories in the context of SFTR. The response was prepared based on input provided by members of the ERCC's SFTR Task Force.

29 *Report on market conditions during the COVID-19 pandemic:* This ICMA report concluded that, while the market performed relatively well, demand for repo increased significantly during the height of the crisis in February/March and dealers' capacity to intermediate that demand was relatively constrained, limiting access to many firms that needed it.

30 *ICMA GMRA 2020 legal opinions:* The 2020 ICMA GMRA legal opinions which support the Global Master Repurchase Agreement (GMRA), the standard agreement for international repo transactions, were published on 16 April. They include a new opinion for Argentina.

31 *Netting in China:* ICMA updated members in August on recent developments in netting enforceability in the People's Republic of China (PRC). Earlier this year the China Banking and Insurance Regulatory Commission (CBIRC) communicated a draft consultation through targeted channels that (i) would clarify there is no conflict between Chinese Bankruptcy Law and close-out netting; and (ii) would provide an overview of the key steps preceding the commencement of bankruptcy proceedings against a PRC Bank. ICMA's PRC Counsel expects that in some aspects the GMRA legal opinion can be further strengthened in relation to the enforceability of close-out netting under the PRC law. ICMA will keep the membership informed as the CBIRC consultation progresses and, if appropriate, will commission an update of the PRC opinion.

32 *ECB AMI-SeCo:* The ERCC is represented on the ECB's Advisory Group on Market Infrastructure for Securities and Collateral (AMI-SeCo) and is playing an active role on its Collateral Management Harmonisation Task Force (CMH-TF).

33 *CDM for repos and bonds:* ICMA is cooperating with ISDA to extend the Common Domain Model (CDM) to include repo and, by extension, outright bond transactions. Two further workshops have been held in July and August respectively to develop a repo model for the CDM. Background information, including supporting materials from workshops and a link to a recent webinar can be found on ICMA's website.

34 *FinTech mapping directory for repo and cash bonds:* ICMA has conducted a review of the directory which currently lists over 160 solutions across 10 categories comprising collateral management, corporate actions, exposure agreement, intraday liquidity monitoring and reporting, matching, confirmation and allocation, reconciliations but also ancillary areas such as static data and SSI, workflow and communication and KYC onboarding. The latest version of the directory was published on 2 July and is available on ICMA's website.

35 *Repo trading technology directory:* In light of increasing electronification of repo markets, ICMA has conducted a mapping exercise of electronic trading platforms. In its latest revision, the scope has been extended to include all technology solutions for repo trading such as order management systems. The directory is intended to help market participants understand what execution venues and other technology solutions are available for repo trading, product scope, as well as differences in trading protocols, clearing and collateral configurations. The directory is available on ICMA's website.

36 *ICMA Asia-Pacific repo market report:* ICMA is preparing a report on developed and emerging repo markets in Asia-Pacific by jurisdiction, with summaries of regulatory landscape, infrastructure, market size and liquidity, and relevant law and regulation.

Sustainable finance

37 *European Commission's Platform on Sustainable Finance:* On 18 June, the European Commission launched a call for applications for its newly established Platform on Sustainable Finance. This will be an advisory body composed of 57 members from the private and public sector. Its main mandate will be assisting the Commission in the further development of the EU Taxonomy. With the support of the GBP ExCom, ICMA submitted its candidacy within the deadline of 16 July. On 1 October, Nicholas Pfaff was subsequently appointed representing ICMA as a Member of the European Commission's Platform on Sustainable Finance.

38 *European Commission consultation on the Renewed Sustainable Finance Strategy*: ICMA submitted its response on 15 July with input especially of the GBP ExCom, the Sustainable Finance Committee, the CIF, the AMIC and the LDC. ICMA confirmed among other things its support for the recommendations of the Commission's TEG on Sustainable Finance regarding the proposed EU GBS. It identified concerns on the usability of the EU Taxonomy in relation to some of its aspects such as the Do No Significant Harm (DNSH) requirements and the minimum safeguards. It also advised against the Commission developing product labels for social bonds and sustainability-linked bonds, and against the introduction of new requirements for green bonds into the Prospectus Regulation at this point in time.

39 *Sustainable finance market development in Asia:* ICMA assisted Bank of China to produce a Chinese translation of the influential Sustainable Finance High Level Definitions as well as the new Sustainability-Linked Bond Principles. ICMA has also recently consulted with national regulators in Singapore, India, and Indonesia on potential national taxonomies (the EU Taxonomy Regulation and disclosure requirements are also being watched closely and will likely be influential outside China, which already has a well-developed taxonomy). In southeast Asia, ICMA continues to work closely with the ASEAN Capital Markets Forum and national securities regulators on the development of sustainable finance markets, following the publication of ASEAN green and social bond standards that are based on and aligned with the Green and Social Bond Principles.

Asset management

40 *AMIC podcasts on the response to COVID-19:* ICMA has continued to stream a series of fortnightly podcasts in which Robert Parker, Chair of AMIC, has reviewed market events in context of the COVID-19 pandemic, with a specific focus on central bank policy measures, economic data and the impact on investors.

41 *Sustainable Finance Working Group:* On 1 September, the AMIC Sustainable Finance Working Group submitted its response to the ESAs' consultation on the Sustainable Finance Disclosure Regulation (SFDR). In its response, AMIC highlighted several challenges with the implementation measures proposed by the three European authorities, including both firm and product disclosure requirements and urged that the application date of the SFDR should be postponed.

42 *Leverage in AIFs:* On 1 September, the AMIC Risk Management Working Group submitted its response to the ESMA consultation on guidelines for NCAs when they consider potential financial stability risk associated with leverage in AIFs. The response recommends focusing on funds with substantial leverage first; suggests that funds should be analysed individually and not in groups; and argues that implementation of the guidelines should not lead to additional reporting by asset managers.

43 *Research:* On 11 September, AMIC submitted its response to the EC consultation on investment research. The response explains that partially reviewing unbundling rules will not contribute to reviving SME research to a meaningful extent, as a majority of members would not in practice be able to make use of the options proposed by the EC. AMIC therefore recommends that the EC considers other policy options to support SME research and funding in the context of post-COVID recovery (free-trial and issuer-sponsored research).

44 *AIFMD* review: The AMIC Risk Management Working Group is discussing the upcoming AIFMD review in the context of the recent ESMA letter on this matter.

Transition to risk-free rates

45 *Official sector sponsored working groups:* ICMA continues to participate in the Working Group on Sterling Risk-Free Reference Rates (and to chair the Bond Market Sub-Group), the Working Group on Euro Risk-Free Rates and the National Working Group on Swiss Franc Reference Rates. ICMA is also in regular contact with the ARRC FRN Group in the US and national working groups in Asia.

46 *Tough legacy proposals:* ICMA has engaged with various official sector contacts and members in relation to the "tough legacy" proposals put forward by authorities in the US, the EU and the UK.

47 *IBOR Transition Guide for Asia:* ICMA, together with APLMA, ASIFMA and ISDA, published an *IBOR Transition Guide for Asia* on 13 July.

48 *Communication with members:* ICMA continues to keep members up-to-date on its work on the transition to risk-free rates via a dedicated webpage, the ICMA Quarterly Report, regular ICMA committee and working group meetings and emails to the ICMA Benchmark Group.

49 *Coordination with other trade associations:* ICMA continues to participate in regular calls of the Joint Trade Association LIBOR Working Party established by the LMA, as well as regular calls of the APAC Benchmark Working Group established jointly by ICMA, ASIFMA, ISDA and APLMA.

FinTech in capital markets

50 *FinTech Advisory Committee (FinAC):* ICMA's FinAC held its fourth meeting on 16 July, bringing together front office, middle/back office, legal and technology expertise across ICMA's core areas. On the agenda were an update by the BIS Innovation Hub on its current priorities in relation to FinTech trends, new initiatives and standardisation in secondary bond markets, and the Barclays White Paper, *Industry Adoption Scenarios for Authoritative Data Stores using the ISDA Common Domain Model (CDM)*, which was published on 13 July 2020.

51 *ECB FinTech Task Force:* ICMA, through the ERCC Ops Group, continues to be represented on the ECB's FinTech Task Force, a sub-group of the AMI-Pay and AMI-SeCo, following the renewal of its mandate and extension to payments. ICMA contributes, for example, to the mapping exercise of post-trade technology solutions, as well as the report on tokenisation of securities in a DLT environment.

52 *Bank of England Data Collection Review Wholesale Working Group:* ICMA is represented on the Bank of England's newly established Data Collection Review Wholesale Working Group. The purpose is to contribute to the transformation plan for data collection from the UK financial sector over a 5-10 year horizon. The second meeting was held on 14 September, and the next meeting is due in the second half of October.

53 *DLT regulatory directory:* ICMA has updated its DLT regulatory directory with several new regulatory and legislative developments, national blockchain initiatives, publications and consultation papers. The directory was initially published in December 2019 and seeks to provide a non-exhaustive overview of recent DLT regulatory guidance, legislative initiatives, as well as related strategy papers and publications in selected jurisdictions across Europe, North America, and Asia-Pacific.

54 *European Commission consultation:* ICMA submitted by the deadline of 26 June its response to selected aspects of the European Commission's consultation on a new digital finance strategy for Europe/FinTech Action Plan.

55 *Joint Trade Association letter:* ICMA, along with ISDA and other trade associations have jointly submitted a letter to policy makers asserting their commitment to defining and promoting the development of a digital future for financial markets. The letter sets out a series of principles and objectives across three core areas – standardization, digitization and distribution – in order to increase efficiencies, reduce complexity and lower costs.

56 *Fintech Newsletter:* ICMA has launched a new FinTech Newsletter which provides a quick summary of ICMA's cross-cutting technology initiatives across its key market areas. It also provides insights into regulatory updates, consultation papers, news and other publications, and upcoming meetings and events. It is published on a 4-6 weekly basis, depending on content load.

Other meetings with central banks and regulators

57 *FSB/ICMA Regulatory Policy Committee (RPC):* Eva Hüpkes, Head of Regulatory and Supervisory Policies, FSB, joined the ICMA RPC virtual meeting on 17 September for a discussion.

58 *German Ministry of Finance/ICMA Secondary Market Practices Committee:* A representative of the German Ministry of Finance is due to join the virtual meeting on 15 September.

59 *Bundesbank/ICMA:* A small group of ICMA Board and Committee Chairs held another meeting with Dr. Sabine Mauderer, Executive Board member of the Bundesbank, and colleagues, on 29 June.

60 *Other official groups in Europe:* ICMA continues to be represented, through Martin Scheck, on the ECB Bond Market Contact Group and on the ESMA Securities and Markets Stakeholder Group; through Nicholas Pfaff on the European Commission Platform on Sustainable Finance; through Charlotte Bellamy on the Consultative Working Group on ESMA's Corporate Finance Committee; and through Gabriel Callsen on the ECB AMI-Pay AMI-SeCo Joint Task Force on Innovation and FinTech (FinTech-TF) and the newly established Bank of England Data Collection Review Wholesale Working Group.

61 *HKMA/ICMA:* ICMA held bilateral meetings with HKMA in July and August to discuss bilateral cooperation on (i) a potential joint sustainable finance event in October, (ii) a new initiative of a joint report of Asian primary and secondary markets, and (iii) advisory on market development and capacity building particularly in secondary and sustainable markets.

62 *MAS/ICMA:* ICMA held bilateral meetings with MAS on sustainable finance and primary market in June and July to discuss (i) national standards and taxonomies; and (ii) DCM underwriting processes in Asia.

63 *ASEAN Capital Market Forum (ACMF) /ICMA:* ICMA will co-organise an event with ACMF on 21 October on regulatory initiatives to promote sustainable finance in ASEAN. Speakers include representatives from Monetary Authority of Singapore, Securities Commission Malaysia, Securities and Exchange Commission Philippines, Securities Commission Vietnam, and Asian Development Bank.


Primary Markets

by Ruari Ewing and Charlotte Bellamy

Prospectus Regulation developments

Machine readable data requirements

As reported in the Q3 2020 edition of this ICMA Quarterly Report, Commission Delegated Regulation (EU) 2019/979 under the EU Prospectus Regulation (PR) regime includes obligations on NCAs to provide certain prospectus-related data to ESMA in XML format. Following reports that certain NCAs were starting to contact issuers and other market participants about their intention to start collecting such machine-readable data later this year, ICMA contacted various national competent authorities to gather more information on the likely impact of the new data requirements for issuers and other primary market participants. It seems that the precise timing for these new requirements is not yet firm, but they could be introduced during Q4 2020.

It seems that different NCAs are expecting to take different approaches to the form in which they will require the relevant data to be submitted to them. Some may require issuers or their advisors to submit relevant data in XML format. Others may provide an online form or Microsoft Excel spreadsheet which will automatically convert the data into the required XML format. This is likely to be more straightforward for many market participants in the vanilla bond market. Regardless of the precise approach, it seems clear that issuers will be required to submit additional data to national competent authorities when they issue securities and, in some cases, when they file or submit prospectuses for review or approval. The rationale for this is understood to be to allow EU authorities to gather more data on Prospectus Regulation-related activity, which could inform EU authorities' work on a further review of the EU Prospectus Regulation in due course.

Proposed amendments under the European Commission's Capital Markets Recovery Package

As highlighted elsewhere in this Quarterly Report, the European Commission published a Capital Markets Recovery Package in the context of the COVID-19 pandemic on 24 July. One part of the package was proposed amendments to the Prospectus Regulation.

The central pillar of the proposals is the introduction of a new EU Recovery Prospectus, which is designed to facilitate certain secondary equity issues. The EU Recovery Prospectus will not be available for issuance of debt securities. The European Commission also proposed certain other targeted amendments to the Prospectus Regulation, including: (i) changes to the obligations on financial intermediaries to inform investors of certain information related to prospectus supplements and the associated period for withdrawal rights; and (ii) an increase in the threshold for the exemption from the obligation to publish a prospectus for offers of non-equity securities issued in a continued or repeated manner by a credit institution. These proposals are not expected to have a significant impact for ICMA members operating in the wholesale debt space.

European Commission CMU Action Plan

As reported elsewhere in this Quarterly Report, the European Commission published a new Action Plan for a Capital Markets Union (CMU) on 24 September 2020 and an associated Annex. There are no express references to amendments to, or a review of, the Prospectus Regulation regime (unlike the European Commission's 2015 CMU Action Plan).

There is, however, a commitment to adopt a legislative proposal in Q3 2021 to set up a "European Single Access Point" (ESAP) to provide seamless, EU-wide access to all relevant information (including financial and sustainability-related information) disclosed to the public by companies. In its preliminary thoughts of 12 June on the European Commission's High Level Forum's Final Report, ICMA noted that it recognizes the advantages of an EU-wide digital access platform for companies' public financial and non-financial information. However, in introducing the ESAP, careful consideration would need to be given to the cost/benefit analysis associated with any new requirements for companies to adopt new or more extensive use of machine-readable data in the short- term (eg in disclosures under the Prospectus Regulation). These points were expanded in ICMA's response to the European Commission's call for feedback on the High Level Forum's Final Report of 30 June, and were also reflected in ICMA's response to Q.27 and Q. 28 of the European Commission FinTech action plan consultation of 25 June.

The European Commission has stated that the ESAP will "to the greatest extent possible, build on existing EU and national IT infrastructures (databases, registers) in order to avoid adding to companies' reporting burdens". It also states that "all information will be provided in comparable digital formats". The meaning and possible impact of this is not entirely clear. The development of the ESAP is an area that the ICMA primary market community may wish to monitor as proposals are developed.

ICMA response to the European Commission's Renewed Sustainable Finance Strategy consultation

As reported elsewhere in this Quarterly Report, ICMA submitted its response to the European Commission's consultation on its Renewed Sustainable Finance Strategy on 15 July. ICMA's response to the questions related to the Prospectus Regulation (Q.25 and Q.26) noted, among other things, that it is not necessary or desirable to introduce new requirements for green bonds into the Prospectus Regulation at this point in time.

Amendments to Level 2 (convertibles and other minor corrections)

As reported in the Q3 2020 edition of this ICMA Quarterly Report, the European Commission adopted certain amendments to Level 2 of the Prospectus Regulation in June 2020. The primary purpose of the amendments appeared to be to restore the previous Prospectus Directive position on the prospectus disclosure and supplement-related requirements for certain convertible, exchangeable or derivative securities. There were also certain corrections to minor mistakes and changes to the EU growth prospectus regime (which has historically not been a core area of focus for ICMA's primary market members). These amendments were published in the *Official Journal* on 14 September as Commission Delegated Regulation (EU) 2020/1272 and Commission Delegated Regulation (EU) 2020/1273. They entered into force on 17 September 2020, although certain provisions apply from 21 July 2019. There do not appear to have been any significant changes to the European Commission's original proposal.

