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ICMA currently has over 620 members in 68 jurisdictions worldwide. 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 three core areas – primary markets, secondary markets, repo and collateral: with two cross-cutting themes of sustainable finance and FinTech.

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Foreword

Firm tone prevails

by **Bryan Pascoe**

The first quarter has set a very positive tone for debt markets in 2024 with extremely robust new issuance activity and strong underlying conditions in secondary markets reflected in tightening risk asset spreads across almost all asset classes. Our work at ICMA has closely mirrored this frenetic pace with an active stream of advocacy work and consultation responses, publications of key reports and papers, networking events and education and training initiatives across all regions and areas of activity.

The rest of the year is shaping up to pose interesting challenges with elections and potential political uncertainty on the horizon both in the US and Europe. While the US process will most likely set the geopolitical tone, closer to home our own agenda will be more closely aligned with the mandate of the incoming European Commission and direction of the UK Smarter Regulatory Framework for Financial Services agenda.

We expect increasingly strong focus on the buy side from the regulatory programme and will be very active in this through our relevant committees and also in partnership with other trade associations where relevant. The NBFI universe is of course highly eclectic and heterogeneous and it is critical that the impact of each sub-group of players on market stability is carefully assessed and treated on its own merits. While there is certainly a need to address concentration, liquidity management and leverage in certain corners of the market, the regulatory slide rule should be applied carefully to ensure markets remain efficient and investor activity not unduly impaired. With so much focus on developing and deepening capital markets, it would be counter-productive to arrive at overly prescriptive and restrictive regulation on parts of the buy side that already evidence strong oversight, self-governance and discipline aligned with best market outcomes.

Accelerated settlement remains a key focus and concern for many of our members and area of activity for our staff. Regulatory bodies in the EU and the UK have set out their stall in terms of transition to T+1 and will be closely watching the impact of the US move (along with Canada and Mexico) at the end of May. As part of this assessment it is of critical importance that clear and prescriptive cost-benefit analysis remains central to the process. We have been encouraged so far by the degree of engagement with industry on this topic and are keen to see interaction continuing in a similar vein to ensure best outcomes. Along with other industry bodies, we also actively advocate for close coordination between authorities across Europe.

On the membership front, I have had the great pleasure of participating in a large number of regional member lunches with many of you since the start of the year and have been struck by the quality of the interaction, great ideas generated and genuine camaraderie around the table (or tables). These gatherings are of great value to all not just for the networking but also in helping to guide and influence ICMA's work and priorities to align with members' needs. I look forward to seeing many more of you in this format in the coming weeks and months.

Our AGM and Annual Conference in Brussels in May – and subsequently those of the Principles in Amsterdam in June – are now fast approaching and promise again to be key convening events in the international fixed income calendar. We will also celebrate 25 years of the European Repo and Collateral Council (ERCC) with a commemorative dinner in London this month, a fitting tribute to the leading industry forum driving the European repo market since the turn of the century. It is certainly also worth noting that our very successful China Bond Market Forum held in Beijing last month enabled us to bring together over 400 domestic and international practitioners and regulators to debate market matters of key importance in China's vast and increasingly important bond market. This should remind us clearly of how important such broad-based gatherings continue to be to foster effective engagement and progress, especially when geopolitical factors may be unhelpful.

Continuing on the topic of progress I will close by mentioning two very important and unrelated developments. The first was the final cessation of GBP LIBOR on 28 March where ICMA has played a central role over a number of years as Chair of the Bond Market Sub-Group of the Risk-Free Rate Working Group under the auspices of the UK authorities. And secondly, the recent incorporation of ICMA's Bond Data Taxonomy (BDT) into the recent multi-tranche digital green bond issued by the Hong Kong SAR Government, the first such usage of this securities-lifecycle, machine-readable standardisation framework by an SSA borrower and a very important step in market digitalisation. Many congratulations and thanks to our members, stakeholders and my colleagues who have been involved in both of these notable achievements.

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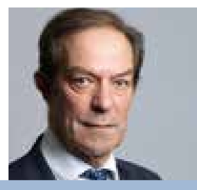
Lessons from LIBOR transition in the bond market under English law



by **Paul Richards**

Summary

This Quarterly Assessment considers the lessons from LIBOR transition to near risk-free rates in the sterling and US dollar bond market under English law. The LIBOR transition in the bond market under English law has followed five key steps, each of which has been discussed and agreed by consensus between the authorities and the bond market: first, changing fallbacks on new bond issues from referencing LIBOR to risk-free rates; second, changing new bond issues from referencing LIBOR to risk-free rates; third, transitioning legacy bonds referencing LIBOR to risk-free rates; fourth, ensuring continuity of contract between panel bank and synthetic LIBOR; and fifth, being prepared for the permanent cessation of synthetic LIBOR. Three-month synthetic sterling LIBOR ceased permanently on 28 March 2024; and one, three and six-month synthetic US dollar LIBOR are expected to cease permanently on 30 September 2024. This will complete LIBOR transition in the bond market under English law.[1]

Cooperation between the authorities and the industry

1 After the global financial crisis, the authorities planned the permanent cessation of LIBOR globally, on the grounds that LIBOR posed clear risks to global financial stability, as the market for unsecured wholesale term lending between banks was no longer sufficiently active to support such a widely used reference rate. Ultimately, US$400 trillion of global financial products referenced LIBOR.[2] Instead of LIBOR, the authorities encouraged the industry to adopt near risk-free rates.[3]

2 Although the authorities took the initiative in planning the cessation of LIBOR, they recognised the importance of cooperation with the industry in implementing it, because of the critical mass of industry involvement in the use of LIBOR as the most widely used reference rate globally. Cooperation

1. Of the 35 settings in the five LIBOR currencies, 24 ceased publication permanently at the end of 2021, including all Swiss franc and euro LIBOR settings, and some sterling, yen and US dollar LIBOR settings. One, three and six-month sterling and yen LIBOR settings continued in synthetic form for legacy transactions, with yen LIBOR settings ceasing permanently at the end of 2022, and one and six-month sterling LIBOR settings ceasing permanently at the end of March 2023, leaving only the three-month sterling LIBOR setting, which ceased permanently on 28 March 2024. Remaining US dollar LIBOR settings ceased at the end of June 2023, apart from one, three and six-month US dollar LIBOR settings, which continued in synthetic form for legacy transactions.

2. "As the interbank lending market died out, LIBOR started to be based on mere estimates of what banks thought they would have to pay to borrow money. There was little oversight and few guardrails. Concerns were raised repeatedly that LIBOR was, at best, unreliable, and at worst, easily manipulated – as a 2012 international investigation confirmed.": Nikhil Rathi, CEO of the FCA, and John C. Williams, President of the Federal Reserve Bank of New York: *Innovating for the Future, Heeding Lessons from the Past:* The Teller Window, Federal Reserve Bank of New York, 17 August 2023.

3. Instead of LIBOR, the key risk-free rates are: SOFR in US dollars; SONIA in sterling; €STR in euro; SARON in Swiss francs; and TONA in Japanese yen.

between the authorities and the industry was crucial in enabling the transition away from LIBOR to risk-free rates to take place in an orderly way.[4]

3 The transition was overseen by the Financial Stability Board's Official Sector Steering Group (OSSG) at global level, established in 2013 and jointly chaired by the Federal Reserve Bank of New York and by the FCA as regulator of LIBOR. At national level, working groups were established in all five LIBOR currencies. These included the Alternative Reference Rates Committee (ARRC) in the US to prepare for LIBOR transition under US law; and the Risk-Free Rate (RFR) Working Group in the UK to prepare for LIBOR transition under English law.[5]

4 In the case of the LIBOR transition in the bond market under English law, ICMA has chaired the RFR Bond Market Sub-Group since its inception in 2018 at the request of the FCA and the Bank of England and has worked closely with them. The group has represented all the key constituents in the bond market: issuers; banks as intermediaries; asset managers and investors; law firms; agents; and trade associations. The initial focus in the bond market was the transition of floating rate notes and securitisations referencing sterling LIBOR, and subsequently the transition of floating rate notes and securitisations referencing US dollar LIBOR under English law.

5 The catalyst for the start of preparations in the bond market was the public commitment in July 2017 by Andrew Bailey, at that time Chief Executive of the FCA as the regulator of LIBOR, that "the survival of LIBOR could not and would not be guaranteed past end-2021".[6] From then on, detailed planning in the bond market began on finding the best way to implement the commitment in practice. In the event, the transition in the bond market followed five key steps, each of which was discussed and agreed by consensus between the authorities and the bond market.

First step: changing fallbacks on new bond issues from referencing LIBOR to risk-free rates

6 As the bond market had not previously contemplated the permanent cessation of LIBOR, fallbacks in bond market documentation referencing LIBOR up to that point typically provided a waterfall of fallbacks, the final stage of which was to apply the rate set for the previous interest period for as long as the current rate remained unavailable.[7] This fallback to the last available rate was intended only to apply for a limited period to address temporary unavailability of the rate. But application of this fallback in the event of permanent cessation would have resulted in the last available rate applying for the remaining life of the bond. As a result, the floating rate on the bond would have become a fixed rate until maturity of the bond: ie the opposite of the original intention to reference a floating rate.

7 So the first step towards LIBOR transition was for the bond market to adopt fallbacks on new bond issues referencing LIBOR to take account of permanent cessation by including fallbacks to the relevant risk-free rate in the event of permanent cessation of the original rate. It took time for the market to adjust but, once it had done so, this capped the number of legacy LIBOR bonds due to fall back to a fixed rate.

Second step: changing new bond issues from referencing LIBOR to risk free rates

8 At that stage, the bond market was still referencing LIBOR on new floating rate note issues. So the second step was to stop the use of LIBOR in new floating rate note issues in the bond market by referencing instead the risk-free rate alternative to LIBOR. SONIA had previously been chosen as the sterling risk-free rate by the industry with the agreement of the authorities, and SOFR had been chosen as the US dollar risk-free rate. In both cases, risk-free rates compounded overnight in arrears are considered to be the most robust rates, measured by the volume of transactions, and they do not depend on any estimates based on the use of expert judgment. It is also relevant to note that the European Investment Bank (EIB) played a catalytic role in leading the bond market to adopt SONIA compounded overnight in arrears for new issues of floating rate notes.

9 In practice, the floating rate note market referencing risk-free rates, compounded overnight in arrears, is now established in both sterling and US dollars and is working well. The use of forward-looking term risk-free rates, which

4. FSB: "This monumental undertaking has seen an unprecedented shift in wholesale markets and has required the sustained coordination and dedication of regulators, industry bodies and market participants, and will lead to a more stable financial system. To maintain financial stability, it is important that markets remain anchored in robust benchmarks (for example risk-free or nearly risk-free rates) going forward.": *Final Reflections on the LIBOR Transition,* 28 July 2023.

5. ARRC: "LIBOR transition represented one of the most complicated, if not the most complicated, changes in financial market infrastructure ever required.": *ARRC Closing Report: Final Reflections on the Transition from LIBOR,* November 2023.

6. FCA: *The Future of LIBOR,* 27 July 2017.

7. In the case of these old-style fallbacks, the use of dealer polls (under which reference banks provide quotations from which a fallback rate can be calculated) is typically envisaged in the initial stages of the waterfall of fallbacks. Dealer polls were designed for temporary unavailability of the LIBOR rate on a screen rather than the permanent cessation of LIBOR. It is understood that the FCA has encouraged banks to put policies and mechanics in place to ensure that these fallbacks operate smoothly.

are less robust than overnight rates as they reference a future or derivative of the risk-free rate rather than the risk-free rate itself, has been limited to particular types of transaction (eg to provide certainty for calculating interest payments in advance for some products);[8] and the authorities have cautioned against the use of credit sensitive rates, which attempt to replicate a term rate, on the grounds that they could recreate the same risks as LIBOR.[9] The authorities have also emphasised that robust fallbacks are needed for new transactions referencing risk-free rates to avoid a possible recurrence of the problems experienced with fallbacks referencing LIBOR.[10]

Third step: transitioning legacy bonds referencing LIBOR to risk-free rates

10 The third step – and the most difficult and time-consuming task – was to transition legacy sterling and US dollar LIBOR bonds under English law, particularly those with fallbacks to a fixed rate, from LIBOR to SONIA or to SOFR respectively. By contrast to the derivatives market,[11] legacy bonds referencing LIBOR could not be transitioned to risk-free rates *en bloc*. Under typical bond terms and conditions, bonds can only be transitioned by agreement between issuers and bondholders, bond by bond.

11 In most cases, the only practicable method of enabling transition in the bond market was by changing the bond terms and conditions so as to refer to a different interest rate by way of consent solicitation, a process which allows the issuer and the bondholders to agree to amend bond terms and conditions. Consent solicitation typically has certain quorum requirements and consent thresholds which need to be met. While most bond conditions under English law provide for consent thresholds of significantly less than 100%, the process of consent solicitation took time and success was not guaranteed.[12] As risk-free rates were not the same as LIBOR, and in particular as risk-free rates do not embed a credit element, the authorities proposed, and it was agreed, that an adjustment spread based on the ISDA adjustment spread should be added to the risk-free rate for any legacy LIBOR bonds that were transitioned.

12 The authorities were determined to stop the use of panel bank LIBOR as soon as possible: at the end of 2021 in the case of sterling LIBOR, and at a revised date of the end of June 2023 in the case of US dollar LIBOR. But extra time was needed to transition legacy LIBOR bonds. If permanent cessation had taken place too early, many bonds which had not yet been transitioned would have fallen back to a fixed rate (ie the opposite of the floating rate originally negotiated). More time was needed beyond the cessation date of panel bank LIBOR at the end of 2021: (i) to prevent a significant number of legacy bonds from falling back to a fixed rate; (ii) to allow more legacy bonds to mature; and (iii) to transition as many legacy bonds as possible to risk-free rates.

13 While the UK and the US authorities had the same objective of achieving the permanent cessation of LIBOR as soon as possible, they followed different methods to achieve it. In the US, consent solicitation for transitioning legacy LIBOR bonds was considered to be impracticable because consent thresholds that apply to bonds governed by US law are typically 100%. The US authorities addressed the legacy problem by introducing Federal legislation to override existing legacy contracts referencing LIBOR, and to replace references to US dollar LIBOR within such contracts at the cessation of panel bank LIBOR, by operation of law, with a SOFR-based benchmark replacement identified by the Federal Reserve.

14 By contrast, the UK authorities proposed that, at the cessation of panel bank LIBOR under English law, legacy bonds and other legacy transactions referencing panel bank LIBOR should instead reference synthetic LIBOR (ie the same rate but using a different methodology).[13] The methodology for synthetic LIBOR in both sterling and US dollars consisted of a term risk-free rate plus a fixed ISDA adjustment spread. A forward-looking term rate was chosen for synthetic LIBOR, as this involved fewer operational changes than an overnight rate compounded in arrears.

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8. "An over-reliance on term rates outside these limited circumstances carries risks of undermining the robustness of these rates due to the potential for illiquidity in the underlying markets that enable and sustain term RFRs.": FSB, *Final Reflections on the LIBOR Transition,* 28 July 2023.

9. See, for example, IOSCO: *Statement on Alternatives to USD LIBOR,* July 2023.

10. "The FSB encourages all market participants to learn from the LIBOR transition experience and to adopt robust fallback mechanisms in all cases.": FSB, *Final Reflections on the LIBOR Transition,* 28 July 2023.

11. See, for example, the ISDA IBOR Fallbacks Protocol.

12. Under English law, the quorum required for a meeting to vote on a change in the contractual terms of floating rate notes is typically 66% to 75% of which, typically, 75% need to vote in favour of the resolution amending the contractual terms. If the quorum is not reached, the initial meeting can usually be adjourned for a subsequent vote at a later date where a lower quorum will usually apply. Some securitisations have negative consent clauses allowing for the change if 10% or more of the bondholders do not object.

13. See the FCA announcement of its decision on synthetic US dollar LIBOR, 3 April 2023.

Fourth step: ensuring continuity of contract between panel bank and synthetic LIBOR

15 The fourth step was to reassure the bond market that, in the case of legacy bonds, there was continuity of contract in law between the rate for panel bank LIBOR and the rate for synthetic LIBOR in order to provide certainty that contractual references to LIBOR would continue to be treated as references to LIBOR after the introduction of synthetic LIBOR. Once the market had been consulted, HM Treasury introduced legislation to provide continuity of contract under English law.[14] The continuity of contact legislation is designed to be currency agnostic so that it applies to English law-governed transactions referencing both sterling LIBOR and US dollar LIBOR.

Fifth step: being prepared for permanent cessation of synthetic LIBOR

16 For US dollar LIBOR transactions under US law, the application of Federal legislation in the US was not subject to a time limit, as US dollar LIBOR was replaced by the risk-free rate directly as a result of the legislation. But the UK authorities decided to impose a time limit on use of synthetic LIBOR under English law, as the synthetic LIBOR rate was not considered to be a "representative" rate and was designed to serve only as a short-term temporary bridge from LIBOR to alternative robust reference rates. Setting a permanent cessation date was also designed to encourage active transition in the bond market in the meantime.

17 So instead of allowing outstanding legacy LIBOR bonds to continue referencing synthetic LIBOR indefinitely or until they matured, the UK authorities proposed permanent cessation dates for synthetic LIBOR: the cessation date for synthetic sterling LIBOR was 28 March 2024; and the expected cessation date for synthetic US dollar LIBOR is 30 September 2024. The UK authorities have issued a wide range of communications to the market over a long period (eg through speeches, public statements and "Dear CEO" letters, all recorded on official websites) in order to encourage transition; they have monitored progress by the firms they supervise; and they have warned the market to be prepared for the permanent cessation of synthetic LIBOR. Permanent cessation is the fifth and final step in the LIBOR transition process in the bond market under English law.[15]

"Market participants need to ensure they are prepared for the final synthetic US dollar LIBOR settings to cease at end-September 2024."

Jon Relleen: Director of Infrastructure & Exchanges - Supervision, Policy & Competition Division – Markets, FCA

Summary of lessons in the bond market

18 The Federal Reserve Bank of New York and the FCA have stated: "Transitioning away from LIBOR has been one of the largest financial transformation projects we have seen and an undertaking we do not wish to repeat."[16] So what in summary are the lessons from LIBOR transition in the bond market under English law?

- First, it was important that the authorities and the industry worked closely together throughout the process. This approach was global, overseen by the FSB OSSG, jointly chaired by the Federal Reserve Bank of New York and the FCA, and accompanied by national working groups in each major LIBOR jurisdiction. As an example, the UK authorities and market participants have worked closely together throughout the process in transitioning the bond market.
- Second, once it became clear that panel bank LIBOR was due to cease permanently, the bond market moved as soon as it could to stop using fallbacks to a fixed rate for new floating rate note issues referencing LIBOR and instead use fallbacks to risk-free rates; and then to stop referencing new floating rate note issues to LIBOR and instead reference risk-free rates. This limited the size of the legacy LIBOR problem and encouraged the development of a new issue market referencing risk-free rates.

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14. The Critical Benchmarks (References and Administrators' Liability) Act 2021.

15. The transition of EONIA and EURIBOR has been handled differently. In the case of EONIA, "the market successfully transitioned from EONIA to €STR at the end of 2021." In the case of EURIBOR: "while [EURIBOR] is not scheduled to be discontinued, market participants have additional work to do in the adoption of viable fallbacks in line with the Working Group recommendations.": *Working Group on Euro Risk-Free Rates: Final Statement,* 4 December 2023.

16. Nikhil Rathi and John C. Williams: *Innovating for the Future, Heeding Lessons from the Past:* The Teller Window, Federal Reserve Bank of New York, 17 August 2023.

- Third, dealing with the remaining legacy LIBOR problem was much the most time-consuming task in the bond market, owing to the need to transition bonds to risk-free rates bond by bond. The UK authorities were committed to stop the use of panel bank LIBOR on the stated end date for its publication, but they recognised that more time was needed for transitioning legacy LIBOR bonds. They helped to address the legacy LIBOR problem by changing the methodology for legacy LIBOR bonds from panel bank LIBOR to synthetic LIBOR while keeping the same LIBOR rate. In the US, Federal legislation was introduced involving contract override (ie changing the LIBOR rate by operation of law). While the US and UK authorities followed different methods, they achieved the same objective.
- Fourth, special legislation introduced by HM Treasury under English law provided necessary reassurance to the bond market about continuity of contract between panel bank and synthetic LIBOR in both sterling and US dollars.
- Finally, the UK authorities communicated the message widely that the bond market needed to be prepared for the cessation of synthetic sterling LIBOR on 28 March 2024 and needs to be prepared for the expected cessation of synthetic US dollar LIBOR on 30 September 2024.

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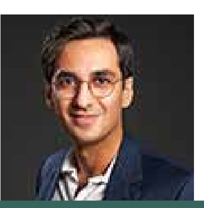
Transition finance in the debt capital market



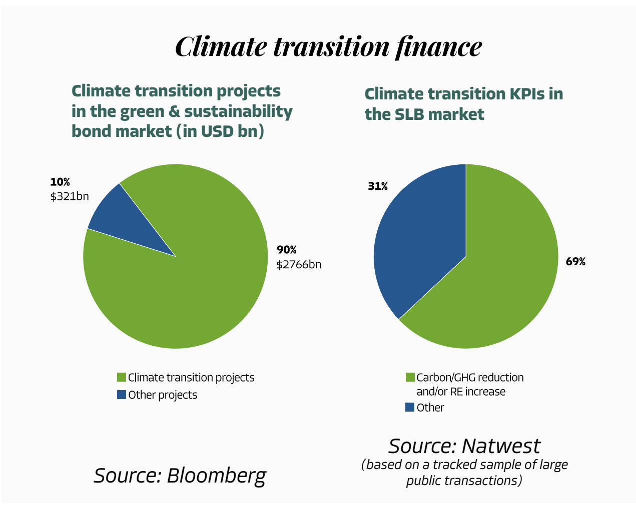
by **Nicholas Pfaff, Ozgur Altun** and **Stanislav Egorov**

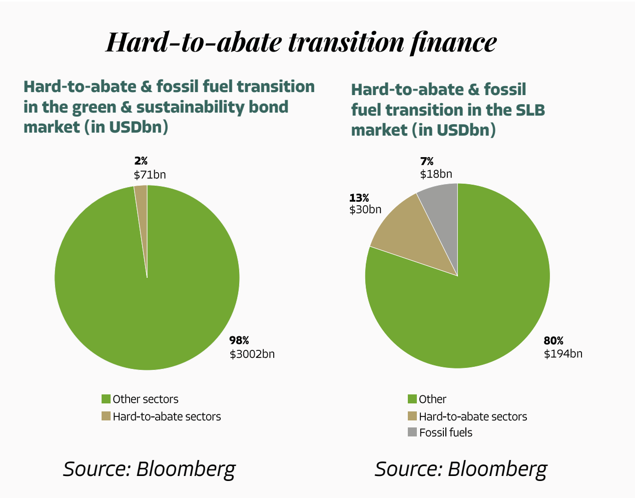
The Principles and ICMA have been at the forefront of transition finance since the release in 2020 of the *Climate Transition Finance Handbook* (CTFH). The Handbook identifies the need for organisation-level disclosures and strategy to underpin an issuer's transition related capital financing. It also underlines the importance of the credibility of an issuer's GHG emissions reduction strategy, commitments, and practices, while defining the goal of transition finance as realising the objectives of the Paris Agreement on Climate Change. The CTFH characterises transition as an organisation-level challenge that can be translated into a key financing theme relating to both use-of-proceeds and sustainability-linked bonds.

On 14 February 2024, ICMA published a thought leadership paper, *Transition Finance in the Debt Capital Market*, benefitting from the input of the Executive Committee as well other ICMA committees and members. The paper reviews the latest guidance and recommendations on transition finance from both the market and the official sector. It also underlines the progress of international taxonomies to integrate transition, as well as the latest developments on sectoral pathways and industry roadmaps.