Although ICMA understands that the bulk of convertible/ exchangeable issuance falls outside the scope of the Prospectus Regulation, and so these changes may not have a significant impact in practice, it is expected that these changes will nevertheless be welcome for ICMA members and indeed align with informal comments made to the European Commission previously by ICMA.

ESMA annual report on EEA prospectus activity for 2019

ESMA published its annual report on EEA prospectus activity for 2019 in September 2020. It noted that the number of prospectus approvals across the EEA decreased to 3,113 from 3,390 in 2019, a fall of 8% compared to 2018, and that this decrease continues the downward trend observed since the 2008 financial crisis.

Slightly more than three quarters of approved prospectuses related to non-equity securities, with the most frequent security type being debt securities with a denomination of at least €100,000 (33%). Four national competent authorities approved two-thirds of all non-equity approved prospectuses: Ireland (24%), Luxembourg (22%), Germany (11%) and UK (10%). Around 44% of EEA prospectuses were base prospectuses.

The combined total of EU Growth and Secondary Issuance prospectuses (which were introduced under the new EU Prospectus Regulation) was 133, representing slightly more than 4% of total approvals for 2019. ESMA notes that this a promising sign considering that these document types only became available as of 21 July 2019. The figures show that these types of prospectus related to equity securities more often than non-equity securities, which is perhaps unsurprising.

Contact: Charlotte Bellamy
charlotte.bellamy@icmagroup.org

MAR review

On 24 September, ESMA published its final MAR Review report that covers *inter alia* several aspects ICMA has been engaging on. The final report follows ESMA's prior consultation, to which ICMA submitted a response in November 2019 (reported at pages 36-37 of the First Quarter 2020 edition of this Quarterly Report).

Regarding the concept of inside information, ESMA concluded in its report that the definition is sufficient and should remain basically unchanged. ESMA however proposed widening the definition in relation to MAR Article 7.1(d), so that inside information under that heading is constituted not just in relation to persons charged with order execution. ESMA also noted it stands ready to issue guidance on the definition of inside information (on specific scenarios, as a first step, that could enhance clarity on concrete and recurring issues and so may assist issuers). Distinctly, ESMA concluded no amendments are necessary to MAR in relation to delaying the disclosure of inside information (noting again in this respect ESMA's willingness to provide guidance on the definition of inside information).

Regarding pre-hedging (which can occur in the context of new bond issuance), ESMA noted it was not possible to conclude generally on its legitimacy, but again proposed to accede to requests for guidance. In this respect, ESMA noted three points that it would like to further develop in more comprehensive guidance:

(a) that pre-hedging should constitute a risk-management tool, to contain the exposure deriving from possible orders for which an RFQ has been submitted and should be designed to benefit the client in connection with the relevant orders and any resulting transactions;

(b) the context of RFQs concerning illiquid instruments;

(c) that compliance considerations arise under both MAR and MiFID II/R (with ESMA intending to further consider the broader context of order optimisation in market makers' and brokers' strategy, of market rules and of market impact).

Regarding (c), ESMA already identified some factors to consider when assessing if specific pre-hedging poses market abuse / conduct risks – namely whether (i) (on a case by case basis) clients clearly request, or are made aware of and consent to, pre-hedging, (ii) any pre-hedging benefit is passed to the client, (iii) reasonable steps are taken to minimize pre-hedging impact on the market and (iv) the client is informed how the pre-hedging has impacted execution of their transaction. Fulfilling all four factors would be a significant shift from current market functioning (but ESMA might merely be flagging them ahead of further guidance).

Regarding pre-sounding, ESMA acknowledged different readings of the regime's current enforceability (ICMA's response had raised this) and consequently proposed MAR be amended to clarify that MAR's Article 11 requirements are indeed obligatory (and not just a safe harbour), including provision for mandatory (rather than voluntary) national sanctioning powers. ESMA also proposed to amend the definition of pre-sounding to clarify that the regime applies not only where a transaction announcement follows the interactions concerned. It otherwise decided specific cases not be excluded from the regime's scope, noting negotiation/offering is already outside of definition following the recent SME listing package. (Many considered this was the case even before that.) In terms of simplifying the regime's procedural provisions, ESMA proposed:

(a) where no inside information is communicated, (i) that no prior consent be required from the market sounding recipient (MSR) to receive inside information, (ii) that no related prohibition/ confidentiality warnings need be given and (iii) that no further notice be required regarding information assessed as no longer being inside information – however these provisions might have already seemed to be intrinsically inapplicable;

(b) where inside information is communicated, (i) that no further notice be required regarding information assessed as no longer being inside information where the transaction is publicly announced, (ii) that where recording facilities are not available, written minutes agreed and exchanged via email or other electronic means suffice without a more formal exchange of signatures and (iii) that follow-up discussions can be covered by the initial pre-sounding warnings;

(c) in both cases, an ESMA power to amend its *Guidelines on Persons Receiving Market Soundings* to add recommendations specific to different MSRs (being "natural and legal persons, regulated and non-regulated entities, SMEs and large cap issuers").

Regarding insider lists, ESMA *inter alia* proposed (i) to maintain detailed information requirements (phone numbers, addresses etc), seeing such lists as serving a forensic investigation purpose (and not just as an evidentiary purpose), (ii) that insider lists' covering of effective/actual access to inside information could be managed by providing this be "to the best of [the list compiler's] knowledge", (iii) that service providers technically not acting on an issuer's behalf/account also need to keep their own lists and (iv) that issuers do not have to centralise the insider lists of persons acting on the issuer's behalf/account.

Regarding closed periods, ESMA proposed they not be extended, from persons discharging managerial responsibilities (PDMRs), to issuers (having concluded that on balance the benefits of extension did not justify the risks).

ESMA acknowledged certain other points, not specifically consulted on, that were raised (noting it will assess their merit), including (i) the scope of the buy-back safe harbour, (ii) implications of MAR's scope extension to MTFs, (iii) the risk of additional costs to market participants and (iv) the need to consult on any proposals not covered in ESMA's prior consultation. These points were raised in ICMA's response, but ESMA did not seem to acknowledge other points raised in ICMA's response regarding (i) bull market conditions arguably masking the full impact of the implementation of MAR, (ii) there having been no ESMA feedback on ICMA's 2014 proposed improvements to the stabilisation safe harbour or (iii) the potential value in ESMA's Market Integrity Standing Committee having its own consultative working group. ESMA also noted it may consider whether non-disclosure of inside information should be characterised as market manipulation.

It will be for the European Commission to consider ESMA's proposals in terms of legislating any changes to MAR under the review. ICMA is considering the implications of ESMA's final report with its members (including in terms of the practicability or otherwise of ESMA's proposals such as those on pre-hedging and pre-sounding). ESMA's conclusions at least on the enforceability of the pre-sounding regime are likely to be disappointing, to the extent they add additional administrative burdens and further disincentivise pre-sounding even where it is clear no inside information is involved – rather than "encourage" it, in line with ESMA's view of the regime's purpose. ICMA will generally continue to engage on the next steps of the review as they unfold.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

The CMRP: MiFID II/R product governance

On 24 July, as part of its Capital Markets Recovery Package (CMRP), the European Commission published a proposal for amendments to MiFID that *inter alia* touches on the scope of MiFID II/R's product governance (PG) regime. The Commission's proposal in this respect is for "corporate bonds with make-whole clauses" to be excluded from the regime, with the Commission separately acknowledging a "need [for this] to be complemented by a clear rule" that a make-whole provision does not of itself make such corporate bond instruments "packaged" under PRIIPs.

There has indeed been substantial debate about whether instruments with certain terms (make-whole provisions notably) are indeed packaged and so require a KID (if being made available to EEA retail investors), or whether they are part of the simpler, non-packaged, universe of instruments not so subject (see *inter alia* #3-7 in ICMA's September 2018 response to an FCA consultation, the ESAs' 19 July 2018 letter under *"callable"* and BaFiN's 22 August 2019 statement at #4). Since all MiFID II/R instruments are anyway within scope of the PG regime, a different debate has previously occurred in that respect. That is whether the PG regime should apply at all to bonds (or at least "non-complex" bonds if more legislatively expedient) and also that applying it to professional investors seems pointless practically (see *inter alia* ICMA's 15 May response to the Commission's MiFID review consultation reported at pages 37-38 of the 2020 Third Quarter edition of this Quarterly Report).

An explanation for the Commission's proposal to exclude corporate bonds with make-whole clauses from the PG regime might then be that it is a stepping-stone to a matching exclusion from the PRIIPs regime. In this respect, however, it would seem illogical not also to exclude even simpler products from the scope of the PG regime (bearing in mind also that such instruments can be sold on an execution-only basis, with PG target market definitions thus being arguably inconsequential). One might thus provide that the PG regime excludes non-complex instruments (an established MiFID concept and thus expedient), together with any instruments that would be non-complex but for the inclusion of a make-whole clause. One could even exclude, on a more conceptual and less instrument-specific basis, any instruments that would be non-complex but for the inclusion of terms that do not affect (adversely) the instrument's expected return (ie the contractual right to return of principal consistent with, or more than, the original amount invested and, if applicable, a contractual right to regular payments of interest that are not deferrable). It is intrinsic that such instruments raise no additional risks that are difficult to understand.

At the time or writing, EU Member States were reportedly also debating potentially widening the Commission's proposed exclusion. And the European Parliament's *rapporteur* had suggested, in his draft report (at amendments #3-#5 on pages 7-9), that the scope of the PG regime exclude *inter alia* non-complex bonds admitted to regulated markets, equivalent markets and MTFs.

This would however leave out bonds with make-whole clauses, since callable bonds are characterised as complex under ESMA's February 2016 *Guidelines on Complex Debt Instruments and Structured Deposits*.

ICMA will continue to follow and, as appropriate, engage in this dossier as it develops.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

FCA retail protection: speculative illiquid securities

On 1 October, ICMA submitted a response to the FCA's consultation, *High-risk Investments: Marketing Speculative Illiquid Securities (including Speculative Mini-bonds) to Retail Investors*.

The consultation suggested, *inter alia*, extending the FCA's existing "speculative illiquid securities" ban to illiquid "readily realisable securities". This would cover securities admitted to a UK or EEA regulated market (with Prospectus Regulation disclosure) where such securities (i) are "not regularly traded on or under the rules of such [regulated market]" and also (ii) are "speculative illiquid securities" (in "low/retail" denominations under £100,000 and effectively involving third-party lending, investment or real property).

ICMA's response raised scope issues relating to (i) distinguishing the "syndicated/flow bond markets" and clarifying the meaning of "not regularly traded"; (ii) ensuring consistency in relation to securities "expected to be admitted" to trading; (iii) exempting charity/municipal pass-through funding; (iv) clarifying incidental/provisional cash "carry" as unaffected and (iv) avoiding exchange rate risk.

Distinctly, the FCA published a call for input, *The Consumer Investments Market*, with a 15 December deadline. ICMA will consider this further, including whether to respond.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

New issue practices: AFM, IOSCO, ASIC and Credit Roundtable

On 27 August, the Dutch Authority for the Financial Markets (AFM) published *A Review of MiFID II and MiFIR: Impact on the Fixed Income and Derivative Markets*. Though mainly focused on secondary trading, this report included a suggestion that standardisation in primary markets (incentivised by simplified prospectus requirements) might be a solution to secondary market illiquidity and so improve the efficacy of MiFID's (public) trade reporting regime. However, the description of primary markets in the report does not, in many respects, reflect Eurobond market workings at least and might perhaps be mainly referencing other market segments. ICMA is in any case due to liaise with the AFM on the content of the report.

On 21 September, the International Organization of Securities Commissions (IOSCO) published its Final Report on conflicts of interest and associated conduct risks during the debt capital raising process. The Final Report follows ICMA's February 2020 response to IOSCO's December 2019 Consultation Report, reported at page 37 of respectively the Second Quarter 2020 edition and First Quarter 2020 edition of this Quarterly Report. IOSCO's guidance in the Final Report is relatively unchanged from what it proposed in the Consultation Report, mainly adding a new measure regarding managing conflicts in the context of securing mandates. This seems likely to have stemmed from the UK Financial Conduct Authority (FCA) having issued a 28 April "Dear CEO" letter *Ensuring Fair Treatment of Corporate Customers Preparing to Raise Equity Finance*. Though conflict rules such as those under the EU's MiFID regime apply throughout underwriting activity anyway, it seems odd that an apparently egregious, one-off, case of conduct in the UK equity capital markets context should result in a last minute amendment to worldwide guidance on debt capital markets. Media reports have noted some element of confusion here (Global Capital 19 May *Bankers Baffled by FCA's Intentions in Ancillary Business Probe*, Financial Times 18 May *Banks Probe Sales Push Linked to Corporate Loans*) with some wondering whether this is more a case of complaints emanating from smaller competing players. (The FCA was reported to have promised it would return to the matter after the peak of the coronavirus crisis.) In any case, the Final Report included no apparent disagreement with the points set out in ICMA's response (including ICMA's understanding that IOSCO's guidance was not intended to suggest a re-opening of current EU or US rules in this area).

In a parallel development on 22 September, the Australian Securities and Investments Commission (ASIC) published *Allocations in Debt Capital Market Transactions*, a report covering allocations and related aspects of bookbuilding execution, outlining better practices that "also align with" IOSCO's final report.

In a private sector development on 17 August, the US-based Credit Roundtable published an *Investment Grade Primary Best Practices Framework* that seems to echo aspects covered by ICMA's AMIC community (see for example page 41 of the Third Quarter 2018 edition of this Quarterly Report) and otherwise to be US-specific.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

ICMA Primary Market Handbook updates

On 21 August, the ICMA Primary Handbook was updated with amendments to:

(a) Chapter 9, *Stabilisation:* Deletion of the notice of impending changes under the Market Abuse Regulation (MAR) and amendment of Recommendation R9.3 pursuant to the implementation of MAR;

(b) Appendix A5a, *Deal announcements:* Condensation of the contents to fit better on trading screens and inclusion of prospectus hyperlink placeholders; and

(c) Appendix A15, *Stabilisation materials:* Re-insertion of content updated for (i) implementation of MAR, (ii) UK FCA Handbook MAR2.4 repeal (pending its re-introduction), (iii) implementation of the Prospectus Regulation, (iv) the end of the Brexit transition period and (v) minor re-arrangements.

On 6 October, the ICMA Primary Handbook was updated with amendments to:

(a) Chapter 5, *Bookbuilding and launch* – Insertion of a new time 5.13A to enable a form of public clarification for the basis of a disclosure of book status that bookrunners can choose to incorporate into such book disclosure by way of a convenient, short-form cross-reference to the ICMA Primary Market Handbook. (Different approaches might be appropriate in some regional market segments with differing local conditions/dynamics and the ICMA Primary Market Handbook might be further updated in this respect);

(b) Appendix A7, *ECP documentation for investment grade issuers* – (i) Updating of the interest provisions and associated endnotes in the Standard Form of Multicurrency Bearer Permanent Global Note in the context of LIBOR cessation; (ii) Inclusion of language relating to the MiFID II product governance regime and Article 55 of the BRRD and drafting notes for other regulatory developments such as the EU Blocking Regulation, German Foreign Trade Regulation and the US QFC Stay Rules; and (iii) Inclusion of other minor changes to reflect developments in market practice or to refine drafting, such as allowing the service of notices by email, including placeholders for issuer and guarantor LEIs and reflecting changes to the legal names of rating agencies and clearing systems.

The relevant amendments can be accessed on the ICMA Primary Market Handbook's Amendments/archive webpage.

Contacts: Ruari Ewing and Charlotte Bellamy
ruari.ewing@icmagroup.org
charlotte.bellamy@icmagroup.org

Primary markets technology directory

In light of a rapidly expanding competitive marketplace, ICMA has conducted a review of its primary markets technology directory and published its third edition. It was initially launched in 2018, and seeks to compare the key features and capabilities of technology solutions available to automate all or part of the process of issuing debt securities. The directory now references a total of 35 technology solutions, up from 28 in last year's review.

This unique directory comprises new technology offerings, as well as new features of previously included solutions. It helps compare the different solutions and understand whether they are aimed at underwriters, investors, issuers or others, at what stage of the issuance process they can be utilised, the scope of debt instruments and supported issuance methods. The latest edition also includes a new search filter to identify solutions more easily based on product focus.

This initiative complements ICMA's directories of electronic trading platforms, repo trading technologies, as well as FinTech solutions for repo and cash bond operations.

The directory does not constitute an exhaustive list of providers in the market. Relevant providers that are not yet covered by the mapping directory and wish to join are very welcome to do so.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

Secondary Markets

by Andy Hill and Elizabeth Callaghan

CSDR mandatory buy-ins

Background

The implementation of the Settlement Discipline provisions of the CSD Regulation (CSDR-SD), in particular the mandatory buy-in (MBI) regime, remain a priority issue for ICMA's members, both buy-side and sell-side, active in the European bond and securities financing markets. Members' concerns include preparedness for compliance, practical challenges related to implementation, and the expected adverse impacts for market pricing and liquidity.