The paper identifies three different overlapping definitions in general use for "transition finance", ranging from an economy-wide transition (broadest definition) and then climate transition (renewables, decarbonisation in buildings, transport, etc.) to the narrow focus on the decarbonisation of hard-to-abate and fossil fuel sectors. We also provide in Appendix D a non-exhaustive list of existing transition finance definitions from leading sources.

As illustrated below, the data shows that sustainable bonds have been contributing at scale to the climate transition, with an estimated 90% of green and sustainability bonds aimed at the decarbonisation of energy, buildings, and transport, and 69% of SLB KPIs being based on GHG reductions and/or RE increase. Conversely, green and sustainability bond volumes from fossil fuel and hard-to-abate issuers are small (2% of the outstanding market). We attribute this to a lack of consensus on acceptable technologies, trajectories, and greenwashing fears. SLBs do better with 20% of finance (representing US$48 billion) raised from these sectors reflecting the transition orientation of that instrument, which underpins nonetheless a comparatively smaller market.





Both the official sector and the market are however providing guidance that can spur the further expansion of transition finance in the sustainable bond market. Firstly, the complexity of transition is being conceptualised in taxonomies as economic activities with an outcome, a list of approved technologies or projects, and/or a phase-out of specific facilities or even industries. In Appendix C of the paper, we provide an overview of how various taxonomies incorporate transition perspectives. These also reflect differences and priorities between jurisdictions and regions. Secondly, guidance has been developed by some jurisdictions in the form of pathways and roadmaps aiming to provide transition trajectories notably for fossil fuels and the hard-to-abate sectors which issuers can refer to.

In parallel, the formalisation of corporate sustainability reporting and standards by the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS) is an opportunity for the mainstreaming of transition plans. To summarise, transition plans are essentially entity-level, forward-looking disclosures on decarbonisation ambition, targets, actions, means, and financial and other resources that are of strategic nature and supported by effective climate governance. Adoption of a transition plan may unlock the potential of transition finance by providing a strategic context and consistency check to transition-themed issuances, helping to avoid controversy related to carbon lock-in, and enhancing market practices, especially in the sustainability-linked market.

A fundamental aim of the paper is therefore to encourage the early adoption of transition plans for most corporates issuing in the international debt markets. In this regard, we present in Appendix A of the paper an "integrated transition plan" structure building on the existing guidance of the CTFH, ISSB, the ESRS, and the UK Transition Plan Taskforce's recommendations. We believe such an integrated transition plan structure could also help achieve international consistency. Without intending to be exhaustive, our proposal covers 15 key actions and disclosures for issuers aiming to align their transition plan with all these frameworks.

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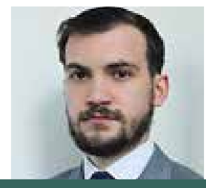
Appendix A – Key actions & disclosures for an integrated transition plan under CTFH, IFRS S2, ESRS E1, & UK TPT

Elements	Key actions & disclosures
Transition strategy, materiality & governance	• Adopt a Paris-aligned (ideally its 1.5°C objective) and quantitatively measurable climate transition strategy and targets using science-based pathways provided by recognised third-party sources, where they exist, and disclose methodologies and scenarios used, as well as any third-party certification. • Ensure that climate transition strategy is relevant to the environmentally material parts of the business model. • Ensure effective climate governance arrangements including senior management approval of the plan and accountability, remuneration/incentive schemes linked to the transition strategy, and necessary skills and training across the organisation. • Where relevant, consider "just transition" and disclose broader sustainability policies addressing negative sustainability impacts and trade-offs. • Position transition plan as a standalone document sitting alongside financial reporting.
Science-based targets & metrics	• Disclose GHG emissions covering all material Scopes as formulated in absolute (gross tCO2e), economic output (per net revenue), and industry-based metrics. • Adopt and disclose absolute gross (tCO2e), and where relevant, intensity-based targets for all material GHG Scopes. When only intensity targets set, disclose also the associated absolute values. • Adopt short (ideally 3 years max.), medium, and long-term targets, and in any case for 2030, from which date baselines and targets should be updated every 5 years. • There should not be any reliance on offsets except for residual (approx. 5-10%) emissions in net zero targets, in which case they should be disclosed separately and include credibility proof.
Implementation transparency	• Disclose all the relevant information on (i) planned changes to the business model, operations, products, as well as relevant policies and processes supporting those; (ii) actions for short (ideally 3-years max.), medium, and long term; (iii) planned investments, financial resources, and other financial metrics; (iv) internal carbon pricing; (v) engagement strategy and actions for value chains, with industry, public sector, and civil society. • Provide a credible link between the various levers and the transition strategy and quantify the contribution from different levers to climate objectives at least on an estimated basis. • Where relevant, disclose potential adverse sustainability impacts and mitigating actions and expenses (e.g. for "just transition").
Verification & reporting	• Obtain an external review assessing the credibility of the entity's strategy, its alignment to the referenced science-based trajectories, and its climate governance alongside any potential jurisdictional requirement required for sustainability reporting (e.g., limited or reasonable assurance). • Report annually quantitative and qualitative information on the progress against the transition plan, targets, and metrics. • Regularly update the transition plan (ideally every 3 years), and when there are significant changes.

Liquidity and resilience in the core European sovereign bond markets



by **Andy Hill** and **Simone Bruno**

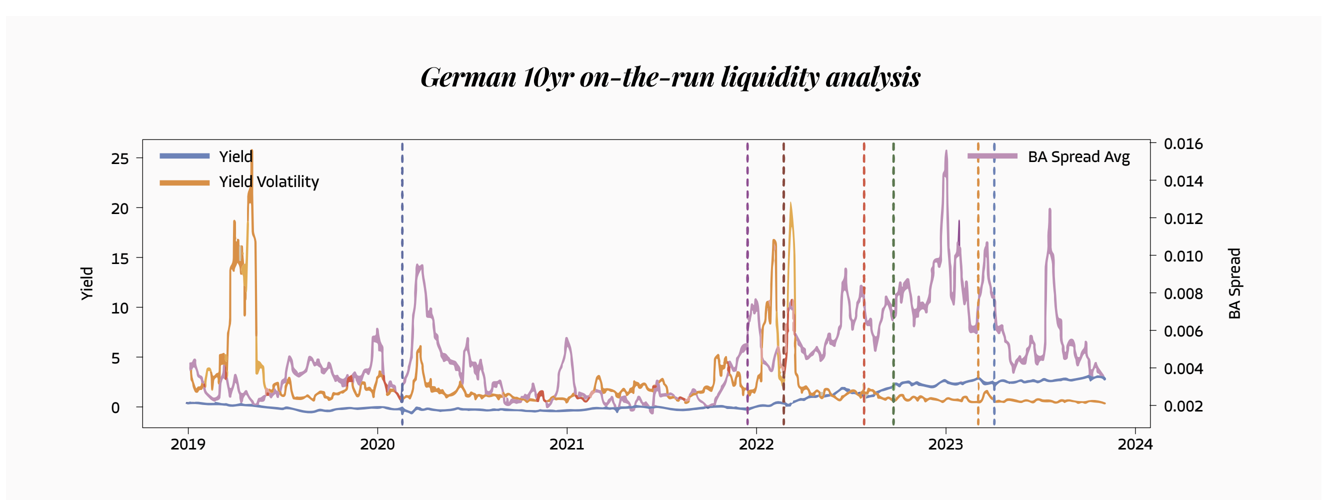
On 5 March 2024, ICMA published an in-depth analysis of liquidity and resilience in the core European sovereign bond markets. Using data analysis, modelling, as well as interviews with sell-side and buy-side market participants, the report attempts to identify potential vulnerabilities in underlying market structure.

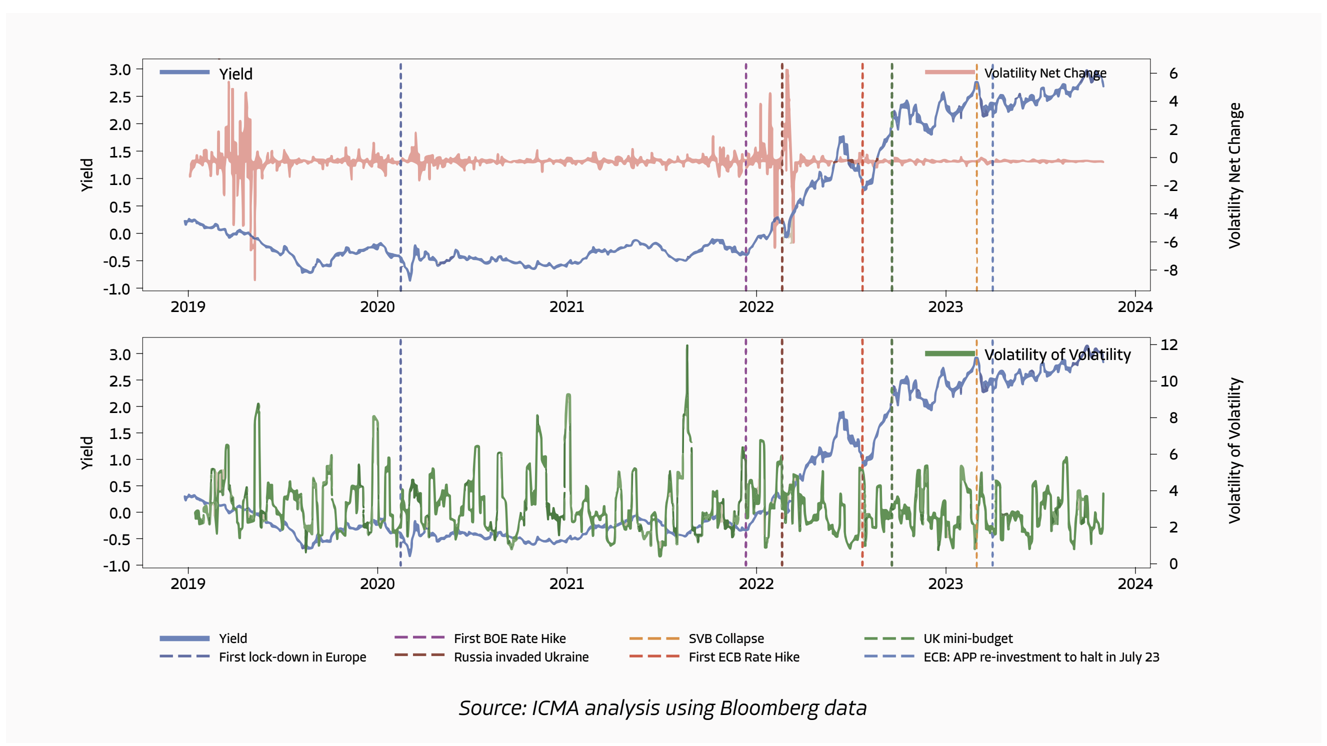
Focused on the five largest European sovereign bond markets (Germany, France, Italy, Spain, and the UK), some of the key findings of the report are:

- Liquidity in the core European bond markets is generally good, but in recent years liquidity has become much more sensitive to both episodes of unexpected volatility and regulatory reporting dates.
- The speed at which markets become volatile (the "volatility of volatility") has increased.
- Repo markets function well, even in times of heightened stress, but are also subject to sharp drops in liquidity around reporting dates.
- Liquidity in the sovereign bond futures markets is generally good, although limited to a few contracts, and again prone to a rapid thinning and widening of prices in times of stress.
- Market participants accept that episodic heightened volatility, with rapid evaporation of liquidity, and a sharp repricing of risk, is the new normal.
- Participants also believe that central banks will be required to intervene in bond markets more frequently and systematically to restore stability.
- The consistent recommendation from market participants, both sell-side and buy-side, to make sovereign bond markets more resilient, is that policy makers and regulators should review the design and calibration of prudential regulation as it applies to primary dealers.

The report is intended to be the first in a series of reports, part of ICMA's Bond Market Liquidity Taskforce initiative, which will look at other key bond markets.