ICMA's work related to CSDR-SD is coordinated through the dedicated CSDR-SD Working Group (consisting of fixed income and repo traders, operations experts, as well as compliance officers), under the umbrella of the Secondary Market Practices Committee, and also through the CSDR Legal Workstream, which is a sub-group of the ERCC Legal Working Group (which is made up primarily of lawyers).

Recent developments

10 July 2020: Deadline for ESMA Survey on Topics for the CSDR Review

ICMA submitted a response focused specifically on CSDR-SD and MBIs. ICMA proposed that the authorities suspend implementation of the MBI regime subject to a detailed market impact assessment. In the meantime, it should implement the cash penalty regime and recalibrate this as appropriate in response to ongoing monitoring and evaluation of settlement efficiency across different asset classes.

24 August 2020: Postponement to CSDR-SD until February 2021 published in the Official Journal

The Commission Delegated Regulation (EU) 2020/1212 amending Delegated Regulation (EU) 2018/1229 to postpone the application of the CSDR settlement discipline regime until 1 February 2021 is published in the *Official Journal*.

28 August 2020: ESMA publishes amending draft RTS *delaying CSDR-SD to February 2022*

This followed an announcement by ESMA on 28 July 2020. In its final report, ESMA cites the reason for the postponement as being "the severe impact of the COVID-19 pandemic on the overall implementation of regulatory and IT projects by CSDs and their participants, as well as by other financial market infrastructures, it appears that it would be extremely difficult for these market stakeholders to comply with the requirements of the RTS on settlement discipline by 1 February 2021." The postponement is subject to European Commission approval, followed by a three-month non-objection period for the European Parliament and Council.

Implementation in the international bond markets

ICMA has prepared a draft consultation paper outlining a number of revisions to its Buy-in Rules (part of the ICMA Secondary Market Rules & Recommendations) to support implementation of the MBI requirements in the international bond markets. It is intended that the revised Rules provide members and other industry users with: (i) a contractual buy-in framework that can be initiated in the event of a settlement fail and completed before the CSDR

MBI is required; and (ii) a contractual framework to help support execution of the MBI process in the event that this is required.

ICMA, working with Clifford Chance, and in parallel with ISLA, is also in the process of developing a CSDR Annex for the GMRA to support implementation of the MBI requirements with respect to repo transactions.

CSDR review

The European Commission is expected to launch its delayed five-year review of CSDR in Q4 2020. This should include a public consultation. Despite not being in force, it is now widely expected that SD will be part of the review. ICMA views this as an opportunity to effect meaningful and constructive change to the MBI provisions, while still supporting the objective of improved settlement efficiency.

Members are very welcome to engage in this important work through the CSDR-SD Working Group.

Contact: Andy Hill
andy.hill@icmagroup.org

Axe distribution best practice standards[1]

Introduction

To some outside the fixed income trading world, the term "axe" is an odd name to use for advertising buy or sell bond interests. In equities the self-explanatory term that is used to advertise buy or sell interests is "Indication of Interest" (IOI), whereas in fixed income the term used to advertise buy or sell interests is axe. Axe originates from the phrase "axe to grind". This does not explain why this term is used in bond trading as the phrase "axe to grind" has usually meant one person having a grievance with another and seeking retribution, so they sharpen their axe in preparation. However, in bond trading the term axe has over the years come to represent a sell-side's advertisement of buying or selling interests. These interests are traditionally tied to the sell-side's book.

For many years in fixed income, and particularly in the sphere of electronic trading, there has been keen interest in axe distribution practices, noting acceptable and inacceptable axe distribution practices. In the case of substandard behaviour, it is not always intentional but sometimes a case of thoughtless practice. Through discussion, ICMA member consensus agreement and documentation, ICMA's Axe Standard Working Group (a sub-group of ICMA's Electronic Trading Council [ETC]) aims to address this situation and stabilise axe distribution practices.

Background

Today, axes are communicated both bilaterally from sell side to buy side and multilaterally through trading venues/vendors and axe networks. Both bilateral and multilateral distribution methods allow for targeting of axes. OMS and EMS systems are used to connect axes to the trade lifecycle. The "owner" of an axe is the sell side who is advertising the buy or sell bond interest.

Frequently experienced today is confusion as to what the difference is between inventory and axes. Clear guidance and definition of the differences between axes and inventory are needed in order to not mislead potential counterparties or create false markets. (See industry accepted definitions below for runs, streaming prices, axes and inventory).

With trustworthy guidance in relation to axe distribution and definitions for runs, streaming pricing, axes and inventory, the sell side can advance their product offerings in the market. The same holds true for trading venues and technology providers.

Yet, without set axe distribution standards, there will continue to be instances of misleading axes, leading to misleading market representation. Firm axe distribution standards would stop or decrease the cases of stale axes (seen widely today) and promote real-time electronic axe distribution. Surprisingly, there is still manual spreadsheet updating of axes. Solid axe distribution practices would enable the buy side to have the confidence to take advantage of auto-pricing tools and trends in electronic trading. Note: Buy sides believe manual updating of axes may still occur in emerging markets or specialist firms, after best practice is established.

The buy side has also found order management systems have improved enough in recent years to handle actionable and targeted axes. However, they strongly suggest standards need to be put in place to organise the market before actionable or targeted axes can become standard business practice in secondary bond market trading.

With set axe distribution standards, internal scrutiny in buy sides will be easier to manage. Traders will be able to provide snapshot evidence as to where and when they dealt, compared with the market at time of trade. They will not be in the position of having to justify decisions, which is occurring today.

From a buy side perspective, set standards for axe distribution will lead to more trust.

1. An ICMA Electronic Trading Council initiative

Definitions, as understood today

Many market participants believe the crux of the confusion with axe distribution is that some sell sides do not understand the difference between axes, runs, streaming prices and inventory or worse they do understand the difference but are slack in communicating those differences.

The understanding in the market today regarding axe distribution is that runs, streaming prices, axes and inventory have different characteristics. It is those characteristics that need to be acted upon when looking to trade with potential counterparties.

For example, *Runs* are considered indicative. No size or direction is mandated with a run, they are indicative only. There is often no clear relationship to inventory, and they are often electronic but more of a scatter gun approach. Runs are often sector based.

Streaming prices however are firmer than runs. They are usually targeted based on counterparty need. The communication channel is bilateral. However, this bilateral communication can be through vendors, networks or a direct buy-side/sell-side connectivity channel set up by OMS technology providers (possibly in conjunction with network providers).

Axes (which are often used incorrectly when meaning runs or inventory) are not firm but are much firmer than runs and have a similar firmness to streaming prices. Industry view is that axe "direction" should be actionable. This is not the case today. A firm direction would demonstrate the sell side is truly keen to buy or sell and is not "phishing" or "spoofing", which is fraudulent behaviour. Axe phishing/spoofing pretends to be legitimate in order to gain information for personal profit by acting against the interests of the counterparty.

Industry preference is to encourage size, but size should not be actionable, though it is noted that some axe networks mandate size.

Axes are by far the most prominent pre-trade bond indication of interest. They often can be targeted to clients based on specific needs.

Today's bond market is increasingly seeing "*two-way axes*" advertised. However, there is preference amongst many market participants to remove 'axe' from this term and replace with it with "*two-way market*". This would reflect more accurately that this is in fact a working market indication.

Lastly, it is important to explain *Inventory*. Inventory is firm and a clear indication the sell-side has a 'position'. Similar to axes, inventory can also be targeted to specific clients.

Benefits of axe analysis

Buy sides and sell sides gain benefit from analysing axes. However, the axe analysis benefits are different from buy side to sell side. Improving axe distribution standards and creating best practice axe distribution protocols will only improve axe analysis.

The primary analysis the buy-side would like to carry out is: who stands up to their axes and who does not and how often? They would also like to see historical inventory, price slippage and which liquidity provider price improved most often. Furthermore, for liquid bonds, they would like to spot routine differences between axes and streaming prices.

Ultimately, the buy side would like to carry out analysis that will help to stop any perceived exploitation of leaked information for gain, speculative behaviour, or SPAM axe behaviour: eg LATAM axes being sent to desks that do not trade LATAM.

The sell side would like to see what specific data point drove the execution, who in the buy-side firms are looking at the axes (PM, trader, others?). The sell-side would also like to determine how the use of automated axe and pricing flow can better service their clients. In addition, they would like to further dig deeper to better understand dealer selection reasoning, in order to improve products. Finally, of critical importance is to analyse why sell-side firms might not be getting business, when the perception is the firm is doing all the right things.

Code of conduct/Guide to best practice

In order to clear up any confusion amongst bond trading market participants related to advertised bond interests, halt axe-related misleading markets, realise the benefits of axe analysis and allow axe distribution to evolve, a code of conduct or guide to best practice is needed: one that is referenceable, consequential and meets all existing regulatory obligations, such as MiFID II/R and MAR.

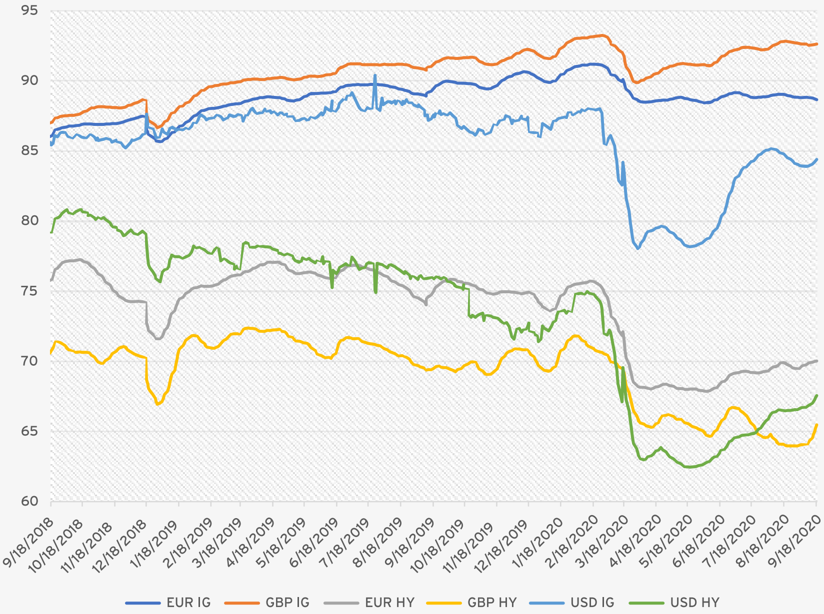
The plan is for the ICMA Axe Standards Working Group (ASWG) made up of buy side, sell side, trading venue and technology provider members to commence work this autumn to determine definitions for axe distribution and then to go further and create the axe standards code of conduct/guide to best practice. This initiative will attempt to clear up confusion and create acceptable best practices amongst buy side, sell side, trading venues and networks for axe, inventory, run and streaming price distribution.

Contact: Elizabeth Callaghan
elizabeth.callaghan@icmagroup.org

ICE Data Services Corporate Bond Market Liquidity Indicators™

Tracker indicates recovery of credit market liquidity, but gap widens between IG and HY during COVID-19 crisis.

ICE Liquidity Indicators™



Source: ICE Data Services

Commentary

Credit market liquidity across IG and HY seemed to improve throughout the last quarter, with the exception of EUR IG and GBP HY which remained largely unchanged compared to the end of the previous quarter. Generally, IG liquidity appears to be nearing 2019 levels, albeit below pre-pandemic levels in 2020. In contrast, HY liquidity across the spectrum remains subdued, well below liquidity levels throughout 2019 and 2020.

As highlighted in the previous Quarterly Report, central bank intervention across the globe clearly appears to have had a stabilising effect on corporate bank market liquidity, notably the ECB's Pandemic Emergency Purchase Programme (PEPP), the Fed's unlimited US Treasury and agency MBS bond-buying scheme, and the BoE's rate cut and purchases of UK government and non-financial corporate bonds, amongst a range of other, targeted support measures (which can be found in the Monetary Policy section of ICMA's dedicated COVID-19 information hub). However, official sector intervention does not appear to have reduced the gap between IG and HY market liquidity. This dynamic is possibly fuelled by negative market sentiment, doubts on the economic recovery and the long-term impact of the COVID-19 pandemic on the real-economy. In light of the resurgence of COVID-19, it remains to be seen to what extent monetary policy, alongside relevant fiscal policy measures, will be able to support a sustained recovery of credit market liquidity, in particular for HY.

ICE Liquidity Indicators™ are designed to reflect average liquidity across global markets. The ICE Liquidity Indicators™ are bounded from 0 to 100, with 0 reflecting a weighted-average liquidity cost estimate of 10% and 100 reflecting a liquidity cost estimate of 0%. The ICE Liquidity Indicators™ are directly relatable to each other, and therefore, the higher the level of the ICE Liquidity Tracker the higher the projected liquidity of that portfolio of securities at that point in time, as compared with a lower level. Statistical methods are employed to measure liquidity dynamics at the security level (including estimating projected trade volume capacity, projected volatility, projected time to liquidate and projected liquidation costs) which are then aggregated at the portfolio level to form the ICE Liquidity Indicators™ by asset class and sector. ICE Data Services incorporates a combination of publicly available data sets from trade repositories as well as proprietary and non-public sources of market colour and transactional data across global markets, along with evaluated pricing information and reference data to support statistical calibrations.

China: connecting interbank and exchange bond market infrastructures

By China Securities Depository and Clearing Corporation Limited (CSDC)

On 19 July 2020, People's Bank of China (PBC) and the China Securities Regulatory Commission (CSRC) released a joint announcement to build the Infrastructural Connection Mechanism (the "Connect") between the interbank and exchange bond markets, two major segments of People's Republic of China's domestic bond market. This will allow qualified investors to trade bonds across the two markets via two-way links among infrastructures. Marking a milestone in China's bond market development, the "Connect" enhances infrastructural interoperability and market integration, and ultimately benefits market participants.

Status quo of China's bond market

Amid rapid development over the past two decades, China's domestic bond market formed a "dualistic" landscape where the exchange market and the interbank market became two separate bond trading and pricing centers featuring different regulatory systems, bond types, participant profiles, and trade practices and settlement mechanisms. By the end of June 2020, the total size[2] of China's bond market reached RMB106.5 trillion (USD15.7 trillion) which includes RMB14.3 trillion (USD2.1 trillion) in the exchange bond market and RMB91.4 trillion (USD13.4) in the interbank bond market, each accounting for 13.4% and 85.8%.

Six infrastructures in China together serve these two markets. Among them, Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE) and China Foreign Exchange Trading System & National Interbank Funding Center (CFETS) provide trading venues, and the other three, China Securities Depository and Clearing Corporation (CSDC), China Central Depository and Clearing (CCDC) and Shanghai Clearing House (SCH), are responsible for post-trade services including bond registration, depository, clearing and settlement. Detailed functions of the six infrastructures are listed in the following table:

Infrastructure	Market Served	Functions
SSE	Exchange	Trading Venue
SZSE	Exchange	Trading Venue
CFETS	Interbank	Trading Venue
CSDC	Exchange	CSD, SSS, CCP
CCDC	Interbank	CSD, SSS
SCH	Interbank	CSD, SSS, CCP

In the "dualistic" landscape, registration and depository of bonds are segmented by the boundary between the exchange and interbank markets, with trading and settlement for each enclosed inside their own systems. This segmentation and the consequent inconvenience to market participants are believed to have adversely affected the development and regulatory unification of China's bond market. How to facilitate cross-market flow of bond market instruments is a problem that demands an urgent solution.

2. Measured by market value of bonds in deposit.

Exploration and prospect of the "Connect"

CSRC and PBC, as regulators of the exchange bond market and the interbank bond market respectively, have been planning and working on building the connection mechanism over past years, and market infrastructures have proactively explored frameworks for cooperation. So far, collaborative effort between CSDC and CCDC has resulted in efficient cross-market listing and cross-market transfer of custody for three types of bonds (T-bonds, Municipal Bonds and Enterprise Bonds), and investors now can transfer the custody of their bonds across the markets, so as to participate bond trades in both markets.

However, this is far from the ultimate solution to the market segmentation problem: only a relatively small portion of bonds are accepted for cross-market listing and cross-market transfer of custody, investors still must have accounts in both markets, factors that limit the benefits of this type of connection.