German 10yr on-the-run liquidity analysis





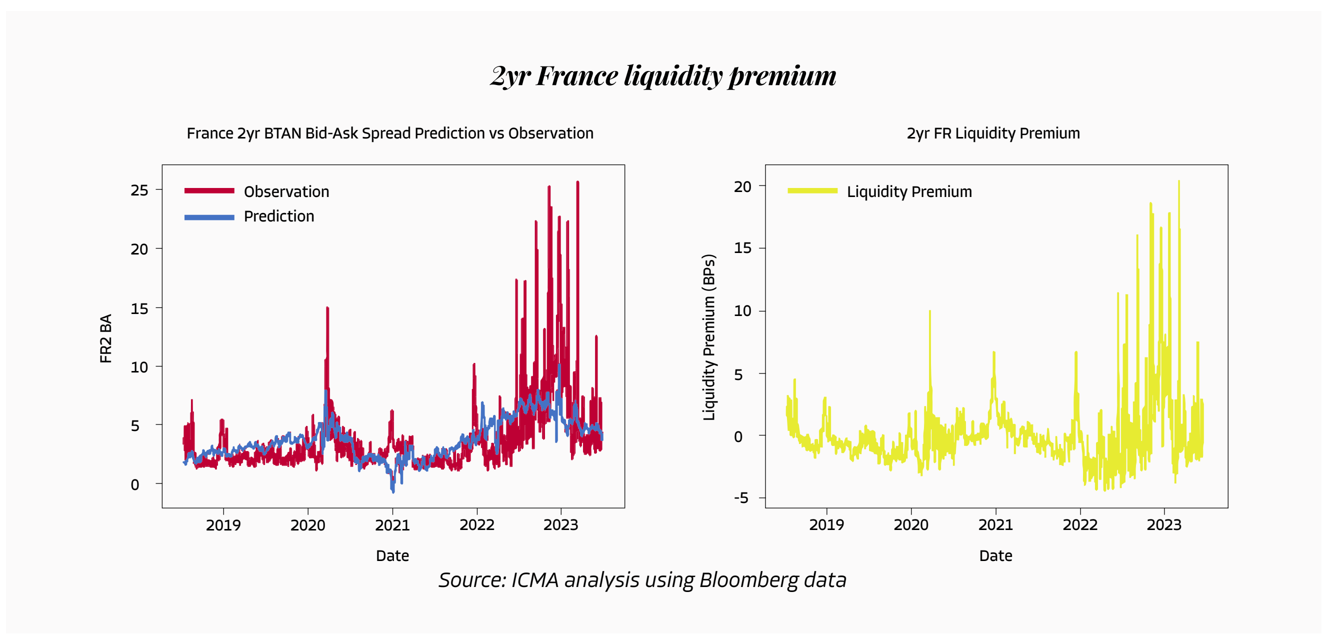
Source: ICMA analysis using Bloomberg data

UK 10yr on-the-run liquidity analysis

Yield
Yield Volatility
BA Spread Avg
BA Spread
Volatility Net Change
Volatility of Volatility
First lock-down in Europe
First BOE Rate Hike
Russia invaded Ukraine
SVB Collapse
First ECB Rate Hike
UK mini-budget
ECB: APP re-investment to halt in July 23

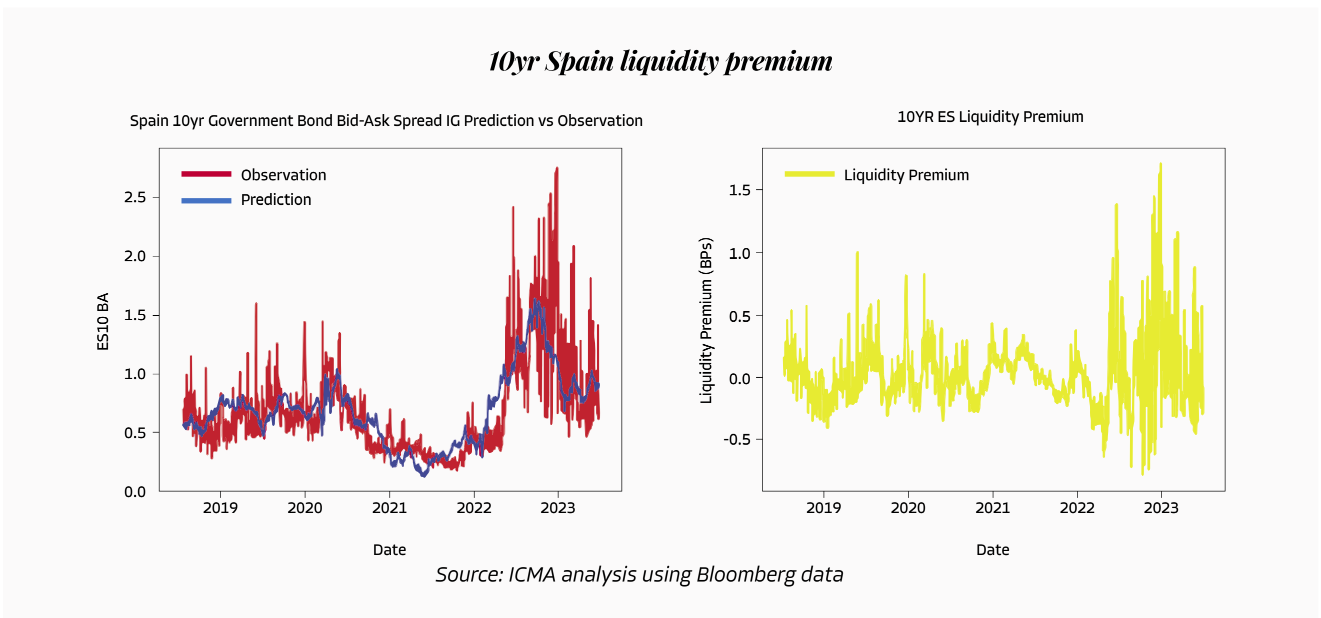
Source: ICMA analysis using Bloomberg data

2yr France liquidity premium



Source: ICMA analysis using Bloomberg data

10yr Spain liquidity premium



Source: ICMA analysis using Bloomberg data

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Bond markets to meet EU investment challenges

by **Julia Rodkiewicz**

On 22 March 2024, ICMA published a report which is entitled *Bond Markets to Meet EU Investment Challenges* and contains regulatory policy recommendations for the next EU political cycle.

The report underlines the transformational role that bond markets can play in funding the investment that the EU needs for sustainable economic growth and competitiveness. The report also provides recommendations on how the EU can further develop a regulatory framework supporting the ongoing development of bond markets.

In particular, the recommendations, summarised below, aim to support the development of an efficient, effective, and internationally competitive EU bond market, enabling the bond market to serve EU policy objectives.

The EU needs investment – which bond markets can provide

The EU needs investment to fund its economic growth, support its competitiveness globally, and address challenges such as climate change, digital transition, and pensions for an ageing society. Cross-border capital markets development will be critical in achieving this. Bond markets have the capacity and potential to provide the largest source of financing for companies to underpin sustainable economic growth across the EU, as well as provide a relatively safe and attractive option for households to invest their savings. Further developing pan-European bond markets would not only provide a deeper pool of financing for EU economic investment and growth, but it would help to facilitate the flow of capital across EU borders, thereby reducing barriers to funding access, sharing risk more evenly, and reducing the overall cost of capital for EU corporates and institutions.

The EU needs deep, liquid and resilient bond markets

There is untapped potential for deepening liquidity and improving the functioning of EU capital markets so that they are better aligned to servicing the needs of society. EU primary institutional markets already function well based on the current established market processes and documentation requirements, and it is important to maintain the integrity of this market as well as take steps to encourage further market depth and ease of access, where possible. In supporting and boosting the effective functioning of secondary markets, a key consideration for the EU agenda going forward will be the critical role of intermediaries, such as market makers who provide immediacy and fair value for investors needing to buy or sell bonds. In this respect, market liquidity is critical, and it needs to be factored into dealer banks' cost of capital. Related, ICMA would welcome a further review of the current regulatory framework around repo to help identify potential constraints and vulnerabilities. The same perspective on prudential calibration is equally relevant to underpinning and developing short-term markets and securitisation.

EU citizens need to be able to save for their retirement by investing in bond markets

ICMA believes that further unlocking the potential of bond markets requires both careful calibration of existing initiatives and fresh thinking around how to create new opportunities for access. Improvements to encourage the offer of bonds to retail investors in the EU would be welcome. One of the EU's core goals must be to make European investment funds even more attractive, accessible and safer for investors. While encouraging efficient avenues for collective investment, retail investors should not be shut out of direct access to the financial markets. Here, heightened financial awareness, education and affordable investment advice will also be important.

The EU's leadership in sustainable finance needs to be reinforced

EU issuers play a key role in stimulating the growing market for green investment. The next mandate is a crucial opportunity to take this further. In doing so, it will be important that EU regulatory initiatives do not unintentionally hinder sustainable finance market activity.

For example, further efforts to create exhaustive definitions of greenwashing could create more issues than they solve as they risk market paralysis or regression because of excessive reputation or litigation fears.

The EU needs a more efficient and integrated post-trade landscape

ICMA recommends a revived focus on removing the remaining barriers in the EU to a more integrated post-trade process, so that market infrastructure can support deeper market liquidity and boost confidence in settlement and clearing mechanics. ICMA also urges the EU institutions (working closely with the industry) to carry out a robust impact assessment and to weigh carefully the benefits against all related costs and risks of adopting a T+1 settlement cycle. Shorter settlement cycles could be counterproductive where there is a trade-off with liquidity and access, potentially adversely impacting the competitiveness of EU capital markets.

The EU should strengthen its support for digital bonds and the digital wholesale euro

New technologies have far reaching potential to modernise capital markets and reduce the cost of funding for firms. In particular, ICMA believes that, to unlock the benefits of digital bonds at scale, a wholesale digital euro is required.

Conclusion

In conclusion, bond markets are a fundamental component of capital markets, providing a deep and diverse source of financing for both public and private sector institutions and corporations, whilst offering investors stable returns alongside risk diversification. Broadening and deepening of a truly cross-border EU bond market will be key to the EU meeting the identified challenges ahead and furthering its role as a global economic leader.

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Hong Kong's tokenised green bonds

by **Georgina Lok**

Technology driving transformation in capital markets

Accelerating technological innovation over the past decade has sparked new opportunities to transform and rethink financial market structure and processes. In particular, the use of distributed ledger technology (DLT) has garnered notable use cases in traditional capital market products and processes, such as bond issuance, investment and trading.

ICMA estimated that, as of 2023, there were globally more than 40 technology solutions available to automate all or part of the debt security issuance process, and over 30 outstanding bonds that have digital exposures (ie issuance on a digital ledger, digital exchange, and/or digital clearing house).[1] Related tools enhancing market efficiency and interoperability are also emerging. For example, ICMA's Bond Data Taxonomy (BDT), which was released by ICMA in 2023, aims to provide an agreed language for key bond information to promote automation and reduce the risk of fragmentation across the issuance process.

For Hong Kong as an international financial centre and a major bond hub, there is merit in embracing innovation and adopting technologies that hold the potential to generate efficiency gains, reduce cost, enhance transparency and facilitate investor participation in the bond market. This potential is what prompted the HKMA to embark on a tokenisation journey in 2021 with Project Genesis in collaboration with the Bank for International Settlements Innovation Hub Hong Kong Centre, which successfully concept-tested the issuance of tokenised green bonds in Hong Kong. Building on Project Genesis, we took the initiative beyond proof-of-concept to actual, real-money transactions, and have successfully executed two tokenised green bond issuances for the HKSAR Government since 2023.

World's first tokenised government green bond

The HKSAR Government's first tokenised issuance (HKD denominated, around US$100 million equivalent) was launched in February 2023, marking the world's first tokenised government green bond. Governed by Hong Kong law and implemented under the prevailing legal and regulatory framework, the offering was highly significant as it demonstrated that Hong Kong could provide a flexible and conducive environment for the tokenised issuance format.