As seen from the table below, only a limited number of the types of bonds available in each market are accepted for cross-market listing and custody transfer:

Exchange Market	Interbank Market
*T-Bonds** *Municipal Bonds** Policy-Bank Bonds *Government-sponsored enterprise Bonds[3]** Corporate Bonds *Enterprise Bonds** Convertible Bonds Exchangeable Corporate Bonds Asset-backed Securities (ABS)	*T-Bonds** *Municipal Bonds** Policy-Bank Bonds *Government-sponsored enterprise Bonds** Central Bank Bills Commercial Bank Bonds *Enterprise Bonds** Medium Term Notes (MTN) Commercial Paper (CP) Super & Short-term Commercial Paper (SCP) Certificates of Deposit (CD) Private Placement Note (PPN) Credit Assets-backed Securities Asset-backed Securities (ABS)

(*represents the bonds accepted for cross-market listing and cross-market transfer of custody)

As China's bond market gradually matures, and cross-border connections like Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect enjoy continued success, CSRC and PBC have arranged a more holistic framework plan for the domestic bond market connection, under which the six infrastructures serve market participants cooperatively. The three trading venues will support cross-market trading, and the three CSDs will work jointly on registration, custody, clearing, settlement and principal and interest payment, etc.

The "Connect" promises better accessibility for investors to both markets through a single access point. With the long troublesome market segmentation problem solved, market participants can enjoy a panoramic market view as well as one-stop services across the entire range of onshore Chinese bonds.

As of now, all market infrastructures are working closely to promote the implementation of all programs of the "Connect", building a strong basis for further development and opening up of China's bond market.

3. A special bond issued by government-sponsored corporates.

Repo and Collateral Markets

by Andy Hill, Alexander Westphal and Zhan Chen

SFTR implementation

SFTR reporting successfully went live on 13 July. This was three months after the original start date, thanks to the delay granted by ESMA in March in response to a letter submitted by ICMA. As a result of the delay, firms in the first two phases of the staged implementation process started reporting at the same time (banks and investment firms, as well as the CCPs and CSDs).

The "go-live" itself exceeded expectations, especially compared to the experience with similarly complex reporting regimes in the past, such as MiFIR and EMIR. The first few weeks of SFTR reporting have been smooth and without any major disruptions. Acceptance rates reported by trade repositories (TRs) have been consistently high, around 95% since the beginning. All of this shows that the vast majority of firms went into the go-live well prepared and is certainly a testament to the extensive cross-industry collaboration over the past years, coordinated by ICMA on the repo side.

Following acceptance by trade repositories, the reports enter the reconciliation process, which includes the pairing of the two sides of the report and the matching of the individual reporting fields. These aspects remain more challenging, but this had been anticipated given the complexity of the reporting requirements and the sheer number of fields. There are also still some inherent issues with the reporting rules as defined by ESMA, which create significant noise in the reconciliation data and which mean that firms often struggle to fully understand and resolve reporting breaks.

ICMA's SFTR Task Force has continued to meet frequently following the go-live to review any issues brought up by the reporting. Based on feedback from members, ICMA has compiled a list of the main reporting problems encountered by firms and is working through those to understand if and how they can be resolved. The list already captures nearly 50 different reporting problems and a first version of the document has been shared with ESMA and some key national competent authorities (NCAs).

The discussions on the reporting issues also directly feed into the ongoing work on best practices, in particular the detailed *ICMA Recommendations for Reporting under SFTR*. The document was initially published on 24 February and continues to evolve. The fourth and latest edition was released on 7 September. At close to 300 pages, the document sets out detailed recommendations on over 100 issues covering all aspects of SFTR.

In terms of next steps, the industry is now gearing up to the go-live of SFTR phase 3 on 12 October which will see the start of reporting by buy-side firms. In view of the buy-side go-live, on 17 September ICMA held a virtual panel with a few key members of the SFTR Task Force who came together to discuss the lessons from the first two months of reporting. A recording of the webinar is available on the ICMA website along with the related presentation.

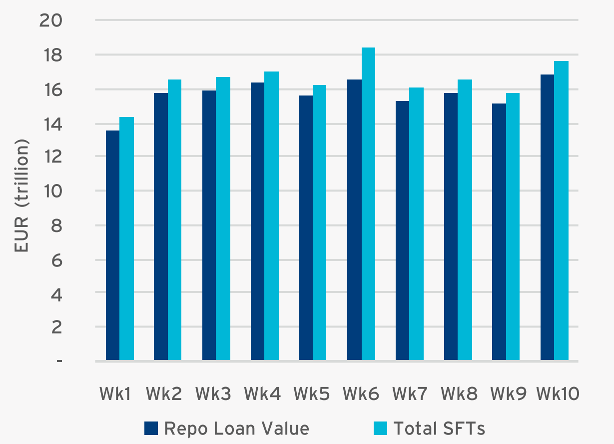
Contact: Alexander Westphal
alexander.westphal@icmagroup.org

SFTR public data

Under SFTR, authorised trade repositories (DTCC, UnaVista, Regis-TR, KDPW) are required to provide, on a weekly basis, public access to a set of summary statistics based on the transactions that have been reported to them in the previous week. ICMA collects this data from all TRs, consolidates it and publishes the information in an aggregated and tabulated form on the ICMA website. The SFTR public data complements existing ICMA publications, such as the semi-annual European Repo Survey, and further contributes to the transparency of the repo market.

In the first ten weeks of reporting under SFTR, firms reported 1.4 million new SFTs with a loan value of EUR15.7 trillion on average per week (see Figure 1). Repo (both repurchase transactions and buy/sell backs) accounted for 95% of the total in terms of loan values. Securities lending, on the other hand, is the largest market by number of transactions with an average share of around 66% of the total volume, while the share of margin lending is only relatively minor accounting for 0.02% of the total. While the loan data already provides some interesting insights, the collateral data is unfortunately not meaningful yet due to known data quality issues and inconsistencies in TRs' calculation methodology. However, as these issues are being addressed, the quality and consistency of the reported data are expected to gradually improve over time.

Figure 1. New Reported Loan Values



Contact: Zhan Chen
zhan.chen@icmagroup.org

Calculation of positions under SFTR

On 15 September, ICMA's ERCC submitted its response to the ESMA consultation on draft guidelines on the calculation of positions under SFTR, which aim to ensure consistency of position calculations across TRs. In its response, the ERCC commented on many areas of the consultation, including the timing of calculations, the scope of the data used, recordkeeping and the calculation methodologies. Among other things, ICMA recommended a more targeted approach with a focus on critical metrics from a systemic risk perspective to avoid unnecessary complexity and allow authorities to quickly analyse the data. ICMA also suggested a closer alignment between the position reports to NCAs and the relevant FSB template. Finally, the consultation was also an opportunity for ICMA to reiterate market concerns with the recent ESMA guidance to report settlement fails which is highly complex and risks misrepresenting repo contractual exposures.

Contact: Zhan Chen
zhan.chen@icmagroup.org

Guide to best practice in the European repo market

The ICMA European Repo and Collateral Council (ERCC) is the principal industry standard setting body for the European repo market. To this end, the ERCC publishes, and routinely updates, the *Guide to Best Practice in the European Repo Market*. The Guide provides recommended practices, conventions, and clarifications intended to support the orderly trading and settlement of repos.

The latest version of the Guide, published in September 2020, introduces a number of new guidelines intended to address issues that have arisen since the last publication (in December 2018) as the market continues to evolve and develop. These include best practices for the termination of open repos late in the day, the calculation of transaction exposure for forward dated trades, and defining stale prices. A summary of the updates is also available on the relevant ERCC webpage.

The ERCC will continuously review the Guide and make further updates in line with future market evolution and agreed understanding of best practice.

The ERCC also provides and maintains specific best practices for repo transaction reporting through its *Recommendations for Reporting Under SFTR*.

Contact: Andy Hill
andy.hill@icmagroup.org

Repo market regulatory developments

FSB extends implementation timelines for securities financing transactions

On 7 September 2020, the Financial Stability Board announced extensions to the implementation timelines for minimum haircut standards for non-centrally cleared securities financing transactions (SFTs), to ease operational burdens on market participants and authorities, and thereby assist them in focusing on priorities from the impact of COVID-19.The requirements will now apply from January 2023, in the case of bank-to-non-bank transactions, and from January 2025 in the case of non-bank-to-non-bank transactions.

The FSB made the following statement:

"The Group of Central Bank Governors and Heads of Supervision decided in March 2020 to defer the implementation of the Basel III framework by one year to January 2023. Since the FSB framework for numerical haircut floors for bank-to-non-bank transactions is expected to be implemented through the Basel III framework in many jurisdictions, the FSB has therefore decided to also extend the implementation dates by one year for its policy recommendations related to minimum haircut standards for non-centrally cleared SFTs. For bank-to-non-bank transactions, the updated implementation date is January 2023 (instead of January 2022). For non-bank-to-non-bank transactions, the updated implementation date is January 2025 (instead of January 2024). This is in line with the re-prioritisation of the FSB's work in light of the COVID-19 pandemic and will give market participants (both banks and non-banks) more time to prepare for the implementation of the framework of numerical haircut floors set out in minimum haircut standards."

ECB provides temporary leverage ratio relief

On 17 September 2020, The Governing Council of the European Central Bank decided that it concurs with ECB Banking Supervision that there are exceptional circumstances: allowing the temporary exclusion of certain central bank exposures from the leverage ratio.

In an opinion, the Governing Council stated the following:

"The situation brought about by the coronavirus (COVID-19) pandemic has affected all euro area economies in an unprecedented and profound way. This situation has resulted in an ongoing need for a high degree of monetary policy accommodation, which in turn requires the undeterred functioning of the bank-based transmission channel of monetary policy. In the view of the Governing Council, therefore, the condition of exceptional circumstances warranting the temporary exclusion of certain exposures to central banks from the calculation of banks' total exposure measures is met for the euro area as a whole. Euro area national competent authorities which intend to exercise the discretion provided for under Article 500b(2) of the CRR in relation to less significant institutions may rely upon this opinion issued by the ECB as monetary authority of the euro area."

Adoption of the EC report on the central clearing exemption for Pension Scheme Arrangements

On 23 September 2020, the European Commission Report to the European Parliament and Council on the central clearing exemption for Pension Scheme Arrangements (PSAs) was adopted. The Report provides an analysis of the main issues identified by stakeholders around PSAs' central clearing, as well as of the solutions explored so far, as part of the ongoing work focused on the temporary exemption (until June 2021) for PSAs from the central clearing obligation under EMIR.

Among the solutions explored so far, the Report describes the discussions related to the potential for collateral management and collateral transformation through the European repo market to meet margin requirements. It draws heavily on ICMA's input into the European Commission Expert Group on European Pension Scheme Arrangements, and also cites its report on how the European repo market performed during the COVID-19 crisis.

The Commission Report concludes that there is no silver bullet, stating:

"Finding a suitable solution will most likely require effort on a number of different fronts. On the one hand, some aspects of banking regulation should be further assessed, including whether the recent changes in the leverage ratio calculations have helped. On the other hand, it should be considered which ways of securing liquidity facilities to PSAs in times of stress can be explored."

ICMA will continue to engage with the Commission, ESMA, and other stakeholders on this important topic through its participation in the Expert Group.

Contact: Andy Hill
andy.hill@icmagroup.org

Sustainable Finance




by Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck and Ozgur Altun

Introduction

ICMA continues to underpin the expansion and integrity of the sustainable bond market with global standards and guidance released under the auspices of the Green Bond Principles & Social Bond Principles. This market has seen remarkable developments this quarter with the continued expansion of the issuance of social and sustainability bonds and the recovery of green bonds, as well as landmark transactions and announcements from European sovereigns, the European Commission and the European Stability Mechanism. We have also been very active in responding to numerous European policy and regulatory consultations, as well as participating in official consultative bodies such as the TEG for Sustainable Finance, while being involved in many initiatives in Asia.

Sustainable bond market developments

Green, social and sustainability bond issuance stands at a volume of USD315.15 billion as of 20 September 2020. This is already very close to the yearly total of 2019 (USD321.32 billion) and shows that the market is on track to exceed last year's volume. Also, during Q3, we have started to see initial sustainability-linked bond (SLB) transactions coming to market following the release of the Sustainability-Linked Bond Principles in June. Just looking at the current quarter, Q3 2020 has seen a combined total issuance of USD109.15 billion of sustainable bonds representing a 60% increase compared to Q3 2019.

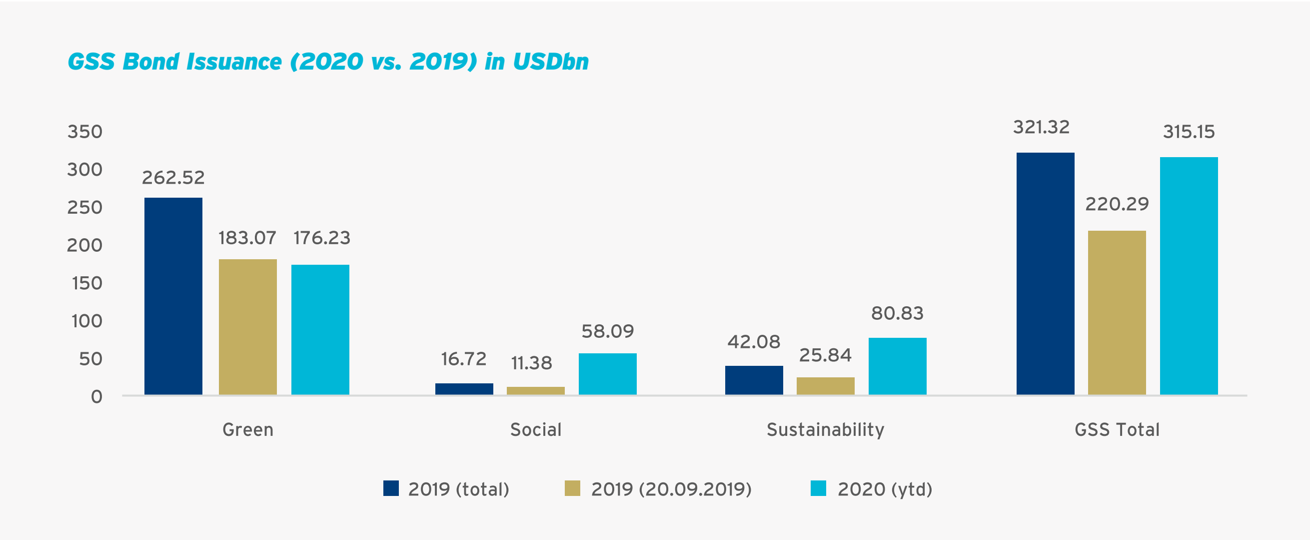
Green, social and sustainability bonds

Green bond issuance has reached a total volume of USD176.23 billion in 2020, which points to a recovery from the initial adverse shock of COVID-19 that hit in March. In Q3, green bond issuance amounted to USD63.56 billion – a 10% increase compared to Q3 2019.

In September 2020, we saw JP Morgan join other financial institutions by issuing a debut green bond (USD1 billion 4-year) while Bank of China came to market with a blue bond in two tranches (USD500 million 3-y and CNY3 billion 2-y). In August, Visa Inc. issued its inaugural green bond (USD500 million 7-y), further proof of the sustained interest in the sustainable bond market and wider ESG matters by financial companies.

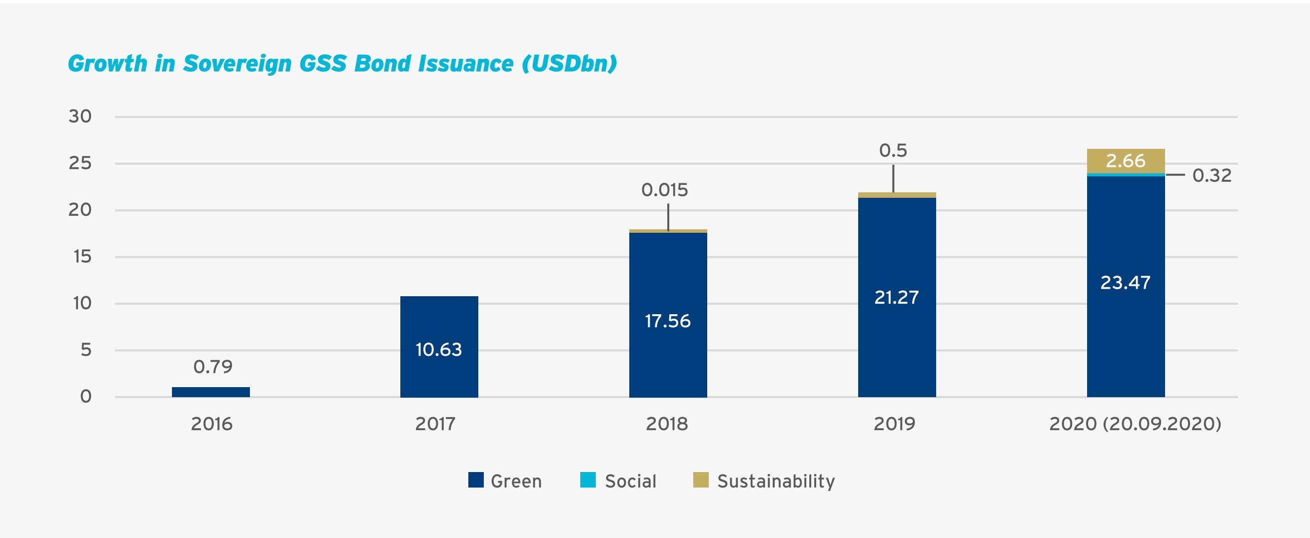
On the social and sustainability bond side, the groundbreaking growth continues. These segments have grown in response to the pandemic that led to an increased need for financing to address its destructive socioeconomic consequences. With current total issuance of almost USD140 billion, these bond segments are already double the yearly total of 2019.