The issuance also showed the possibility to run a bond's lifecycle on-chain, bringing together multiple parties (issuer, underwriting banks, custodians, agents, etc) that would otherwise be interacting via different systems onto a single platform with a common set of records. For example, atomic settlement in primary issuance was enabled by on-chain delivery-versus-payment exchange of securities tokens and cash tokens, with the settlement cycle shortened from the typical five business days (T+5) to one business day (T+1). DLT was applied not only in primary issuance, but also the full suite of post-issuance processes, with settlement of secondary trading, coupon payments and maturity redemption all taking place on the digital assets platform.

Second tokenised green bond with broad investor reach and scalability

Building on the success of the inaugural issuance, we conducted a second tokenised issuance in February 2024 in four major currencies (HKD, RMB, USD and EUR) totalling around US$750 million equivalent. As the first multi-currency digital bond offering in the world, and with the aggregate size matching the benchmark sizes of many traditional issuances, this issuance brought tokenised bonds further beyond proof-of-concept and represented a big step

1. For more details, see the ICMA report, *The Asian International Bond Markets: Development and Trends, March 2024*.

towards achieving wider market adoption and scalability. It attracted subscription by a broad spectrum of institutional investors globally, from financial institutions (including asset managers, banks, insurance companies and private banks) to non-financial institutions.

Central to the success of this second issuance was a ground-breaking investor access model that helped overcome participation hurdles in typical tokenised bonds. Investors had the option to access the bond via traditional market infrastructure (ie Hong Kong's central securities depository for debt securities, the Central Moneymarket Unit, and its existing linkages with Euroclear and Clearstream), thereby allowing participation via largely business-as-usual processes without directly interacting with the digital assets platform. This option alleviated investors from the potential complexity and costs in the technological and operational set-up associated with directly accessing the platform. In turn, the second issuance was able to have a broader investor reach and enhanced liquidity and could potentially help contribute to increasing interoperability across digital asset platforms and traditional central securities depositories going forward.

Also conducive to fostering interoperability was the use of machine-readable language in applicable legal documents and platform data fields, through adopting ICMA's BDT, which is a set of standardised and machine-readable language for a bond's key economic terms (eg amounts, currency, maturity, interest etc), key dates (eg pricing, settlement, etc) and other relevant information (eg governing law, parties, ratings etc). If adopted more widely across the market, this could facilitate the exchange of information across parties, systems and platforms and pave the way for automation and straight-through-processing of capital market processes.

The second issuance has also unlocked a number of important features in bond digitalisation. For example, the bond was for the first time issued in a digitally native format, without having to first issue in traditional central securities depositories and subsequently converting it into digital format, thereby streamlining the issuance process. In addition, the issuance offered investors with enhanced transparency and on-chain accessibility of key green bond documentation – the issuer's Green Bond Framework and the relevant third-party review reports were viewable directly on the digital assets platform.

Promoting wider adoption and unlocking further potential

The two tokenised issuances laid a solid foundation in promoting the adoption and realisation of the full potential of DLT in bond markets. The HKMA released a report last year to share our experience and set out the options and considerations of a tokenised issuance from technology, deal structuring and legal and regulatory perspectives, with a view to providing a blueprint for future similar issuances. We hope our efforts can create demonstration effect and prompt market participants to consider putting in place the relevant technological and operational capabilities to embrace the potentially game-changing technology.

Of course, there is still a long way to go. While various digital platforms and solutions are being developed and made available to the market, adoption will hinge on compatibility with existing market processes and systems, as well as the readiness of relevant stakeholders on technical, operational and legal fronts. This will inevitably take time. We will continue to seek feedback and ideas from the industry and collaborate closely with market players to further unlock the potential of DLT in capital markets.

Georgina Lok is Head (Market Development), The Hong Kong Monetary Authority.

Sovereign debt proposals well intended but flawed

by **Leland Goss**

The New York State legislature has proposed a root and branch overhaul of the existing practices for sovereign debt restructuring. This is a significant development with global implications, as just over half of all emerging market external sovereign debt, worth an estimated US$870 billion, is issued subject to New York State governing law.

The proponents of the law rightly are concerned at the increased number of overindebted countries today either in or verging on distress. Indeed, we may be facing a "silent debt crisis" as these lower income nations struggle with the recent impact of high global interest rates on their already-fragile finances. Not surprisingly, the volume of foreign currency debt issued in emerging markets has slumped dramatically over the past two years as the cost of borrowing has soared.

Sponsors and supporters of the proposals maintain that the existing framework for restructuring sovereign debt is flawed. Two principal shortcomings are cited. One is the lack of legal enforcement to provide more equitable outcomes amongst different creditor groups and also with the debtor country using the current market-based, voluntary negotiated settlement process. A second issue are hedge funds that block restructurings, including through litigation, by holding out for repayment in full (to which they and all bondholders are legally entitled) while other creditors agree to compromise their claims and suffer sizable haircuts.

The absence of legal enforcement is due to the fact that any bankruptcy-like mechanism for orderly resolving sovereign debt disputes would necessitate sovereign governments ceding their sovereignty to a (to be established) higher multilateral governmental authority for there to be fair and binding enforcement of its rulings against all parties, ie not just private sector creditors but also sovereign borrowers. In this regard, a sovereign debt restructuring mechanism (SDRM) was proposed over 20 years ago and then rejected for the reason that advanced economy governments would not be willing to make such a concession. Today is no different and the proposed New York State legislation to establish an SDRM-like framework, while well-intended, would have the same fundamental shortcomings. Sovereign borrowers that did not wish to be bound by New York State rulings could simply ignore enforcement, leaving the New York body powerless and without credibility. Other responses include using another jurisdiction's governing law, for example, Delaware or Texas.

With regard to holdout creditors, the New York legislative proposals overlook the salient fact that the risk of restructurings being disrupted by holdout creditor litigation that existed 10 years ago has been substantially mitigated by enhanced collective clauses found in almost all new sovereign bonds. Thus, the first identified drawback, enforceability, is practically unachievable and the second problem, holdouts, has already been effectively addressed.

At the same time the proposed law will create a number of serious problems. One is that it would retroactively re-write outstanding bond contracts, removing collective action clauses that have been enhanced over many years and also compel investors (these include pension funds, institutional asset managers and insurance companies) to take mandatory haircuts on their assets, limiting their recovery to an ambiguous burden sharing standard.

The unintended and undesirable consequences from this ought to be apparent. Firstly, the elimination of the crucial element of *consent* to accept losses that is customarily negotiated and voluntarily given by bondholders will result in higher risk, and in turn, regressively increased borrowing costs and debt burdens to be suffered by overindebted countries, and in some cases loss of market access altogether.

Another consequence of passage of the legislation could be constitutional challenges asserting that the New York law interferes with contractual rights and intrudes on the powers of the US Federal Government, which has authority to engage in and address matters concerning foreign governments. Ironically, instead of stopping lawsuits, the Bill will likely generate new and protracted litigation over the meaning of

vaguely drafted criteria such as “equitable burden sharing” and anything else in the text lawyers may seek to exploit.

A further irony is that today, if there are holdouts, they appear to be found within the official creditor community, something the New York proposal does not address. The Global Sovereign Debt Roundtable formed last year and led by the G20, World Bank and IMF, is working to improve consensus among creditors and sovereign borrowers, with the important goal of resolving debt crises more quickly and enabling borrowers to regain market access. The New York legislative proposal will harm the very countries it is intended to help: any arbitrary dictating to investors, these include pension funds and insurers, regarding the monetary amount of write down and losses on their assets will adversely affect borrowing costs and market access for these countries.

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The Asian international bond markets: development and trends

by **Mushtaq Kapasi, Andy Hill** and **Alex Tsang**

A On 26 March 2024, ICMA published *The Asian International Bond Markets: Development and Trends*. This is the fourth edition of the annual report, providing global market stakeholders with an updated overview of market development and analysis of market events through the end of 2023. The report is also published in Chinese.

Primary markets

In 2023, the international bond markets in Asia continued to face challenges on multiple fronts, notably high global interest rates, geopolitical tensions, and sectoral credit events from China. However, amidst these difficulties, there were notable developments and trends observed within the market.

The annual issuance volume of international bonds from Asian issuers experienced a partial recovery, rising from about USD371 billion in 2022 to approximately USD380 billion in 2023. This recovery was primarily driven by increased international bond issuances from Japan, South Korea, and Hong Kong. China's international bond issuances declined by approximately 12% year-on-year to USD108 billion in 2023 from USD122 billion in 2022 and USD230 billion in 2021.

Despite this decline, China remained significant, accounting for 29% of the total issuance volume and ranking second only to Japan's USD115 billion issuance volume. However, the total regional issuance volume in 2023 remained below the record level of USD620 billion seen in 2021, as Asian issuers showed an increased preference for issuing bonds in domestic currencies for cost-effectiveness during 2022 and 2023.

The issuance volume of international sustainable bonds by Asian issuers experienced significant growth in 2021, approaching USD100 billion. The volume stabilised to about USD80 billion in 2022 and 2023. Chinese issuers retained their leading position in issuing international sustainable bonds in 2023, accounting for approximately 26% of the total issuance volume. Japan and Korea were also prominent issuing countries, collectively contributing to an average of 40% of the annual issuance volume between 2019 and 2023.

Secondary markets

In line with the primary market, secondary market activities and volumes saw a steady increase in activity from 2020 to mid-2022 but have been in decline leading to 2023, particularly with respect to non-financial issuers. Partly this can be attributed to changing market conditions, with higher yields and widening credit spreads. However, the most significant influence was the strong correlation between primary issuance and secondary activity. Participants also pointed to the relative decline of Chinese international issuance, along with volatility spillovers into the wider Asia market, which was also reflected in the notable decline in secondary market activity in bonds with China the country of risk.

The China offshore market continued to set the tone for the Asia international market more broadly, and while its share of the overall market has decreased, the travails of the property sector have weighed heavily on both spreads and liquidity. Support from the People's Bank of China, however, appeared to have created some stability toward the end of 2023.

Participants reported that liquidity in the repo market for Asia international bonds continued to deepen, with more lenders coming into the market and a greater ability for dealers to access specific names. This was also helped by higher rates, which created the opportunity for more spread from lending specials, as well as increased market volatility and demand to cover short positions. While overall repo and lending activity remained buoyant, this followed closely trading activity in the underlying market, and therefore declined over the course of 2023.

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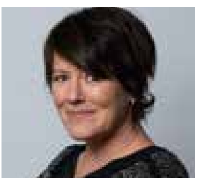
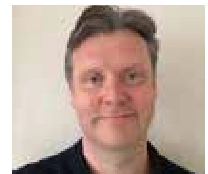
Work experience in international capital markets





Katie Kelly spoke to **David Soanes,** former UK Head of UBS Group and Vice Chairman, UBS AG and speaker at social mobility charity Speakers for Schools, about why work experience is needed more than ever.

Welcome, David. In the UK, I understand that work experience for students is no longer part of the curriculum, but why is this a problem?

Indeed – following changes brought about by the Wolf Review of vocational education in 2012, the UK Government no longer mandates work experience. This has led to schools with limited budgets focusing more on exam results and no longer being able to afford this vital provision. While exam results are important, as a result 50% of young people leave school without any work experience at all.

As a further consequence, social mobility charity *Speakers for Schools'* research suggests that students at private schools are now twice as likely to have completed multiple sets of work experience compared to their peers in the state sector. This might be due to strong school or parental networks; if a young person does not have those networks available, the door to opportunity may be closed.

It follows that access to work experience is not accessible for all. Students are missing out on valuable opportunities simply because of where they live or who they know, which, apart from anything else, limits the talent pools available to businesses and damages UK plc.

So in these cases, how do young people typically get meaningful work experience?

Talent may be spread evenly across the country, but opportunity is not. Firstly, getting work experience can sometimes be a case of "not what you know, but who you know". Often, parents can offer work experience; it is great if a young person's parent works in a desired industry, but a clear disadvantage for many others.

Secondly, when it comes to meaningful experience, so much depends on the quality of the placement. Thankfully, gone are the days of making tea or watering plants for a week – young people should be developing skills, learning basic technical knowledge about an industry, working on projects, delivering presentations, and meeting a range of colleagues from the CEO to apprentices. This is how they will learn about career pathways and become confident, well-informed individuals who are not only curious about the world of work but are more prepared for it.