Also in September, Cades, a French public agency in charge of repaying French social security debt, issued the largest social bond to date, a EUR5 billion 10-y transaction, where the proceeds will be used to (re)finance the French social security deficit. US foundations continue to issue social bonds following the Ford Foundation's lead in June: John D. and Catherine T. MacArthur Foundation (USD125 million 10-y), the Andrew W. Mellon Foundation's (USD300 million 7-y), Doris Duke Foundation's (USD100 million 30-y) all focused their use of proceeds mainly on employment generation and socioeconomic advancement and empowerment. In August, Alphabet joined the sustainable debt market with the largest sustainability bond ever issued by a corporate, a USD5.75 billion (in three tranches with maturities of 5-y, 10-y, and 30-y). The proceeds are marked for energy efficiency (especially for its data centres) and COVID-19 crisis response, among others.



Source: ICMA analysis based on Environmental Finance database (data cut off: 20.09.2020)

The sovereign space has also seen important transactions in September. Germany issued a EUR6.5 billion 10-y green Bund based on an original twin bond concept with the use of proceeds mainly targeted at budgetary expenditures on clean transportation and intangible assets such as international cooperation to fight climate change (see the feature authored by Germany's Finanzagentur in this Quarterly Report). Sweden entered the market with a SEK20,000 million 10-y bond (USD equivalent of 2.28 billion) with use of proceeds focusing on clean transportation among others. Luxembourg issued the first sovereign sustainability bond in Europe (EUR1.5 billion 12-y) while Mexico issued a sovereign sustainability bond (EUR750 million 7-y) targeting the SDGs and labeled as an "SDG bond".



Source: ICMA analysis based on Environmental Finance database (data cut off: 20.09.2020)

EU to issue green bonds at scale

On 16 September 2020, the European Commission President Ursula von der Leyen announced that 30% of the EUR750 billion for the Next Generation EU budget will be raised through green bonds. It was also indicated that 37% of the funding will be invested in European Green Deal objectives.

Previously in June, the European Stability Mechanism (ESM) announced that it was getting ready to issue social bonds to fund the Pandemic Crisis Support credit lines. The ESM published its Social Bond Framework aligned with the Social Bond Principles. The use of proceeds relates exclusively to direct and indirect healthcare, cure, and prevention costs.

These future issuances from EU institutions have the potential to increase the size of the sustainable bond market by an order of magnitude once they have taken place.

Sustainability-Linked Bonds (SLBs)

Following the release of the Sustainability-Linked Bond Principles in June, we are starting to see initial transactions coming to market. In June 2020, Korian, a European care and support services group, issued a EUR173 million 8-y sustainability-linked Euro PP with up to 20 bp step-up/down contingent on the fulfillment of selected ESG commitments until 2023. In September, Suzano, the Brazilian pulp and paper company, issued a USD750 million 11-y SLB linked to reaching a carbon intensity of 0.190t CO2t/ton in production (by the end of 2025) with a 25 bp step-up mechanism. Also, in September, Novartis issued a EUR1.85 billion 8-y SLB which is linked to the achievement of its social targets (ie 2025 Patient Access Targets) by 2025 with a 25 bp step-up mechanism. Hulic, a Japanese real estate company, announced that it will issue in October an SLB with a step-up mechanism linked among other to targets for its use of renewable electricity.

ECB to accept sustainability-linked bonds for its asset purchase and collateral programmes

On 22 September 2020, the European Central Bank announced that sustainability-linked bonds will become eligible as collateral for Eurosystem credit operations and also for Eurosystem outright purchases for monetary policy purposes, provided they comply with all other eligibility criteria.

The coupons must be linked to a performance target referring to one or more of the environmental objectives set out in the EU Taxonomy Regulation and/or to one or more of the United Nations Sustainable Development Goals relating to climate change or environmental degradation. This is a big step forward and an important recognition by the ECB of the relevance and potential of sustainability-linked bonds. The decision will apply from 1 January 2021.

Contacts: Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck and Ozgur Altun
nicholas.pfaff@icmagroup.org
valerie.guillaumin@icmagroup.org
simone.utermarck@icmagroup.org
ozgur.altun@icmagroup.org

> **With the RSFS, the EU is shifting into a higher gear and increasing its ambition to have net zero emissions by 2050.**

Regulatory responses and dialogue

Response to the EU's Renewed Sustainable Finance Strategy (RSFS)

On 15 July 2020, ICMA through its constituencies the GBP ExCom, AMIC, the CIF and FIIF, LDC as well as the Sustainable Finance Committee (SFC) responded to a consultation on the EU's Renewed Sustainable Finance Strategy (RSFS). The RSFS will take over from the EU Action Plan on Sustainable Finance which, having resulted in three legislative actions (the Taxonomy Regulation, Benchmark Regulation and Disclosure Regulation (SFDR) – see our memo), is coming to the end of its implementation.

With the RSFS, the EU is shifting into a higher gear and increasing its ambition to have net zero emissions by 2050. While with the Action Plan the focus has been on greening the financial sector, ie that it integrates sustainability in risk management and investment decisions, the RSFS will put more emphasis on making sure that the financial sector supports the businesses and corporates on the transition path towards sustainability. The RSFS aims to shift the focus to the real economy and corporates as well as to public authorities and citizens. The consultation was asking stakeholders to express their views on various issues under the three categories: (i) strengthening the foundations for sustainable finance, (ii) increasing opportunities for citizens, financial institutions and corporates to enhance sustainability and (iii) reducing and managing climate and environmental risks.

In our response, we agreed that to enable the scaling-up of sustainable investments, it is crucial to have sufficient and reliable information from financial and non-financial companies on their climate, environmental and social risks and impacts. Investors can only fulfil their obligations under SFDR if non-financial reporting by companies improves. We therefore support a planned revision of NFRD and are in favour of creating a common, publicly accessible repository for ESG data. All of this would add transparency for both investors and issuers.

We also confirmed support for the recommendations of the Commission's TEG on Sustainable Finance regarding the proposed EU GBS including the proposal to first put in place a registry of verifiers in the form of a market-led "Voluntary Interim Registration System" (VIRS). We underlined that both public and private issuers should retain the flexibility to issue either in alignment with the EU GBS and/or the market standard represented by the Green Bond Principles (GBP).

We otherwise identified concerns related to the usability of the EU Taxonomy. We mentioned issues regarding the application of the "do no significant harm" (DNSH) criteria and minimum safeguards, for developed and emerging markets alike, and identified potential difficulties for non-European issuers and projects if local environmental and social standards and/or regulations significantly diverge from those of the EU.

We also advised against the Commission developing product labels for social bonds and sustainability-linked bonds, especially given the still nascent status of the latter one, and against the introduction of new requirements for green bonds into the Prospectus Regulation at this point in time.

We confirmed that the EU Ecolabel could be successful if it allowed for diversification by including more eligible assets and supported companies in transition. When it comes to capital markets infrastructure, we did not see a need for development of a specific sustainable finance-oriented exchange since some of the most prominent existing stock exchanges already established segments in this space which could be developed further.

Other responses

Over the summer period, ICMA responded to several sustainability-related consultations launched by the EC and European Supervisory Agencies (ESAs). These were the ESA's consultation on the draft RTS for the SFDR, EC consultation on the integration of sustainability risks in UCITS, AIFMD and MiFID and the EC consultation on the NFRD review.

EU GBS consultation

ICMA worked on the EC consultation on the EU Green Bond Standard (deadline 2 October 2020). The response was submitted primarily on behalf of the GBP SBP Executive Committee, but it also included input from the SFC channelling comments from ICMA's other key constituencies.

As a reminder, through its active participation in the Commission's Technical Expert Group on Sustainable Finance (TEG), ICMA has been very instrumental in shaping an EU Green Bond Standard (EU GBS) based on a voluntary alignment of issuers and designed to co-exist in the market with GBP aligned transactions. These recommendations were further embedded in the TEG's recent *Usability Guide for the EU Green Bond Standard* that offers market participants guidance on the use of the proposed standard, focusing especially on defining projects aligned with the Taxonomy, the content of the GB Framework and reporting requirements and templates. It also describes the proposed set-up of an interim registration scheme for verifiers (external reviewers) of the EU GBS.

The Usability Guide confirmed that the TEG's recommendation for the EU GBS remains for a voluntary standard. The Usability Guide also refers explicitly to the GBP and states that "EU GBS-aligned bonds are GBP-aligned by definition". The Usability Guide otherwise contains new language supported by ICMA that (i) further expands the flexibility of EU Green Bond issuers when aligning projects with the Taxonomy, and (ii) frames requirements for verification for alignment for qualitative criteria in the Taxonomy in relation to "appropriate processes and due diligence systems".

Candidacy for the European Commission's Platform on Sustainable Finance

On 18 June 2020, the European Commission launched a call for applications for its newly established Platform on Sustainable Finance that will take over from the preceding TEG, where ICMA has been an active member. The platform will be an advisory body composed of 57 members from the private and public sector. Its main mandate will be assisting the EC in the further development of the EU Taxonomy. With the support of the GBP SBP Executive Committee, ICMA submitted its candidacy. On 1 October 2020, ICMA was selected by the European Commission to be one of the 50 members of the Platform on Sustainable Finance.

Dialogue in Asia

We have consulted with national regulators in Singapore, India, and Indonesia on potential national taxonomies. The EU Taxonomy Regulation and disclosure requirements are also being watched closely and will likely be influential, perhaps mostly outside China which already has a well-developed taxonomy (see the guest contribution in this section by EY on China's latest Green Bond Endorsed Project Catalogue).

In Southeast Asia, we continue to work closely with the ASEAN Capital Markets Forum and national securities regulators on the development of sustainable finance markets following the publication of ASEAN green and social bond standards that are based on and aligned with the Green and Social Bond Principles.

ICMA assisted Bank of China to produce a Chinese translation of our Sustainable Finance High Level Definitions as well as the new Sustainability-Linked Bond Principles.

Contacts: Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck and Ozgur Altun
nicholas.pfaff@icmagroup.org
valerie.guillaumin@icmagroup.org
simone.utermarck@icmagroup.org
ozgur.altun@icmagroup.org

GBP SBP developments: Advisory Council candidacies

Following the elections of the GBP SBP ExCom, it is now the membership of the Advisory Committee (AC) that is being renewed. As background, the AC was established in September 2019 to increase the market awareness and outreach of the GBP SBP and to enable further engagement with specific membership categories and observers. In 2019-2020, the AC produced a set of recommendations which the ExCom will consider implementing going forward.

The 2020 application process was open between 29 July and 4 September. It resulted in 83 applications – an indication of the continuing interest of market participants and stakeholders in the AC. The GBP SBP ExCom will confirm nominations on the AC by the first half of October 2020.

Contacts: Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck and Ozgur Altun
nicholas.pfaff@icmagroup.org
valerie.guillaumin@icmagroup.org
simone.utermarck@icmagroup.org
ozgur.altun@icmagroup.org

China's latest Green Bond Endorsed Project Catalogue[1] *By Judy Li*

Background and objectives

In 2020, the People's Bank of China (PBoC), China's Central Bank, the China Securities and Regulatory Commission (CSRC), and the National Development and Reform Commission (NDRC) jointly published the consultation draft of an updated, 2020 version of the Green Bond Endorsed Project Catalogue ("the Catalogue"). The aim is to replace the 2015 version in governing People's Republic of China's green bond market in a unified way and directing the development of the country's green finance along internationally compatible lines.

The Catalogue sets out official criteria and scope for eligible green projects to be financed by green bonds. In view of the rapid growth and coexistence of two main standards for the Chinese domestic green bond market, as well as emerging green industries and technologies, PBoC, CSRC and NDRC consulted the public and updated the Catalogue to produce the 2020 version. It is based on the 2015 version with reference to the "Guiding Opinions on Establishing a Modern Environmental Treatment System (No.6 [2020] of the General Office of the CCCPC)", CSRC's "Guiding Opinions on Building a Green Financial System (No. 228 [2016])", and NDRC's "Guidance Catalogue for Green Industry (2019)" (the Guidance Catalogue).

The objective of updating the Catalogue is to:

- keep pace with the rapidly growing green bond markets and further shift towards a greener economy;
- respond to the global environmental crisis including climate change and support the country's sustainable development;
- update the 2015 version to unify mainstream green bond standards in China and standardize approaches for eligible projects for green bonds;
- take the international green finance taxonomy into consideration and continuously improve the compatibility of the Catalogue with international standards

The Catalogue completed its consultation period on 6 August 2020 and will be formally announced later this year.

Overall framework of the Catalogue 2020

The Catalogue presents a framework with four levels of classification: 6 Level I Categories, 25 Level II Categories, 47 Level III Categories, and 203 Level IV Categories.

The Green Bond Catalogue's relation to NDRC's Guidance Catalogue

The Catalogue is largely aligned with NDRC's Guidance Catalogue for Green Industry (2019) and adapts the categories for use in green bonds.

Level I Categories in the updated Catalogue for green bonds cover (i) Energy Saving and Environmental Protection Industry, (ii) Clean Production Industry, (iii) Clean Energy Industry, (iv) Ecology and Environment Sector, (v) Green Infrastructure Enhancement, and (vi) Green Services.

The Level II and Level III Categories incorporate the classification method in NDRC's Guidance Catalogue on green agriculture, sustainable building, water conservation, and usage of non-conventional water resources. Level IV categories significantly align with the Level III categories of green industries listed out in NDRC's Guidance Catalogue.

1. 2020 version

Major highlights of changes made against the 2015 version

The 2020 Catalogue has adjusted the breadth and depth of green projects being covered. Broader industries and scopes of projects are encompassed in the updated Catalogue. The newly added and expanded categories are highlighted as the following:

Newly added categories	Expanded categories
- Green Services (Level I Category) - Green Building Materials (Level III Category under Energy Saving and Environmental Protection Industry) - Pollution Treatment in Industrial Park (Level III Category under Clean Production Industry) - Equipment manufacturing related projects (covered in various sub-categories)	- Clean Energy (Level II Category under Clean Energy Industry) – *projects relate to CO_2 capture, utilisation and storage are now considered* - Sustainable Buildings (Level II Category under Green Infrastructure Enhancement) - Green Transport (Level II Category under Green Infrastructure Enhancement)

On the other hand, several controversial categories, as shown below, are partially or fully excluded from the Catalogue:

Fully removed categories	Partially removed categories
- Clean Utilization of Coal - Clean Fuel	- Railway Transportation – *covers only freight railway while excluding passenger railway* - Hydropower Generation – *eliminates specific hydropower projects but retaining large-scale hydropower projects on list*

Furthermore, the depth of categorization of projects has been extended. Both the 2015 version and the new 2020 version cover six Level I Categories, with similarities in scope of industries and projects found in Level II and III Categories. Yet, Level IV Categories are further broken down into details with more technical specifications in accordance with NDRC's Guidance Catalogue.

Implications for the green bond markets

From a *business* viewpoint, the updated Catalogue helps boost a greener economy in terms of facilitating the rapid growth of domestic green bond markets. By widening the industry and project coverage, it underpins the diversity of eligible green bond projects; and by categorizing green projects in greater depth, it helps market practitioners allocate the capital flows precisely into targeted green projects. The well-structured and comprehensive Catalogue largely standardizes the eligible project selection approach for better business practices.

From a *national* perspective, China has demonstrated its determination to place green finance as a central pillar of sustainable development by making structural adjustments to the Catalogue.

The updated version of the Catalogue unifies domestic green bond related guidelines on the scope, requirements and categorization of qualified green projects. This largely narrows down the gap on the inconsistency and improves the interpretation and comparability of eligible labelled green bonds. The 2020 Catalogue lays the cornerstone for green economic activities in the domestic market as one of the key guidelines being applied in the area of green bond issuance.

On the *international* level, the unified Catalogue is further in line with global practices by means of adopting taxonomy used in international standards. The enhancement of comparability significantly closes the expectation gap from foreign investors and, therefore, enhances the global recognition of Chinese labelled green bonds, which can attract capital flows to the growing Chinese green bond market.

Another highlight of the Catalogue is the broader coverage of green projects with significant and positive impacts in addressing global pressing challenges, particularly climate change, while controversial items such as clean use of coal and fossil fuels have been removed from the list. By further transitioning to climate finance, the domestic green bond market is becoming more favourable for additional international investment.

Judy Li is Partner, Climate Change and Sustainability Services (CCaSS), Financial Services (FSO), Greater China, and EY Asia-Pacific FSO Sustainability Leader

Disclaimer: *The views reflected in this article are the views of the author and do not necessarily reflect the views of the global EY organization or its member firms.*

Asset Management

by Arthur Carabia

Introduction

On 16 September, AMIC's Executive Committee held its third quarterly meeting of 2020. This was also the opportunity for members to take stock of the recent regulatory work in the last four months, including on (i) sustainable finance, (ii) risk management, (iii) Capital Markets Union and (iv) COVID-19.

Sustainable finance

On 1 September, ICMA, primarily with the input of the AMIC Sustainable Finance Working Group, submitted its response to the ESAs' consultation on the implementation measures of the Sustainable Finance Disclosure Regulation (SFDR). SFDR, which was published in the *Official Journal* on 27 November 2019. This mandates the three European authorities (ESMA, EIOPA, EBA) to propose how the buy side should disclose their ESG footprint at firm and at product levels via different channels (website, pre-contractual documents, periodic reports). In its response, ICMA highlighted several challenges with the implementation measures and proposed solutions.

The proposed quantitative disclosure against 32 KPIs of AUM's ESG footprint would not only be of little relevance to investors who invest in products not in asset management companies, but it will give them an inaccurate picture of the principal adverse impacts at entity level, as many asset classes (sovereign bonds, green bonds, money markets and cash equivalents, currency, some commodities) cannot be evaluated against the proposed KPIs and this approach does not consider potential sectorial bias and the materiality concept. In our response, we suggest that this quantitative approach at firm level should be dropped.

The disclosure requirements at product level to distinguish Article 8 products (ie ESG investing) and Article 9 products (ie impact investing) are also a source of concern. We fear certain disclosure requirements associated with Article 8 products (eg mandatory warning that "this product does not have as its objective sustainable investment") may simply discourage firms and distributors from offering ESG products or simply confuse investors. On the other hand, the bar is also set very high for Article 9 products, given the Do No Significant Harm (DNSH) objective. It is unclear how the DNSH test could be met or even performed in a relevant way given that issuers do not currently report against the list of KPIs proposed by the ESAs. In our response, we suggest that the warning statement should be dropped for Article 8 products and in relation to the DNSH requiring a high level policy commitment instead of singling out 50 KPIs and pre-empting the outcome of the NFRD review (see ICMA response submitted on 11 June).

The ESAs are now in the process of analysing the feedback received by stakeholders and are expected to propose their final version of the implementation measures to the European Commission (EC) in the course of January 2021. The EC will then have to endorse the proposal via a legal text which will be subject to a scrutiny period by the European Parliament and the Council before it is published to the *Official Journal* and considered officially adopted. This process is very likely to end after 21 March 2021 implementation deadline of SFDR. In light of this expected delay and given the scale of the issues to be resolved (eg on-going parallel consultation on templates), AMIC urges the EC and the ESAs to postpone the application date of SFDR.

Contact: Arthur Carabia
arthur.carabia@icmagroup.org

Risk management

Leverage guidance for AIFs

On 1 September, the AMIC Risk Management Working Group submitted its response to the ESMA consultation on guidelines for NCAs when they consider potential financial stability risk associated with leverage in AIFs. The response recommends focusing on funds with substantial leverage as a first screening phase and conducting an analysis of relevant parameters related to a given fund. AMIC also calls for a focus only on relevant potential risk transmission channels and suggests analysing funds individually and not in groups: similar AIFs may have leverage tolerance according to clients' profiles, dealing cycles and recent performances. Finally, the response argues that the implementation of these guidelines should rely on data already reported under LST guidelines, AIFMD, EMIR, SFTR, ECB reporting and should not lead to further reporting by asset managers.

AIFMD review

The AMIC Risk Management Working Group met on several occasions to discuss the upcoming Alternative Investment Fund Managers Directive (AIFMD) review and the recent ESMA letter on this matter. In its letter, ESMA is highlighting areas to consider during the forthcoming review of the AIFMD. ESMA's letter includes recommendations for changes in 19 areas, including harmonising the AIFMD and UCITS regimes; delegation and substance; liquidity management tools; leverage; the AIFMD reporting regime and data use; and the harmonisation of supervision of cross-border entities. Many of the recommendations made also require consideration of changes to the UCITS legislative framework. The AMIC Risk Management Working Group and ExCom are currently finalising a position paper and is preparing to respond to the EC consultation, which is expected to be published in the course of October.

Contact: Arthur Carabia
arthur.carabia@icmagroup.org

CMU: research

On 11 September, AMIC submitted its response to the EC consultation on investment research. The response explains that partially reviewing unbundling rules will not contribute to reviving SME research to a meaningful extent as a majority of members would practically not be able to make use of the options proposed by the EC. AMIC therefore recommends that the EC consider other policy options to support SME research and funding in the context of post-COVID recovery (free-trial and issuer-sponsored research).

Contact: Arthur Carabia
arthur.carabia@icmagroup.org

COVID-19: podcasts

AMIC podcasts on the response to COVID-19 continue. ICMA has streamed a series of bi-weekly podcasts in which Robert Parker, Chair of AMIC, has reviewed market events in the context of the COVID-19 pandemic, with a specific focus on central bank policy measures, economic data and the impact on investors.

AMIC has also recorded a series of thematic podcasts:

- *COVID-19: Impact and Outlook for Covered Bonds,* with Sabrina Miehs, Covered Bond Analyst at Helaba, Thomas Cohrs, Head of FIG and SSA Origination, Syndicate & Sales at Helaba, and Daniel Rauch, Portfolio Manager & Head of Covered Bonds Research at Union Investment.
- *COVID-19: Impact and Outlook from a Policy Perspective,* with Stéphane Janin, Vice-Chair of AMIC and Head of Global Regulatory Development at AXA Investment Management.

Contact: Arthur Carabia
arthur.carabia@icmagroup.org

COVID-19: Japan's ageing society and investment behaviour

By Keiko Nakada, JSDA

Traditionally in Japan, the age of 60 has been called "*kanreki*," which means the completion of one full cycle of the 60 Oriental zodiac symbols, and which has historically called for a celebration of a person's living to a ripe old age. Nowadays, however, 60 is not conceived of as old. The world average life expectancy has reached 72.0 years and that of Japan has reached 81.41 years for males and 87.45 for females. Due not only to longer life spans but also to the declining birth rate, the ageing of the population has been progressing very rapidly in Japan compared to other countries. The population aged 65 and over has already exceeded 28% of the total.

Amid an ageing society, the tremendous amount of household financial assets held by Japanese people, a sum exceeding 1,845 trillion yen (17.7 trillion dollars[1]), is an area of great potential. That said, the portfolio profile is fairly low-return. Accordingly, it has been a prolonged challenge to encourage Japanese people to make use of their financial assets in more efficient ways and direct their attention to products that assist their life-long asset management.

To this end, in January 2014, the government and industry set up NISA (Nippon Individual Savings Account), which was modelled after the Individual Savings Account (ISA) in the UK. In January 2018, Tsumitate NISA (Dollar-Cost-Averaging (DCA) NISA), a scheme more oriented toward long-term regular investment, was introduced. As of the end of March this year, more than 14 million accounts have been opened and more than 19.54 trillion yen (187.9 billion dollars) invested under the general and DCA NISA schemes.

With the COVID-19 pandemic, individuals became more active in stock investment. In Japan, as in many other countries, individual investors, particularly day-traders, actively traded stocks during the stock market fall in March and through the subsequent recovery path, aiming at short-term gains from the unprecedented market volatility. It is noteworthy, however, that such short-term players were not the only ones reacting to the market—people interested in long-term asset building were also responsive to the stock market fluctuation.

During the first quarter of 2020, the number of DCA NISA accounts showed a marked increase (a 16.2% increase compared to the end of the previous quarter), led by the younger generation. Notably, accounts owned by people in their 30s recorded a 19.4% increase. The Japan Securities Dealers Association (JSDA) has published data showing that investment amounts through the general and DCA NISA accounts at securities firms hit a record high during the same quarter. Also, in the JSDA's recent survey of individual investors, many from the younger generation, particularly those in their 20s and 30s, replied that they started or increased stock investment during the COVID-19 pandemic. According to recent media reports, the inflow of individuals' money to index-linked mutual funds suited for long-term regular

1. All the dollar figures in the article are calculated as reference at JPY 104 to USD (the rate as of the end of July 2020).

investment reached a new high, exceeding 1.16 trillion yen (11.2 billion dollars) during the first half of 2020.

Why did people turn their attention to long-term securities investment during the COVID-19 crisis? The substantial decline of stock prices in March could be pointed to as an immediate trigger which allowed people to sense a moment of opportunity to start securities investment. But COVID-19 may have induced more fundamental changes in people's attitudes toward asset building.

Many Japanese people, particularly the working generation, had been inclined to rely on employment income, not giving much thought to gains from investment. The COVID-19 crisis aroused people's concerns about losing their jobs or suffering wage cuts and could have woken them up to the merits of asset building. Along with that, a number of emergency measures to cope with COVID-19 are likely to bring more difficulties to the Government's fiscal management, which had been already overstrained under the ever-progressing population ageing, and add further pressure on future public spending for social welfare including public pensions and medical care benefits. The importance of self-reliant asset building efforts may have become recognized more clearly as a cornerstone for securing a comfortable life over the course of an individual's ever-growing lifespan.

Amid the COVID-19 pandemic, people seem to have heightened their awareness of the value of asset building to overcome difficult times in the future. As the unprecedented precariousness has paradoxically brought about a renewed appreciation for securing stable income over the long term, the securities market and industry are expected to continue to perform as the functional infrastructure to provide the public with useful advice and efficient tools for asset management—to help people as they reach *kanreki*, and beyond.

Keiko Nakada *is on secondment from the Japan Securities Dealers Association (JSDA) to ICMA.*

Disclaimer: *The views expressed here are solely those of the writer. Any views and forecasts described are based on information available when the article was written in July 2020 and may not reflect subsequent developments.*

Transition to Risk-Free Rates

by Katie Kelly and Charlotte Bellamy

The SONIA Index and bond market conventions

As reported in the Q2 2020 edition of this Quarterly Report, the Bank of England announced an intention to publish a daily SONIA Compounded Index (the SONIA Index), which it did from 3 August. This is a significant development which was welcomed by the bond market. In practical terms, use of the SONIA Index is compatible with any financial product that uses a backward-shifted observation period (the "shift" approach, which weights the SONIA rate according to the number of days that apply in the observation period). The SONIA Index is also expected to standardise and simplify the calculation method for SONIA-linked instruments and should reduce operational risk by facilitating reconciliation of interest amounts between market counterparties.

In September, the EIB issued a SONIA-linked bond[1] which was the first to use the SONIA Index to calculate the interest rate for each interest period, and was closely followed by a SONIA-linked transaction by the Royal Bank of Canada[2], which also uses the SONIA Index for the same purpose. While each of these transactions consequently uses the shift approach, it is important to note that issuers can still issue using the "lag" approach (which weights the SONIA rate according to the number of days that apply in the interest period).

However, while the publication of the SONIA Index *could* lead to standardisation of conventions in the bond market, it represents a divergence from conventions in the loan market. In September, the RFRWG released *Recommendations for SONIA Loan Market Conventions,* which recommends use of a five banking days lookback without observation shift (ie the lag approach) as the standard approach for the loan market, although where lenders are also able to offer lookback with an observation shift (ie the shift approach), this remains a viable and robust alternative. Although loan market conventions are not the main area of focus for ICMA, the read across to the bond market is significant.

The ability in both the bond market and the loan market to use either the shift approach or the lag approach is encouraging and allows for greater flexibility. But any potential move in the future towards the shift approach in the bond market, and the lag approach in the loan market, means that the ambition of consistency of approach between products might not be so easy to achieve.

Contact: Katie Kelly
katie.kelly@icmagroup.org

1. GBP 1,000,000,000 SONIA Floating Rate Bonds due September 2025

2. GBP 250,000,000 SONIA Floating Rate Notes due September 2021

Adjustment spread for use in certain LIBOR bond fallbacks

As previously described in the Q3 2019 edition of this Quarterly Report, the fallbacks in floating rate notes (FRNs, which for these purposes includes FRNs issued pursuant to a securitisation) typically fall into three categories: Type 1 fallbacks, typically included in FRNs which were issued prior to Andrew Bailey's July 2017 speech[3], and which usually fall back to the rate in effect for the last preceding interest period (ie a fixed rate); Type 2 fallbacks, which, upon the *permanent cessation* of a rate, typically envisage the issuer appointing an independent adviser to select a *replacement rate* and an *adjustment spread* to be applied to such rate, in each case, on the basis of (a) any recommendations made by relevant official bodies or (b) if no such recommendations have been made, customary market practice; and Type 3 fallbacks, which operate in a similar way to Type 2 fallbacks upon the occurrence of a *pre-cessation* event, being a statement of unrepresentativeness of the original benchmark by the regulator of the benchmark administrator.

The purpose of the adjustment spread element of the Type 2 and Type 3 fallbacks is to maintain the economics of the original FRN by reflecting the bank credit risk element which is present in LIBOR, but is not observable in risk-free rates, such as SONIA.

In 2019, ISDA issued a series of consultations on methodologies for calculating the spread adjustment on the permanent cessation and pre-cessation of LIBOR in derivatives transactions, resulting in agreement that a historical five-year median approach is the most appropriate methodology to be used for sterling LIBOR interest rate swaps. Following the progress made by ISDA in this respect, the Sterling Risk-Free Rate Working Group (£RFRWG) consulted on an adjustment spread methodology for sterling cash products (including bonds, loans and securitisations) in December 2019. This consultation also identified a strong consensus in favour of the historical five-year median approach as the most appropriate methodology for an adjustment spread for both permanent cessation and pre-cessation fallbacks.

The £RFRWG, in its capacity as a relevant official body, subsequently issued a statement of recommendation in response to this consensus, recommending the use of the historical five-year median spread adjustment methodology when calculating the credit adjustment spread which should then be applied to the SONIA rate, following either the permanent cessation or pre-cessation of sterling LIBOR.

The £RFRWG has said that it will monitor the availability of data sources to support use of this spread adjustment methodology for use in cash products, and consider whether any further work is needed in this area in due course.

It is important to note that this adjustment spread methodology will only be applicable when a fallback is triggered on cessation or pre-cessation, and *not* in the case of an active transition from LIBOR to a risk-free rate, for instance, by way of consent solicitation.

Contact: Katie Kelly
katie.kelly@icmagroup.org

Active transition of GBP LIBOR-referencing bonds

The Sterling Risk-Free Rate Working Group (£RFRWG) and the UK authorities are continuing to support a wide range of firms in preparing for the transition away from LIBOR before the end of 2021, when LIBOR is expected to cease. The authorities consider that the best and smoothest transition from LIBOR will be one in which contracts that reference LIBOR are replaced or amended before their relevant fallback provisions are triggered. In the UK Government's written statement in June[4], it said that "active transition of legacy contracts remains of key importance and provides the best route to certainty for parties to contracts referencing LIBOR. Parties who rely on regulatory action, enabled by the legislation the Government plans to bring forward, will not have control over the economic terms of that action. Moreover, regulatory action may not be able to address all issues or be practicable in all circumstances, for example where a methodology change is not feasible, or would not protect consumers or market integrity".

As part of this effort to encourage the active transition of legacy contracts, the £RFRWG recently released two publications setting out detailed information, practical steps and considerations relevant to the active transition of legacy cash products (including bonds, loans and securitisations): *Active Transition of GBP LIBOR-Referencing Loans*, and *Active Transition of GBP LIBOR-Referencing Bonds* (the "Bond Paper").

3. Andrew Bailey, former Chief Executive of the FCA: The Future of LIBOR, 27 July 2017.

4. https://questions-statements.parliament.uk/written-statements/detail/2020-06-23/HCWS307

The Bond Paper explains how active transition can be achieved by way of consent solicitation, and draws upon recent examples which have already taken place.

The Bond Paper focuses largely on floating rate notes (FRNs, which for these purposes includes FRNs issued pursuant to a securitisation) with fallbacks which would typically operate such that the FRN would fall back to a fixed rate on the permanent cessation of LIBOR[5], or with no fallbacks at all. It explains how active transition can be achieved by way of consent solicitation and draws upon recent examples of transitions which have already taken place using this mechanism.[6] It explains the need to transition to risk-free rates, and in particular, why it is important to transition before the fallbacks of the relevant FRNs are triggered.