To help with this, *Speakers for Schools* offers a work experience programme to bridge that gap for businesses and widen access for state school students everywhere, seeking to make work experience a universal right, not a privilege. They have worked with, for instance, the Bank of England, BP, Google, Santander, Siemens, Slaughter & May and UBS in delivering work experience opportunities ranging from one to five days.

Are there any particular industries which are harder to get into than others?

The finance industry needs to do more to engage with state schools. According to the Sutton Trust, half of FTSE 350 CEOs were privately educated, rising to 60% for hedge fund managers, yet 96% of the population attend state schools. Work experience is the key to diversifying the pipeline of future leaders in finance by bringing in skilled, knowledgeable candidates whose profile might not otherwise be seen by employers or whose potential might not be apparent.

What evidence is there that work experience benefits students' future prospects?

Work experience and inspirational talks provide a tangible understanding of what a workplace is like for a young person who may never have stepped into a work environment. However, it also builds a wide range of skills, from technical understanding of a particular industry to softer skills like teamwork, problem-solving, research, communication, public speaking and even how to use social media in a business context. These skills can help young people develop an interest in work, leading to a larger pool of employable future candidates.

Evidence from this research suggests that meaningful work experience can lead to higher salaries and stronger educational outcomes. It found that just one session of work experience can raise future salary by approximately £1,088 when in full-time employment and reduces the likelihood of not being employed from 11% to 7%.

Not to mention the somewhat immeasurable impact on personal aspiration and confidence; the more that young people see themselves reflected in the workplace, the more they are likely to apply for jobs that may previously have seemed out of reach, which reduces imposter syndrome and helps to create a virtuous cycle.

ICMA has taken on work experience students, and the process was quite simple, but maybe employers are put off due to perceived procedural difficulties. Are there other barriers you have identified?

Work experience should be a part of the "social" element of every company's ESG strategy; it also has clear benefits for early talent development. But often, companies are unsure how to go about it – how to contact schools or which schools to contact. On the other hand, teachers are so stretched that they may be unable to pick up an enquiry. And safeguarding processes have indeed become quite onerous, which, although necessary, can put off time-poor businesses.

Speakers for Schools takes on all that burden; they work with employers and schools to help create meaningful and varied online or in-person work experience programmes.

One of the most significant challenges is geographical barriers – accessing a company or industry that interests young people safely and affordably but is not on their doorstep. Living outside of London and the South East of England can cut out a vast swathe of options. So virtual placements have their benefits too – not only do they mirror the hybrid working style in many sectors, but they remove geographical barriers, and a larger group of students is much easier to manage virtually than in-person. This leaves the employer free to focus on engaging with students and developing their skills through the work experience programme.

What would you say to an employer potentially considering taking on young people for work experience?

I was lucky enough to have work experience with the Civil Service Department for Work and Pensions and the bookmaker Ladbrokes, which helped me decide what to pursue in the future. I want to keep the door open for the next generation; that is why I advise all businesses to open their doors to offer work experience and make a difference in the growth, skills and productivity of our future as a society. There really is no better way to attract and inspire the talent needed.

To find out more about how to go about offering work experience, go to www.speakersforschools.org/employers

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Summary of practical initiatives by ICMA

The purpose of this section of the ICMA Quarterly Report is to summarise recent and current practical initiatives by ICMA with – and on behalf of – members.

Regulatory policy

1 *Bond Markets to Meet EU Investment Challenges:* ICMA has published a report on *Bond Markets to Meet EU Investment Challenges* as a contribution on the role of bond markets to the EU debate about how best to make progress towards Capital Markets Union during the next EU mandate after the European Parliament elections in June.

Primary markets

2 *Issuer Forums:* The Public Sector Issuer Forum (PSIF) met at the Irish National Debt Office (NTMA) in Dublin on 7 March, where the PSIF agenda included lessons learned from recent sovereign bond retail issuance. There was also a discussion on investor relations. The ICMA Corporate Issuer Forum and Financial Institutions Issuer Forum both met in February.

3 *EU and UK regulatory reviews:* ICMA continues to engage with policy makers on proposals to reform the listing regimes in the EU and UK.

- ICMA submitted comments on 10 January to the UK Government regarding proposed UK legislation on a disclosure regime for composite consumer investments (replacing the EU PRIIPs regime).
- ICMA responded on 26 January to a UK FCA consultation on guidance on its anti-greenwashing rule.
- ICMA also responded on 29 February to an ESMA consultation on the CSDR that included a request for a one-day grace period for all transactions due to settle on a bond's new issue closing date.
- The EU has reached a compromise in its Listing Act trilogue negotiations that ICMA will review with members.
- ICMA co-signed on 21 March the Joint Associations' response to the ESMA consultation of December 2023 on the review of the securitisation disclosure templates under Article 7 of the EU Securitisation Regulation. (See the Asset Management section of this Quarterly Report).
- The European Parliament's ECON Committee has adopted a report on the EU's Retail Investment Strategy that ICMA will review with members.

4 *ICMA PMPC and LDC and related groups:* The ICMA Primary Market Practices Committee (PMPC) met on 9 February, the ICMA Legal & Documentation Committee (LDC) met on 7 February and 27 March, the Asia Pacific Bond Syndicate Forum (ABSF) met on 25 March and the Asia Pacific Legal & Documentation Forum (ALDF) met on 12 March.

5 *Commercial paper:* ICMA is liaising with the FSB, IOSCO and the FCA on measures to enhance the resilience of commercial paper, in conjunction with the ICMA Commercial Paper and Certificates of Deposit Committee (CPC).

6 *ICMA primary market events:* ICMA and Allen & Overy held the European Primary Bond Markets Regulation Conference on 30 January at Allen & Overy, with the involvement of the European Commission, ESMA, HM Treasury, the FCA and several other National Competent Authorities. ICMA and Mayer Brown hosted on 15 March a seminar in Mandarin, *Offshore Bond Issuance by Chinese Companies: Common Issues in the Implementation of SFC's New Rules on Bookbuilding and Placing Activities*.

7 *The Asian International Bond Markets:* ICMA has published a fourth edition of its report on *The Asian International Bond Markets: Development and Trends*, featuring issuance and trading trends in the cross-border Asian bond markets over the past year.

Secondary markets

8 *ICMA BMLT:* With support from ICMA's Bond Market Liquidity Taskforce (BMLT), ICMA has published a report on *Liquidity and Resilience in the Core European Sovereign Bond Markets.*

9 *T+1:* ICMA is part of a UK Taskforce on Accelerated Settlement launched by HM Treasury and is also part of a cross-industry EU Taskforce on proposals to shorten the settlement cycle to T+1. ICMA participated in the European Commission workshop on T+1 in Brussels on 25 January, at which the European Commissioner said that a shift to T+1 in the EU is a question of "when and how, not if". ICMA is continuing to engage on T+1 with both the EU and the UK authorities.

10 *ICMA MiFID Working Group:* ICMA has continued to engage with the EU authorities on bond market transparency as part of the MiFIR Review. In the UK, ICMA is also engaging with the FCA on the UK's bond market transparency framework. ICMA responded to the FCA consultation on data providers for the proposed UK bond consolidated tape on 9 February, and to a separate FCA consultation on improving bond market transparency on 6 March.

11 *CSDR cash penalties:* ICMA responded to the ESMA consultation on reviewing the CSDR penalty mechanism for settlement fails by the deadline of 29 February. ICMA expressed concern that ESMA proposes to increase CSDR penalty rates from current levels by a factor of many multiples, and that the proposals are not supported by any data or analysis. ICMA's position on penalties is outlined in a briefing note published on 11 March.

12 *ICMA Secondary Market Practices Committee (SMPC):* ICMA invited US FINRA to give a presentation on TRACE at the SMPC meeting on 12 March, followed by discussion.

Repo and collateral markets

13 *ICMA ERCC Committee elections:* The annual elections to the European Repo and Collateral Council (ERCC) Committee concluded on 7 February. There were 27 candidates for the 19 places on the Committee. 72 members (out of 111 full ERCC member firms) voted. The first meeting of the new Committee took place on 19 March at ICMA in London.

14 *ICMA GRCF:* The Global Repo and Collateral Forum (GRCF) held its latest quarterly meeting on 21 March, with a wide-ranging agenda, including regional developments in Europe, Asia, MENA and Africa, as well as global developments relating to the GMRA, and T+1.

15 *2023 year-end repo report:* On 29 January, ICMA's ERCC published its annual analysis of how the repo market performed over the 2023 year-end. The report shows that, compared to previous year-ends, the 2023 turn for the euro repo market proved to be relatively unexceptional and explains why. The report also analyses the year-end for the sterling, US dollar and yen repo markets.

16 *Post-trade barriers:* On 31 January, the ERCC submitted its response to an ECB survey on remaining post-trade barriers in the EU. The survey was undertaken in the context of the ECB's AMI-SeCo.

17 *Repo clearing:* On 7 February, EU co-legislators announced agreement on the EMIR Review. The ERCC had previously raised concerns relating to proposals in the European Parliament amending the MMF Regulation and UCITS Directive. It is understood that the proposals have now been modified to leave limits for bilateral repo unchanged while excluding CCP-cleared repo from those limits.

18 *China repo:* On 26 February, ICMA responded to the PBOC consultation on further opening up China's repo market to offshore investors, potentially using the GMRA. The PBOC proposals, while generally welcomed by ICMA's membership, raise a number of governance and technical questions which will require ongoing advocacy.

19 *25th anniversary of the ERCC:* 2024 marks the 25th anniversary of the ERCC, which was established in 1999. To celebrate the anniversary, ICMA is hosting a gala dinner at the Plaisterer's Hall in London.

Asset management

20 *NBFIs:* The European Commission is expected to consult on the macroprudential framework for non-bank financial intermediaries (NBFIs) later in 2024. Ahead of the consultation, the ICMA Asset Management and Investors Council (AMIC) Committee is planning to engage with the official sector to explain the role that asset managers perform and the differences between the role of asset managers and other NBFIs.

21 *ICMA AMIC Committee:* The AMIC Committee met in Madrid on 20 March for a discussion with the Secretary General of IOSCO.

22 *EU SECR Article 7 templates:* ICMA co-signed a Joint Associations' response on 21 March to the ESMA consultation of December 2023 on the review of the EU Securitisation Regulation (SECR) Article 7 templates.

Sustainable finance

23 *New ICMA publication on transition finance in the debt capital market:* on 14 February, ICMA published a paper on *Transition Finance in the Debt Capital Market.* The paper reviews the latest guidance and recommendations on transition finance from both the market and the official sector. It also underlines the progress of international taxonomies to integrate transition, as well as the latest developments on sectoral pathways and industry roadmaps. On 12 March, ICMA hosted a related webinar on transition finance with near 400 online participants (see recording).

24 *ICMA response to the FCA's greenwashing consultation:* On 26 January 2024, ICMA responded to the FCA's guidance consultation (GC23/3) on the anti-greenwashing rule.

FinTech and digitalisation

25 *FinTech Advisory Committee (FinAC):* ICMA's FinAC held its first quarterly meeting on 21 February to discuss priorities, the opportunities and risks of digital securities from a buy-side perspective, as well as its future composition.

26 *DLT bonds:* ICMA's DLT Bonds Working Group held its quarterly meeting on 20 March to discuss progress on priorities, a proposal for DvP securities settlement based on ICMA's Bond Data Taxonomy as well as a framework for DLT securities.

27 *Portfolio management and DLT bonds:* A second buy-side workshop under the umbrella of ICMA's DLT Bonds Working Group was held on 13 March to foster dialogue on opportunities and risks of DLT bonds and facilitate investor engagement.

28 *Bond Data Taxonomy (BDT):* Further to extensive input from member firms, ICMA released a DLT extension in version 1.2 of the BDT. The purpose is to provide a framework to capture a bond's DLT-related features such as DLT platform operator and accessibility. ICMA's BDT Working Group held its quarterly meeting on 27 February to discuss implementation approaches, amongst other issues.

29 *Common Domain Model (CDM):* ICMA, ISDA and ISLA held a joint CDM Showcase event on 28 February, hosted by State Street in London, which was the second annual event.