Some of the practicalities relating to the consent solicitation mechanism are included in the Bond Paper, such as the quorum and voting thresholds that need to be achieved in order for an amendment to be successfully passed at a bondholder meeting. It explains how consent solicitation can be used to either amend the interest rate directly from LIBOR to SONIA, or to amend the fallbacks so that, on the occurrence of a specific event, the FRN will fall back to SONIA. In the consent solicitations that have been successfully undertaken so far, the former approach has been adopted. Some FRNs, particularly those issued as part of a securitisation structure, may involve more complexities, and there may be some regulatory and other issues arising with active transition, all of which is explored further in the paper.

The Bond Paper is primarily aimed at those who may be behind with their LIBOR transition planning. Its publication was accompanied by a webinar organised by the £RFRWG at which the authorities, corporates, banks, advisers and associations (including ICMA) involved in the transition away from LIBOR discussed active transition of cash products.

While market participants should carefully consider the suitability of consent solicitation as an appropriate course of action in respect of each relevant FRN, it is clear that the importance of active transition of affected FRNs is becoming increasingly apparent. As Edwin Schooling Latter, Director, Markets and Wholesale Policy at the FCA, said, "the only way for contractual counterparties to have certainty and control over the future of their obligations is to convert them by mutual agreement".[7]

Contact: Katie Kelly
katie.kelly@icmagroup.org

5. See further "Fallbacks for LIBOR floating rate notes".

6. As at the date of this Quarterly Report, 21 consent solicitation transactions have been undertaken to amend LIBOR to SONIA.

7. https://www.fca.org.uk/news/speeches/libor-transition-critical-tasks-ahead-us-second-half-2020

Tough legacy legislative proposals: a snapshot

The challenges associated with transitioning legacy LIBOR bonds and certain other types of legacy LIBOR instruments to alternative risk-free rates are now well known[8], and authorities and official sector-sponsored working groups in a number of jurisdictions have been focusing on this issue. Set out below is a high-level snapshot of the legislative proposals that have been put forward in the US, EU and UK to address this issue.[9]

Status in September 2020

US	EU	UK
The Alternative Reference Rates Committee (ARRC) published a proposal for New York State legislation in March 2020. It is not clear whether or when the ARRC's proposal will be implemented into New York State law.	The European Commission published a proposal for amendments to the EU Benchmarks Regulation in the context of LIBOR cessation in July 2020. It is understood that EU co-legislators are considering this proposal and there is a desire to move quickly.	HM Treasury issued a written statement in June 2020 stating that it intends to amend the UK's existing regulatory framework for benchmarks in the forthcoming UK Financial Services Bill. The FCA issued a related statement and Q&A on the same day.

General approach

US	EU	UK
Broadly speaking, the ARRC proposal involves: (1) a statutory override of certain types of fallbacks in legacy USD-LIBOR contracts, securities and instruments by an ARRC-recommended replacement rate and credit adjustment spread upon the occurrence of certain statutory trigger events; (2) a statutory safe harbour for the use of such ARRC-recommended replacement rate and credit adjustment spread; and (3) a statutory safe harbour for parties who add conforming changes to their documents to accommodate administrative/operational adjustments to reflect the application of the statute.	Broadly speaking, the European Commission's proposal involves a statutory override of certain types of fallbacks in legacy contracts by a replacement rate selected by the European Commission pursuant to new powers under the EU Benchmarks Regulation which are triggered upon the occurrence of certain statutory trigger events.	Broadly speaking, HMT's proposal involves empowering the FCA to direct the administrator of a relevant benchmark (eg LIBOR) to change the methodology used to compile the benchmark in certain circumstances.

8.See previous editions of this ICMA Quarterly Report for a discussion of the issues surrounding legacy LIBOR bonds, including the most recent Third Quarter 2020 edition.

9. A more fulsome discussion of the US and UK proposals can be found in *From LIBOR to SONIA in the Bond Market*, Paul Richards, ICMA, July 2020.

Scope

US	EU	UK
The ARRC's proposed New York State legislation, as drafted, is expected to apply on a mandatory basis to contracts, securities or instruments governed by New York law, referencing USD-LIBOR, with either no fallback or a fallback to a LIBOR-based rate, upon the occurrence of certain statutory trigger events. The statute would not override legacy language that falls back to an express non-LIBOR based rate (such as Prime). If an in-scope contract, security or instrument gives a party the right to exercise discretion or judgment regarding the fallback, that party can decide whether to avail itself of a statutory safe harbour for use of the ARRC-recommended replacement rate and credit adjustment spread. Parties would be permitted to mutually opt out of the application of the statute, in writing, at any time before or after the occurrence of a trigger event.	While the European Commission's proposal was made with LIBOR cessation in mind[10], the proposal has been drafted in a manner that could apply in the context of cessation of any benchmark where there may be significant disruption in the functioning of financial markets in the EU. It is not yet clear whether the amendments to the EU Benchmarks Regulation will relate to any contract, security or instrument referencing the relevant benchmark, or a more narrow sub-set of such contracts, securities or instruments. ICMA understands that, as a matter of law, it seems likely that EU legislation could only override contracts governed by the law of an EU Member State. The European Commission's proposal, as drafted, applies where the relevant contract or instrument contains no "suitable" fallback provisions. The precise meaning of this is not clear, and it is hoped that this aspect of the European Commission's proposal will be clarified during the trilogue process.	HM Treasury's written statement also references LIBOR cessation, but the proposed FCA powers to require modification of a benchmark's methodology would apply in relation to any critical benchmark in circumstances where the regulator has found that the benchmark's representativeness will not be restored and where action is necessary to protect consumers and/or to ensure market integrity. In its Q&A, the FCA notes that the use of these powers might not be possible in all circumstances or for all LIBOR currencies, for example where the inputs necessary for an alternative methodology are not available in the relevant currency. For this and other reasons, the FCA and other authorities have been clear that those who can amend their contracts so that they move away from LIBOR should do so. It is not yet clear whether any "modified" version of LIBOR would be available to any contract, security or instrument referencing LIBOR, or only a sub-set of such contracts, securities or instruments. The FCA has stated that the proposed changes will create a possible way of reducing disruption to holders of "tough legacy" LIBOR contracts (ie contracts that genuinely have no or inappropriate alternatives and no realistic ability to be renegotiated or amended).

Conclusion

It will be interesting to see how the US, EU and UK legislative proposals progress and what changes (if any) will be made before they are finalised and enshrined in law. Market participants in the international bond market will be looking for certainty and clarity on the scope of the relevant legislative provisions so that it is clear how the different statutes interact with each other and which statute applies in which circumstances. It also remains to be seen whether the different proposed approaches will result in the same rate and credit adjustment spread being applied to in-scope contracts, securities and instruments, but via different means. ICMA will be monitoring developments closely and continuing to engage with members and authorities on this important issue for the international bond market.

Contact: Charlotte Bellamy
charlotte.bellamy@icmagroup.org

10. See press release entitled *Financial Stability: Commission Addresses Risks of LIBOR Cessation,* 24 July 2020

FinTech in International Capital Markets

by Gabriel Callsen and Rowan Varrall

FinTech regulatory developments in the third quarter

EC: digital finance package including digital finance strategy and legislative proposals

On 24 September 2020, the European Commission adopted a digital finance package, including a digital finance strategy and legislative proposals on crypto-assets and digital resilience, for a competitive EU financial sector that gives consumers access to innovative financial products, while ensuring consumer protection and financial stability. The package supports the EU's ambition for a recovery that embraces the digital transition. Digital financial services can help modernise the European economy across sectors and turn Europe into a global digital player.

ECB: implications of stablecoins

On 22 September 2020, the ECB Crypto-Assets Task Force released its paper on *Stablecoin: Implications for Monetary Policy, Financial Stability, Market Infrastructure and Payments, and Banking Supervision in the Euro Area*. Recent initiatives may stimulate the adoption of stablecoins and raise implications for public policy, regulation, oversight and supervision. The general principle "same business, same risks, same rules" should guide regulatory efforts to ensure a level playing field and prevent regulatory arbitrage. Further work may be necessary for international standard setting bodies to address emerging risks. This may include, for example, developing an appropriate accounting and prudential treatment. Given the global nature of stablecoin arrangements, an EU regulatory approach cannot be developed in isolation, but should be informed by ongoing efforts of standard setting bodies.

BIS: FinTech and big tech credit: a new database

On 21 September 2020, BIS published its paper on *FinTech and Big Tech Credit: a New Database*. The paper finds that, in 2019, FinTech and big tech credit (together "total alternative credit") reached nearly USD800 billion globally. Big tech credit has shown particularly rapid growth in Asia (China, Japan, Korea and Southeast Asia), and some countries in Africa and Latin America. It also finds that alternative forms of credit are more developed where the ease of doing business is greater, investor protection disclosure and the efficiency of the judicial system are more advanced, the bank credit-to-deposit ratio is lower, and where bond and equity markets are more developed. Overall, both FinTech and big tech credit seems to complement other forms of credit, rather than substitute for them, and may increase overall access to credit.

IOSCO: measures to reduce conflict of interests in debt capital raising

On 21 September 2020, the Board of the International Organization of Securities Commissions (IOSCO) published final guidance to help its members address potential conflicts of interest and associated conduct risks market intermediaries may face during the debt capital raising process. The guidance also seeks to address some specific concerns observed by certain regulators during the COVID-19 crisis that may affect the integrity of the capital raising process. The report also explores the potential benefits and risks of blockchain technology in addressing conflicts of interest in the debt capital raising process.

The EU Parliament published its study on Emerging Risks in Crypto-Assets, covering regulatory and supervisory challenges in the area of financial services, institutions and markets.

EU Parliament: digital finance study on emerging risks in crypto-assets

On 14 September 2020, the EU Parliament published its study on *Emerging Risks in Crypto-Assets*, covering regulatory and supervisory challenges in the area of financial services, institutions and markets. The study is broken into six parts: The study (i) describes the current state of play and the underlying organisation of the crypto-assets market, how DLT is designed, how the crypto-assets market is structured and its current significance in the financial sector; (ii) describes the main current regulatory issues in the crypto-assets market; (iii) defines more precisely the scope and policy context of this assessment; (iv) further explains why EU action is needed, by identifying the gaps in the existing EU regulatory and legislative framework; (v) presents the main policy options under discussion to address the existing gaps; and finally (vi) conducts a thorough comparative economic analysis of the EAVA of the policy options identified.

EU Commission: survey on the use of technologies based on artificial intelligence

On 11 September 2020, the EU Commission published its report *European Enterprise Survey on the Use of Technologies based on Artificial Intelligence*. The survey reached a total of 9,640 enterprises in January-March 2020 and measured five KPIs: AI awareness, AI adoption, AI sourcing, external and internal obstacles to AI adoption. Awareness of AI is high across the EU (78%). Four in ten (42%) enterprises have adopted at least one AI technology, 25% have adopted at least two. While 18% have plans to adopt AI in the next two years, 40% have neither adopted AI nor plan to do so. Adoption at the level of each technology is still relatively low: from 3% for sentiment analysis to 13% for anomaly detection and process/equipment optimisation.

BIS: data vs collateral and implications of the use of big tech credit on collateral in credit markets

On 1 September 2020, the BIS published its working paper on *Data vs Collateral, Highlighting Implications of the Use of Big Tech Credit on Collateral in Credit Markets*. The paper compares how credit from a big tech firm and traditional bank lending correlate with local economic activity, house prices and firm-specific characteristics. It is based on a unique random sample of more than two million Chinese firms that received credit from both an important big tech firm (Ant Group) and traditional commercial banks. The paper also asks how the increased use of big data instead of collateral could affect how the provision of credit responds to collateral values. This "financial accelerator mechanism" has historically amplified the effects of financial market developments and asset prices on the real economy.

BIS: regulating FinTech financing: digital banks and FinTech platforms

On 27 August 2020, the BIS Financial Stability Institute published its paper on *Regulating Fintech Financing: Digital Banks and FinTech Platforms*. A host of new technology-enabled business models for deposit-taking, credit intermediation and capital raising have emerged in recent years. In particular, the proliferation of digital banking and financing via web-based platforms (FinTech balance sheet lending and crowdfunding) raises the question of where the regulatory perimeter should be drawn. Financial authorities now face the task of deciding whether their regulatory framework needs to be adjusted to account for these new fintech activities. To do so, they will need to consider a number of elements. The paper explores how digital banking and FinTech platform financing are regulated and provides a cross-country overview of the regulatory requirements for FinTech activities in 30 jurisdictions.

ECB: response to EC consultation a new digital finance strategy for Europe/FinTech Action Plan

On 27 August 2020, the ECB published the ESCB/European banking supervision response to the European Commission's consultation on *A New Digital Finance Strategy for Europe/FinTech Action Plan*. The ECB broadly supports the priority areas identified by the European Commission in the consultation document to foster the development of digital finance in the EU, which have gained further in importance in the light of the recent coronavirus (COVID-19) pandemic crisis, namely: (1) ensuring that the EU financial services regulatory framework is fit for the digital age; (2) enabling consumers and firms to reap the opportunities offered by the EU-wide Single Market for digital financial services by removing fragmentation; (3) promoting a well-regulated data-driven financial sector for the benefit of EU consumers and firms; and (4) enhancing the digital operational resilience framework for financial services.

UNSG: harnessing digitalisation to finance a sustainable future

On 26 August 2020, UNSG's Task Force on Digital Financing of the Sustainable Development Goals published its report on *Harnessing Digitalisation to Finance a Sustainable Future*. The report highlights the potential for digitalization to catalyse a fundamental realignment of both public and private finance with the SDGs. The Task Force offers an analysis of current developments and recommendations for action to establish a financial system that advances citizens' interests. The Task Force has catalysed a portfolio of pathfinder initiatives that exemplify ambitious action in implementing the recommendations.

BIS: rise of the central bank digital currencies

On 24 August 2020, the BIS released its Working Paper on *Rise of the Central Bank Digital Currencies: Drivers, Approaches and Technologies*. The paper finds that most projects originate in digitised and innovative economies, retail CBDC work is more advanced where the informal economy is larger, and none of the projects surveyed seeks to replace cash: all aim to offer a digital complement. On the technical designs, BIS finds that more central banks are considering "hybrid" or "intermediated" architectures, where the CBDC is a cash-like direct claim on the central bank but the private sector manages all customer-facing activity. Only a few jurisdictions are considering "direct" designs, in which the central bank takes on some or all of the customer-facing side of payments. At present, no central bank reports that it is pursuing a "synthetic" or "indirect" CBDC design. While central banks are considering various technical infrastructures, current proofs-of-concept tend to be based on distributed ledger technology rather than conventional infrastructure.

Saudi G20 presidency and BIS: update on G20 TechSprint initiative

On 10 August 2020, the Saudi G20 Presidency and BIS Innovation Hub published its update on the progress made in the G20 TechSprint initiative. The G20 TechSprint initiative, launched in April 2020, aims to highlight the potential for technologies to resolve regulatory compliance (regtech) and supervisory (suptech) challenges. The event on 6-7 August allowed the shortlisted teams to demonstrate their solutions to a panel of independent judges and receive feedback before the final judging, scheduled for October 2020. The mid-point review allowed the shortlisted firms, selected from a pool of 128 submissions from 35 countries, to further refine their solutions before the winners are selected.

BCBS: consultations on operational risk and operational residence

On 6 August 2020, the Basel Committee released consultative documents on *Principles for Operational Resilience* and *Revisions to the Principles for the Sound Management of Operational Risk*. Recognising that a concerted operational resilience effort may not prevent a significant shock resulting from a specific hazard, the Committee seeks comment on proposed principles for operational resilience that aim to mitigate the impact of potentially severe adverse events by enhancing banks' ability to withstand, adapt to and recover from them. The Committee is of the view that operational resilience is also an outcome of effective operational risk management. Given this natural relationship between operational resilience and operational risk, the Committee is proposing updates to its principles for the sound management of operational risk (PSMOR). Responses are due by 6 November 2020.

OECD: AI national policies for the G20 digital economy task force

On 24 July 2020, the OECD published its report on *Examples of AI in National Policies for the G20 Digital Economy Task Force*. The report sets out rationales for action on each of the G20 AI Principles and details relevant examples of national strategies and innovative policy practices for AI governance. The compilation drew on country survey responses or information for almost all G20 and guest countries, and on Digital Economy Task Force (DETF) discussions that took place in 2020 under the thematic dialogue on AI.

ECB: financial intermediation and technology: what's old, what's new?

On 3 July 2020, the ECB published its working paper on *Financial Intermediation and Technology: What's Old, what's New? (no 2438)*. The report studies the effects of technological change on financial intermediation, distinguishing between innovations in information (data collection and processing) and communication (relationships and distribution). Both follow historic trends towards an increased use of hard information and less in-person interaction, which are accelerating rapidly. The report points to more recent innovations, such as the combination of data abundance and artificial intelligence, and the rise of digital platforms. It is argued that in particular the rise of new communication channels can lead to the vertical and horizontal disintegration of the traditional bank business model. Specialized providers of financial services can chip away activities that do not rely on access to balance sheets, while platforms can interject themselves between banks and customers. The authors discuss limitations to these challenges, and the resulting policy implications.