30 *Wholesale CBDC:* ICMA attended the meeting of the Eurosystem's New Technologies for Wholesale settlement Contact Group on 25 January.

31 *Post-trade harmonisation:* ICMA took part in the meeting of the ECB's AMI-SeCo Securities Group on 12 March, which focused on the AMI-SeCo survey results on remaining barriers to post-trade integration and shortening settlement cycles, amongst other issues.

32 *Data collection and reporting:* ICMA participated in the meeting of the Data Standards Committee on 22 February, which is part of the Bank of England and FCA's transforming data collection from the UK financial sector programme.

33 *AI:* ICMA's Regional Committee for France-Monaco held a conference on *AI and Debt Capital Markets* on 5 March in Paris, hosted by Banque de France.

LIBOR transition in the bond market

34 ICMA has continued to chair the RFR Bond Market Sub-Group (BMSG) at the request of the FCA and Bank of England and with their support. The BMSG met on 5 March to check on preparations for the cessation of synthetic sterling LIBOR on 28 March and the expected cessation of synthetic US dollar LIBOR on 30 September 2024.

Primary Markets

by **Ruari Ewing**
and **Miriam Patterson**

EU Listing Act update: prospectus, market abuse and listing regimes

The Second Quarter 2023 edition of this Quarterly Report reported on ICMA's formal comments on the European Commission's proposed Listing Act omnibus Regulation (LAR – which amends, among other things, the existing Prospectus Regulation and the Market Abuse Regulation's pre-sounding provisions) and proposed Listing Act omnibus Directive (LAD – which repeals the existing Listing Directive). The Third Quarter 2023 edition reported on some subsequent developments as the LAR and LAD proposals made their way through the legislative process.

On 9 February 2024, the EU co-legislators (Commission, Council and Parliament) reached compromise agreements on the trilogue negotiations, which are still subject to jurist linguist amendments and a plenary vote by the European Parliament.

Listing Directive: The LAD compromise agreement notably confirms the Listing Directive repeal as being without prejudice to national "listing-only" regimes.

Market Abuse Regulation pre-sounding regime: Regarding the Market Abuse Regulation, the LAR compromise agreement explicitly confirms (at Recital 56) the pre-sounding regime's investor-facing procedures (in Article 11(4)) to be a safe harbour (a "mere option"), in contrast to other, "mandatory" requirements.

Prospectus Regulation: Regarding the Prospectus Regulation and as the LAR moves from the current Level 1 to the subsequent and subsidiary Level 2 work (notably involving ESMA), a significant ongoing focus is the interaction with the European Green Bond Regulation (EUGB Regulation).

The EUGB Regulation does not require incorporation in full, or by reference, of either (i) a Green Bond factsheet (set out in Annex I of the EUGB Regulation) into a prospectus or (ii) the voluntary pre-issuance disclosures for issuers of "bonds marketed as environmentally sustainable and of sustainability-linked bonds" under Article 21 of the EUGB Regulation (EUGB lite option). The EU Green Bond factsheet is in final form in the EUGB Regulation, but the templates for pre-issuance disclosures for the EUGB lite option are still to be developed. The Commission is instructed to publish guidelines for templates by 21 December 2024.

The LAR includes an instruction to the Commission to adopt delegated acts which will include prospectus disclosure schedules, which (i) for EU Green Bonds, will incorporate by reference "relevant" information contained in the EU Green Bond factsheet and (ii) for the EU lite option, will include the "relevant" optional disclosures set out under the EU GB Regulation. The Commission has 18 months from the entry into force of the LAR to adopt these new or updated disclosure annexes to the Prospectus Regulation.

ICMA will be considering what the EU GB lite templates might contain and what may be included or excluded from prospectus disclosure requirements under the Prospectus Regulation.

ICMA is also likely to focus on:

- ESMA's development, for both the prospectus and the prospectus summary, of comprehensibility and plain language guidelines and draft technical standards on template and layout;
- the Commission's development of delegated acts regarding a standardised prospectus format and sequence in line with the revised Prospectus Regulation annexes (including where securities are advertised as taking into account ESG factors or pursuing ESG objectives); and
- ESMA's development of guidelines as to when a base prospectus supplement is considered to introduce a new type of security.

Otherwise, one of the main practical changes arising from the Level 1 changes to the Prospectus Regulation is that issuers will be able to incorporate by reference future financials into a base prospectus.

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UK retail disclosure framework: consumer composite investments

As anticipated in the First Quarter 2024 edition of this Quarterly Report, ICMA submitted on 10 January technical feedback to the UK Government on a near-final Statutory Instrument, *Consumer*

Composite Investments (Designated Activities) Regulations 2024 (which was published in November 2023 by the UK Government together with a related policy note).

ICMA's technical feedback noted from a mainstream bond market perspective that:

(1) the near-final SI should not define "manufacturing" instruments as extending beyond "issuing" them (or FCA rulemaking should be consequently limited);

(2) FCA rulemaking consequent to the near-final SI should:

  (a) exclude mainstream bonds from scope, given the focus on "composite" investments (ICMA having previously commented on PRIIPs scope clarification) – for example, by tracking the existing UK Consumer Duty exclusions;

  (b) calibrate the definition of "made available" to account for (i) the absence of retail marketing/facilitation, (ii) discretionary managers of retail money being professional investors and (iii) the institutional investor exemptions under the UK prospectus and Consumer Duty regimes;

  (c) not prescribe responsibility for the retail disclosure framework as necessarily residing with the "manufacturer"; and

(3) the SI review provision seems unnecessary.

ICMA will continue to engage with the UK authorities as they continue to develop the new UK Retail Disclosure Framework (ie PRIIPs replacement).

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FCA anti-greenwashing rule guidance consultation

On 26 January 2024, ICMA responded to the UK FCA's guidance consultation (GC23/3) on the new anti-greenwashing rule (AGR) set out in FCA's policy statement (PS23/16), *Sustainability Disclosure Requirements (SDR) and Investment Labels*.

In its response, ICMA noted that the ambit of the AGR is not entirely clear. ICMA generally sought to clarify that it does not cut across existing regulatory positions in the new bond issuance context (notably regarding the role of bond issuer prospectuses), despite an avowed intention not to do so.

By way of background, ICMA generally recalled (citing its October 2023 paper, *Market Integrity and Greenwashing Risks in Sustainable Finance*) that there are different potential types of greenwashing and the importance of regulatory coherence internationally in this respect, including in the UK.

ICMA requested consequent confirmations in FCA's finalised guidance that the AGR rule does not cut across:

- at a headline level, (i) the existing legislative prospectus regime, (ii) proportionality in a non-retail context, (iii) the activity of bond underwriting or (iv) alignment with the ICMA Principles; and
- more specifically, certain aspects as they operate in the bond market (the lifetime of individual claims, the completeness of individual communications and claim-related risk disclosures).

ICMA requested that FCA undertake further stakeholder engagement in this respect before adopting clear finalised guidance (with a six-month implementation period thereafter).

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EU CSDR cash penalties: impact on primary markets

On 29 February 2024, ICMA submitted a response to ESMA's consultation paper, *Technical Advice on CSDR Penalty Mechanism,* with primary market aspects addressed at pages 33-34.

This followed ICMA's May 2022 feedback on the European Commission CSDR revision proposals, noting *inter alia* a concern regarding the proposed CSDR settlement discipline regime's cash penalties in the primary market context (notably following issuer bond delivery during the US working day) and proposing a one day grace period for all fails of transactions in a new bond due to settle on the issue date of that new bond. (See further reporting at page 39 of the Third Quarter 2022 edition of this Quarterly Report.)

The latest response reiterates the previous grace period proposal for such fails, also noting that the need for a solution seems likely to grow to the extent that the current (relatively low) penalty rates for bonds may increase, notably on the scale proposed by ESMA. (In this respect, see further the article on EU CSDR penalties in the Secondary Markets section of this Quarterly Report.)

Such a grace period could be implemented as a temporary exemption following the December 2023 CSDR Amending Regulation providing that the cash penalty regime will not apply to "settlement fails the underlying cause of which is not attributable to the participants in the transaction", so presumably including due to the timing of the issuer's bond delivery. (It incidentally also exempts "operations that are not considered as trading", so presumably including internal pass-through settlements.)

ICMA will continue to engage on this topic as it develops further.

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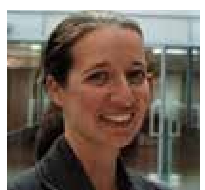
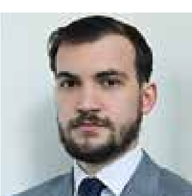
Secondary Markets

by **Andy Hill, Nina Suhaib-Wolf, Alexander Westphal** and **Simone Bruno**

EU CSDR penalties: secondary markets

On 29 February 2024, ICMA submitted its response to the ESMA consultation on its *Technical Advice on the CSDR Penalty Mechanism*. Penalties for settlement fails on EU (I) CSDs were introduced in February 2022 and, as part of the recent CSDR Refit, the European Commission mandated ESMA to review the calibration of the penalty rates.

The ESMA proposals, which are unsupported by data or analysis, suggest significant increases to the existing penalty rates, by between six and 25 times current levels, as well as touting the notion of "progressive penalties" (where the rate increases each day of the fail). Surprisingly, there is no acknowledgement of the marked improvement in settlement efficiency rates in the EU since 2022 (which is directly correlated to the increase in short-term interest rates), nor is there a recognition of the difference between behavioural and structural fails, noting that economic incentives will only directly impact the former.

In its response, which is backed by data and analysis, ICMA makes the following key points:

Settlement efficiency observations and drivers

- ICMA and its members support industry and regulatory efforts to improve settlement efficiency across the EU bond markets.
- However, it is important to understand the causes of settlement fails in order to prescribe the correct tools to address them. For example, penalties will not resolve fails due to market structural issues or a lack of liquidity in the underlying security.
- ICMA observes improved settlement efficiency rates for bonds in the EU since 2022.
- ICMA attributes these improvements to a combination of increased focus by market participants on settlement processes as well as higher interest rates.
- Regression modelling on settlement data from January 2015 shows very clearly that the short-term interest rate (the natural cost of failing) is by far the strongest driver of settlement efficiency. The analysis further shows that there is a statistically meaningful negative relationship between settlement fails and the quantum of securities held under the ECB bond purchase programmes (ie "collateral scarcity").
- There is a very weak negative correlation with the introduction of penalties. This is possibly because they were introduced at a time of changing monetary policy with the end of quantitative easing and rapidly rising interest rates. This would suggest that either penalties in themselves have no impact, or, more likely, that a longer observation period is necessary.
- Perhaps unsurprisingly we observe brief dips in settlement efficiency rates in times of market stress. From the data we conclude that these occur independently of other factors, including the cost of failing. In other words, neither high interest rates nor penalties would have prevented the drop in settlement efficiency seen during the start of COVID crisis, and which was largely due to back offices adjusting to lock-down.

Proportionality and impacts

- ICMA points to the TMPG Penalty Framework used in the US Treasury market as an example of an effective penalty mechanism. This is calibrated to short-term rates (ie the natural cost of failing) and has proven to be successful in addressing "behavioural" fails.
- The increases in penalty rates that ESMA proposes are extreme, are unsupported by any analysis, and would be highly distortive with adverse impacts for market liquidity and pricing. This would create additional costs for investors in the secondary market and issuers in the primary market, making the EU uncompetitive relative to its global peers.

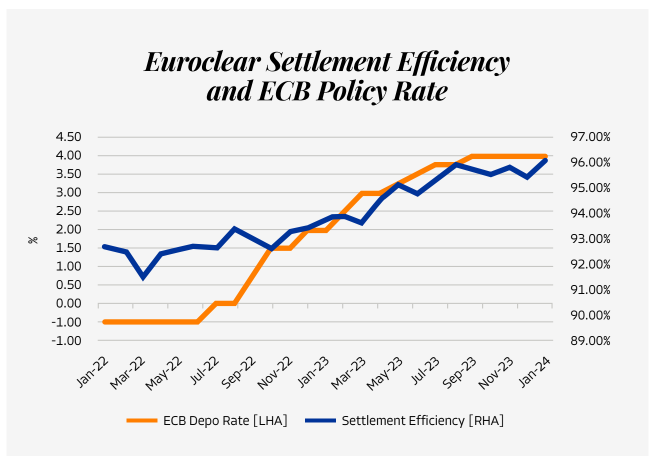
- The penalty rates proposed would also create adverse behavioural incentives, making being failed-to economically attractive.
- There is no economic rationale for progressive rates.