Contact: Rowan Varrall
rowan.varall@icmagroup.org

ICMA FinTech Advisory Committee

ICMA' s FinTech Advisory Committee (FinAC) held its fourth meeting on 16 July 2020. Innovation is a topic which is high on the agenda of central banks as evidenced by the proliferation of initiatives. Against this backdrop, Benoît Cœuré, Head of the BIS Innovation Hub, provided an update on some of the latest aspects of the BIS' work in relation to FinTech and the BIS Innovation Hub.

Following on from previous discussions related to primary markets and repo markets, members led a discussion on trends and new initiatives in secondary bond markets as well as adoption scenarios for ISDA's Common Domain Model, which ICMA is in the process of extending to repos and bonds. The purpose was to exchange views on recent developments, identify gaps in terms of common standards and consider potential solutions, and explore how to facilitate the adoption of the CDM.

In secondary bond markets, the practice of exchanging pre-trade information on inventory and trading interests in particular instruments, referred to as "axes", has evolved significantly in recent years. Messages have gradually become more structured and axes are fed directly from trading systems to venues and clients via the FIX protocol and, lately, directly from sell side to buy side.

Currently, there is no single standard for axes and the distribution of axes, a topic which has been addressed by ICMA's Electronic Trading Council. The main reason being that growth has been organic and that implementing a FIX engine for messaging requires appropriate IT resourcing, which can be a hurdle for smaller market participants. As regards trade execution, algorithmic trading has increased driven by the evolution of technology, while electronic trading of corporate bonds in Europe is estimated to have risen to 50-60% by volume (compared to 30-40%) pre-MiFID II.

In light of ICMA's work to extend the derivatives-focused ISDA CDM to repos and bonds, adoption of the model by market participants is a key question. The fundamental industry issues the CDM is seeking to address are inconsistent processes, inconsistent data, and duplicated data. The Barclays White Paper *Industry Adoption Scenarios for Authoritative Data Stores using the ISDA Common Domain Model*, which was published on 13 July 2020, explores opportunities for the post-trade industry to standardise processes and simplify workflows in order to significantly increase efficiency and reduce costs.

The paper outlines how financial market infrastructures could operate a golden source for trade data, also referred to as "authoritative data stores" by using the CDM to share transaction data with broker-dealers based on a standardised set of digital representations for lifecycle events and processes. Both traditional centralised models and potential decentralised models can be envisaged. Ultimately, there are many possible adoption scenarios, depending on each market participant's degree of integration with the golden data source and usage of the CDM.

Joint association letter on a digital future for financial markets

ICMA, along with ISDA, ISLA, LBMA, UK Finance, Association of German Banks (BdB), AFMA and International Islamic Financial Market, jointly submitted on 29 July 2020 a letter to policy makers asserting their commitment to defining and promoting the development of a digital future for financial markets. The letter sets out a series of principles and objectives across three core areas – standardization, digitization and distribution – in order to increase efficiencies, reduce complexity and lower costs. The letter can be found on ICMA's webpage.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

Looking ahead, ICMA is considering the expansion of the FinTech Advisory Committee and is therefore inviting expressions of interest by ICMA member firms who would like to contribute to the FinAC's mission (via the below contact details). Further background on the FinAC and its mission statement are available on ICMA's dedicated FinTech webpage. Recent podcasts related to FinTech can be found here.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

CDM for repos and bonds

ICMA, in collaboration with ISDA and Regnosys, is in the process of extending ISDA's derivative-focused Common Domain Model (CDM) to repo and bonds. Two further workshops were held in July and August to define the scope and draft specifications for a repo model in the Common Domain Model. Moving to the next stage involves translating life cycle events and processes into code.

Member firms who would like to join the working group of sell sides, buy sides, trading venues and technology providers and support the development of the CDM for bond and repo markets are welcome to get in touch.

Further information on the CDM, including previous workshop materials and a podcast, are available on ICMA's dedicated CDM webpage.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

DLT regulatory directory

Policy makers and regulators across Europe continue to provide legal clarity on the use of distributed ledger technology (DLT) within financial markets. The Luxembourg Government submitted (27 July 2020) its draft bill n°7637 to Parliament, to recognise the possibility of using electronic recording systems (including DLT) for issuance or conversion of dematerialised securities. The German Federal Ministry of Finance published (11 August 2020) its draft law on the introduction of electronic securities, addressing the modernisation of paper-based documentation requirements with the ability to store securities in a digital register such as blockchain. Most recently, the Swiss Council of States approved Bill 19.074 (10 September 2020) which aims to remove obstacles on DLT applications and limit the risk of abuse.

These developments, along with the European Commission's communication on its Digital Finance Strategy and legislative proposals on crypto-assets and DLT (24 September 2020), can be found within ICMA's updated DLT regulatory directory. The directory was initially published in December 2019 and seeks to provide a non-exhaustive overview of recent DLT regulatory guidance, legislative initiatives, as well as related strategy papers and publications in selected jurisdictions across Europe, North America, and Asia-Pacific.

Contact: Rowan Varrall
rowan.varall@icmagroup.org

ICMA FinTech Newsletter

The August ICMA FinTech Newsletter invited members to participate in ICMA's Working Group to develop a repo model for CDM, shared the recent agenda and priorities of the cross-cutting FinTech Advisory Committee (FinAC) and highlighted recent FinTech applications and announcements in bond markets. The latest edition is available online.

The newsletter brings members up to speed on our latest cross-cutting technology initiatives and provides insights into regulatory updates, consultation papers, relevant publications, new items, and upcoming meetings and events. To receive future editions of the newsletter, please subscribe or update your mailing preferences and select FinTech, or contact us at FinTech@icmagroup.org.

Contact: Rowan Varrall
rowan.varall@icmagroup.org

ICMA Capital Market Research

Transparency and Liquidity in the European Bond Markets
Published: 29 September 2020
Author: Andy Hill, ICMA

Market Report: The European Investment Grade Corporate Bond Secondary Market and the COVID-19 Crisis
Published: 28 May 2020
Author: Andy Hill, ICMA

Sustainable Finance: High-level Definitions
Published: 11 May 2020
Author: Simone Utermarck, ICMA

EU Consolidated Tape for Bond Markets: Final Report for the European Commission
Published: 29 April 2020
Author: Elizabeth Callaghan, ICMA

ICMA ERCC Market Report: The European Repo Market and the COVID-19 Crisis
Published: 21 April 2020
Author: Andy Hill, ICMA

Time to Act: ICMA's Third Study into the State and Evolution of the European Investment Grade Corporate bond Secondary Market
Published: 4 March 2020
Author: Andy Hill, ICMA

A Quick Guide to the Transition to Risk-Free Rates in the International Bond Market
Published: 24 February 2020
Author: Charlotte Bellamy and Katie Kelly, ICMA

Sustainable finance: Compendium of International Policy Initiatives & Best Market Practice
Published: 20 February 2020
Author: Nicholas Pfaff, ICMA

Managing Fund Liquidity Risk in Europe: Recent Regulatory Enhancements & Proposals for Further Improvements
Published: 22 January 2020 (update to the original 2016 report)
Authors: ICMA/EFAMA Joint Report

ICMA ERCC Briefing Note: The European Repo Market at 2019 Year-end
Published: 14 January 2020
Author: Andy Hill, ICMA

MiFID II/R and the Bond Markets: The Second Year
Published: 20 December 2019
Author: Gabriel Callsen, ICMA

ICMA Impact Study: Mandatory Buy-ins under CSDR and the European Bond Markets
Published: 27 November 2019
Author: Andy Hill, ICMA

ICMA Briefing: The Importance of Integrated Capital Markets and CMU
Published: 29 July 2019
Author: David Hiscock, ICMA

A Comparative Review of Practices and Procedures in the Russian and International Primary Debt Capital Markets
Published: 5 June 2019
Authors: ICMA/NFA Joint Report

ICMA ERCC Briefing Note: The European Repo Market at 2018 Year-end
Published: 15 January 2019
Author: Andy Hill, ICMA

ICMA AMIC/EFAMA Report on Liquidity Stress Tests in Investment Funds 2019
Published: 8 January 2019
Authors: ICMA/EFAMA Joint Report

ICMA Webinars

Register now for:

ICMA Primary Market Forum
13 October 2020
Time: 9.00 - 11.15
BST 10.00 - 12.15 CEST

Developments in Bond Markets Contributing to Sustainability under COVID-19 – Globally and in Japan
13 November 2020
Time: 16:00-17:40
Japan Standard Time
08.00-09.40 CET

MENA debt capital markets: Developments in the wake of COVID-19 and future outlook
18 November 2020
Time: 15.00 - 16.30
UAE 12.00 - 13.30 CET

Already this year issuance of sustainable bonds stands at over $315 billion and the market is on track to exceed last year's volumes. US issuers are playing an important role in this dynamic trend with corporates including major tech firms now being active players. US investor interest continues to grow rapidly within the context however of an active debate on the relative merits of ESG strategies.

Join us to hear from market leaders and innovators, including members of the Executive Committee of the Green & Social Bond Principles.

For more info visit icmagroup.org/events
Contact: events@icmagroup.org

Recordings of all our previous webinars, including conversations with Arunma Oteh and Ashley Alder, capital markets and the green recovery in Asia Pacific and SFTR implementation are available from icmagroup.org/media/webinars

ICMA Podcast

The ICMA Podcast series has over 80 episodes under its belt on a full range of current topics, from tips on working from home to the effect of the COVID-19 crisis on all aspects of market activity. With 4 new episodes released each week during the height of the crisis, there have been almost 40,000 downloads of the podcast already.

Most downloaded ICMA podcast episodes in the last month

Post-Brexit: the way ahead in international capital markets Paul Richards, ICMA's Head of Market Practice and Regulatory Policy, gives an update on the issues that arise at the end of the post-Brexit transition period, both for market firms based in the EU and in the UK

GDP-Linked Sovereign Debt the benefits of government bonds where the interest and principal are linked to a country's GDP, adjusting the burden of debt repayment in line with the sovereign's ability to pay, with ICMA's Leland Goss and Starla Griffin of Slaney Advisors.

Digital transformation in capital markets with Chetan Tolia, Head of Digital Business Transformation at UBS Investment Bank

COVID-19: ICMA Asset Management & Investors Council market update (24 September 2020) Robert Parker, Chair of ICMA's Asset Management and Investors Council, reviews market events in light of the increase in global coronavirus cases, recent economic data and investor positioning.

Everyday tips for better mental health Dane Kramberger from UK mental health charity MIND offers some practical ideas on how to regain a sense of control in difficult times

COVID-19 Impact and Outlook from a Policy Perspective (23 September 2020) Stéphane Janin, Vice-Chair of ICMA's Asset Management & Investors Council and Head of Global Regulatory Development at AXA IM, reviews the short-term impact of the COVID-19 crisis from a supervision and regulatory perspective.

Follow the ICMA podcast on our **podcast channel** or or on your podcast provider (iTunes, Spotify, Podbean, Deezer, Google Podcast, Amazon Music and TuneIn) - search 'ICMA Podcast'. You can also access the ICMA Podcast on the **Chinese platform Ximalaya.**

ICMA Education livestreamed autumn/winter schedule

24 Sep - 2 Oct 2020	**Securities Lending & Borrowing - Operational Challenges**
28 Sep - 27 Oct 2020	**ICMA Operations Certificate Programme (OCP)**
1 - 2 Oct 2020	**Introduction to Green, Social and Sustainability (GSS) Bonds**
5 - 13 Oct 2020	**Introduction to Securitisation**
14 - 22 Oct 2020	**Securities Operations Foundation Qualification (SOFQ)**
19 - 28 Oct 2020	**Introduction to Bond Markets Qualification (IBMQ)**
29 Oct - 27 Nov 2020	**ICMA Fixed Income Certificate (FIC)**
2 - 11 Nov 2020	**Financial Markets Foundation Qualification (FMFQ)**
3 Nov - 2 Dec 2020	**ICMA Primary Market Certificate (PMC)**
16 - 25 Nov 2020	**Fixed Income Portfolio Management & Construction**
19 - 27 Nov 2020	**The GMRA for Repo Transactions**
30 Nov - 8 Dec 2020	**Corporate Actions - Operational Challenges**

For full details and registration: **www.icmagroup.org/education** Contact: **education@icmagroup.org**

Introduction to Green, Social and Sustainability Bonds: new self-study course

Green, Social and Sustainability (also called Sustainable or GSS) Bonds are a means of raising finance for projects with environmental and/or social benefits. This is a fast growing market sector, with over USD300bn of green, social and sustainability bonds issued across these three formats by end of Q3 2020 representing a year-over-year increase of around 40% while the total number of green bond issuers now number over 800.

To address the growing demand for insight into GSS Bonds, for the past few years ICMA has been delivering training workshops both in a classroom setting and more recently via livestreamed digital delivery to a diverse audience of market professionals involved in underwriting, capital markets lawyers, potential bank and corporate issuers, external reviewers, stock exchanges, data and index providers and official sector representatives.

Due to the popularity of these courses, ICMA is excited to announce the upcoming release of an online self-study version called *Introduction to Green, Social and Sustainability Bonds*. Consisting of 12 narrated video modules complete with concept-checking quizzes, the course introduces the underlying market drivers, evolving regulatory framework and the main features of GSS bonds based on the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines, including essential definitions of what constitutes a GSS bond issue and a detailed review of how the Principles work.

While focusing on green, social and sustainability bonds, the course also briefly looks at new products and developments such as the recently issued Sustainability-Linked Bond Principles, the EU Taxonomy and EU Green Bond Standard.

We are also proud to announce that the IFC will be one of the first organisations to partner with ICMA on this initiative, incorporating the *Introduction to Green, Social and Sustainability Bonds* course into an executive programme designed to encourage institutions from emerging markets to issue GSS bonds. Part of the wider Green Bond Technical Assistance Programme (GB-TAP), IFC and ICMA have been working together for many years in different capacities including sustainable finance training and we are very excited to have the opportunity to help realise their objective of increasing the volume of GSS bonds issuance from emerging markets.

Developed by a combination of leading market practitioners and ICMA's sustainability experts and available on ICMA's new learning management system in November 2020, *Introduction to Green, Social and Sustainability Bonds* provides a thorough introduction to the essentials of this growing market that participants can study in their own time at their own pace in the comfort of their own environment.

Contact: education@icmagroup.org

GLOSSARY

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AI	Artificial Intelligence
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
AMI-SeCo	Advisory Group on Market Infrastructure for Securities and Collateral
APA	Approved publication arrangements
APP	ECB Asset Purchase Programme
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BMR	EU Benchmarks Regulation
bp	Basis points
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
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
DCM	Debt Capital Markets
DLT	Distributed ledger technology
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
EC	European Commission
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
EDDI	European Distribution of Debt Instruments
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
EFTA	European Free Trade Area
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
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	Environmental, social and governance
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
ETP	Electronic trading platform
EU27	European Union minus the UK
ESTER	Euro Short-Term Rate
ETD	Exchange-traded derivatives
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 Markets Standards Board
FPC	UK Financial Policy Committee
FRN	Floating-rate note
FRTB	Fundamental Review of the Trading Book
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
GBP	Green Bond Principles
GDP	Gross Domestic Product
GFMA	Global Financial Markets Association
GHOS	Group of Central Bank Governors and Heads of Supervision
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
HQLA	High Quality Liquid Assets
HY	High yield
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositaries
IFRS	International Financial Reporting Standards
IG	Investment grade
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 fur 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
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II/R	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
NPL	Non-performing loan
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
PCS	Prime Collateralised Securities
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSEs	Public Sector Entities
PSI	Private Sector Involvement
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RFRs	Near risk-free rates
RM	Regulated Market
RMB	Chinese renminbi
RPC	ICMA Regulatory Policy Committee
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted asset
SBBS	Sovereign bond-backed securities
SEC	US Securities and Exchange Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SARON	Swiss Average Rate Overnight
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
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
STS	Simple, transparent and standardised
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
TONA	Tokyo Overnight Average rate
TRs	Trade repositories
UKLA	UK Listing Authority
VNAV	Variable net asset value

ICMA Zurich
T: +41 44 363 4222
Dreikönigstrasse 8
8002 Zurich

ICMA London
T: +44 20 7213 0310
110 Cannon Street
London EC4N 6EU

ICMA Paris
T: +33 1 70 17 64 72
62 rue la Boétie
75008 Paris

ICMA Hong Kong
T: +852 2531 6592
Unit 3603, Tower 2,
Lippo Centre
89 Queensway Admiralty
Hong Kong

icmagroup.org