Recommendations

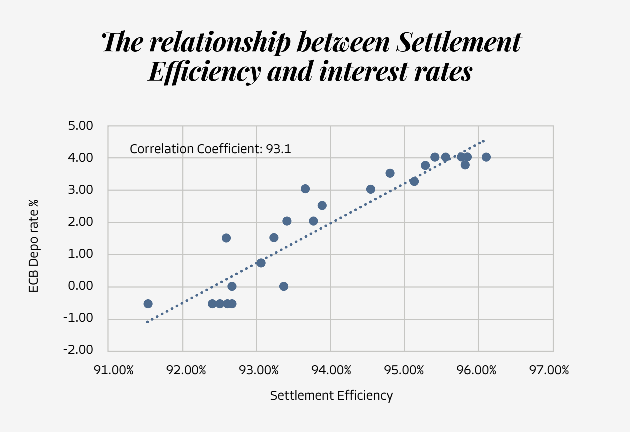
- More work needs to be done in identifying the causes of settlement fails in the EU bond markets, with a focus on targeted and proportionate tools to address these.
- Settlement discipline measures also need to be assessed in light of the EU's ongoing political discussion on a potential shortening of the settlement cycle to "T+1", which would likely have direct impacts on settlement efficiency, particularly in less liquid or cross-border markets, such as bonds.
- Implementing the existing penalty mechanism, that was introduced only two years ago, has been a highly expensive exercise for the industry, impacting both EU and non-EU investment firms. To institute the changes that ESMA proposes would likely require a similar scale of investment and resources. This could be better used in addressing structural impediments to settlement efficiency, which are the main cause of settlement fails in the EU. In this context, we would very much welcome a renewed focus of the EU authorities on the important structural barriers to further post-trade integration and consolidation that persist in the EU, and which have been well documented since the early 2000s.
- In light of all of these factors, ICMA and its members see no justification in instituting any material changes to the current settlement mechanism. Based on its modelling, ICMA suggests keeping the penalty rates at or close to current levels and for ESMA to observe the data over a longer period, particularly as interest rates move lower, and quantitative tightening begins. This would not only provide more information about the effectiveness of a penalty mechanism, but it would allow us to assess what the appropriate floor for the cost of failing should be, and so the optimal calibration of penalty rates.

ICMA is following up on its consultation response with meetings with the EU authorities, national regulators, and other official stakeholders to make the case that a more meaningful and sustainable improvement in EU settlement efficiency can be effected by a greater focus on other settlement optimisation tools, far beyond the relative limitations of a penalty mechanism. ICMA has also shared with the official sector a briefing note analysing the ESMA proposals.

ESMA is expected to submit its final technical advice to the Commission in the final quarter of 2024.



Source: ICMA analysis using Euroclear and Bloomberg data



Source: ICMA analysis using Euroclear and Bloomberg data

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Bond market transparency: ICMA response to the FCA

Introduction

On 20 December 2023, the FCA published its consultation paper CP23/32: *Improving Transparency in Bond and Derivatives Markets*, to which ICMA responded on behalf of its members on 6 March 2024. This consultation was published alongside CP23/33: *Consultation on Payments to Data Providers and Data Reporting Services Providers including Policy Statement for the Framework on a UK Consolidated Tape*. This further included a consultation on payments to data providers, in connection with the development of the UK consolidated tape framework, to which ICMA also responded, again on behalf of its members, on 9 February 2024.

ICMA has long advocated for the introduction of a consolidated tape for bonds in Europe, supported by a well-designed and suitably calibrated deferral framework aimed at providing as much real-time transparency as possible across all bonds, while applying appropriate deferrals for the more market sensitive trades. Furthermore, ICMA has strongly argued that the design and calibration of the deferral framework be based on data. ICMA and its members furthermore consider that a bond transparency regime should strike a balance between recognising the diversity of underlying market structures, dynamics, and liquidity profiles of different bond sub-classes and segments, and a need for relative simplicity in order to facilitate successful and consistent application.

ICMA recognises that, in its proposals, the FCA has sought to achieve these objectives. At the same time, ICMA realises that the introduction of significantly increased post-trade transparency for the bond markets runs the risk of a "liquidity shock", as dealers will have to adjust to a higher degree of transparency. While most of the behavioural change is likely to be short-term, there are concerns that the changes could have negative structural impacts on certain parts of the market or with respect to some transactions, so potentially increasing the risks and costs borne by investors. It is with this in mind that ICMA put forward the case for a number of modifications to the FCA proposal with respect to groupings, thresholds, and deferrals, all of which were carefully informed by data and analysis.

Proposed regime

In more detail, the FCA provided in its CP23/32 proposal for bond market transparency two different deferral models, with each option providing three different deferral categories, as outlined in Table 10 and Table 12 on pages 43-44 of the consultation paper.

Out of these two options, ICMA members expressed a preference for Model 1, which more closely resembles the framework previously proposed by ICMA and that being adopted in the EU bond transparency regime. Based on ICMA's analysis of market data, which can be found in the annex to ICMA's response, members have concluded that, with some modifications, including the introduction of a finite volume cap for the very largest sovereign bond trades, Model 1 has the potential to provide the better calibration of deferrals, ensuring the maximum amount of real-time transparency, while protecting the parties to larger and more market-sensitive trades.

Grouping of bonds

ICMA members broadly agreed with the factors used by the FCA to group bonds and would suggest only a few modifications to the FCA proposal.

Sovereign bonds: There are a number of important factors determining the liquidity of sovereign bonds, such as the overall size of the market based on the issuer; the outstanding amount of a specific issue; time since issuance; maturity; on-the-run vs off-the-run; and futures deliverability. With a view to simplicity, ICMA would agree with the FCA in its grouping sovereign bonds by the largest issuers with the most actively traded underlying market, as well as with outstanding issue size and time left to maturity as relevant features in assessing relative liquidity.

However, looking at trade size distributions and average daily volumes based on the maturity buckets proposed by the FCA, as well as at the relative liquidity (in terms of average daily volume) of on-the-run and off-the-run sovereign bond issues, ICMA decided to propose changes to the size thresholds for sovereign bond deferrals which we believe better reflect the true liquidity of the market.

Furthermore, and based on trade size distributions analysed, ICMA would recommend that supranational and other public bonds should not be grouped together with sovereign bonds, also noting very different liquidity profiles that are not pure sovereign bonds and should instead be placed in the "all other instruments" bucket. The same applies to less liquid sovereign bond classes such as inflation-linked bonds and strips where our analysis shows that these do not trade nearly as frequently as the vanilla sovereign bonds of the underlying issuer and can also be highly sensitive to information leakage.

Corporate bonds: With respect to the grouping of corporate bonds, ICMA's modelling on the impact of endogenous features of corporate bonds on liquidity unsurprisingly shows that time since issuance is the most important factor, with bonds being at their most liquid for the first six weeks post-issuance, before liquidity rapidly evaporates. However, ICMA recognises that this is not a practical feature in itself for calibrating liquidity thresholds and would skew the regime toward new issuances. Therefore, from ICMA's modelling, outstanding issuance size is the next most important bond feature in determining relative

liquidity (using average daily volume as the measure for liquidity and controlling for issuance size to compare like-for-like). ICMA therefore agrees with the FCA in setting the outstanding issuance as a meaningful factor. In this context, ICMA would like to emphasise that it is highly important to distinguish between outstanding issuance and issuance size. The latter is generally taken to be the original issue amount (in notional value) of a bond. However, it is quite common for the outstanding issuance size to change over time, as the result of taps (increasing the amount outstanding) and calls or puts (reducing the amount outstanding). It is important to highlight that the amount outstanding is therefore the pertinent factor, and not the original amount issued.

With respect to credit ratings, it is worth noting that ICMA's modelling does not make a convincing case for using credit rating as a factor. Instead, it is broadly recognised that high yield (HY) as a distinct asset class has a very different underlying market structure compared to investment grade (IG), including a different investor base. Based on the data analysed, average and median trades sizes for HY tend to be significantly smaller than those traded in the IG space. ICMA therefore supports the distinction between IG and HY.

Should the FCA stay with its proposal and include credit ratings as a criterion to determine the liquidity of corporate bonds, ICMA in its response highlighted that, in order to ensure the usability of an investment grade (IG) definition in the transparency calibration, it is important to provide easy access to a golden source of IG/non-IG ISINs. This could be provided by the FCA based on its Public Ratings Database. Alternatively, a simple ratings methodology, such as that used by the Bank of England for its *Corporate Bond Purchases Programme*[1], could be used.

Deferral table

Based on the earlier proposal that only pure sovereign issuance be included in the first bucket for sovereign and other public bonds, it would seem appropriate to increase the corresponding outstanding issue size threshold for this bucket to reflect better the underlying market, and ICMA therefore proposes changing this to a floor of £5 billion notional value equivalent.

ICMA agrees with the FCA proposal that in the case of (pure) sovereign bonds, there is a case for applying different deferral thresholds along the maturity curve. However, further analysis of average daily volumes and trade size distribution suggests that the size thresholds proposed by the FCA may be too aggressive. ICMA therefore proposes slightly different calibrations, which members believe will afford better protection for liquidity providers, while at the same time maintaining a high degree of real-time transparency.

Finally, ICMA is proposing a few further refinements to the FCA's proposed Model 1:

Firstly, in the case of the first deferral type (Price: 15 mins / Size: T+3), it is thought that the publication of the price alone provides more than enough information to compromise the best intentions of this deferral. By comparing the published price with where the market was being quoted 15 minutes ago, it is relatively easy to infer (i) whether the trade is a (principal) risk trade; (ii) the direction of the trade (ie is the liquidity provider long or short?); and (iii) the relative size (ie is it closer to the lower or upper threshold?). ICMA therefore strongly proposes revising this deferral section to T+2 for both price and size, in the case of both corporate and sovereign bonds.

Secondly, and in the case of sovereign bonds, ICMA identifies an extremely small subset of extremely large trades, which may take months, rather than weeks, for liquidity providers to trade out of. ICMA therefore proposes the application of a volume cap, borrowing from the FCA's proposed Model 2. ICMA would like to stress that this volume cap should be finite to ensure that, at some point in time, all trades will be available publicly with their correct size.

Lastly, and with respect to corporate bonds, and again based on observations of trade size and average daily volumes, ICMA believes that the size thresholds proposed by the FCA need to be calibrated lower to reflect the true underlying liquidity of the market.

ICMA proposal

With all of the above in mind, ICMA's proposed modifications to the FCA deferral regime can be found in the two tables below:

Sovereign and other public bonds

Issuer	*Amount outstanding*	*Maturity*	*Price and size in real time*	*Price and size T+2*	*Price and size 4 weeks*
UK, France, Germany, Italy, US	>£5b	<5yr	<£10m	£10m ≤£50m	≥£50m (cap at £100m)
		5-15yr	<£10m	£10m ≤£25m	≥£25m (cap at £100m)
		>15yr	<£5m	£5m ≤£10m	≥£10m (cap at £50m)
All other sovereign and public bonds			<£2m	£2m ≤£5m	≥£5m (cap at £50m)

1. See: https://www.cadwalader.com/resources/clients-friends-memos/bank-of-england-asset-purchase-facility---a-panacea-for-the-uk-corporate-credit-markets

Corporate, covered, convertible and other bonds

Currency	Issuer rating	Amount outstanding	Price and size in real time	Price and size T+2	Price and size 4 weeks
GBP, EUR & USD	IG	>£500m	<£1m	£1m ≤£5m	≥£5m
All other instruments			<£500k	£500k ≤£2.5m	≥£2.5m

Through the modifications provided in its response, ICMA hopes to have provided constructive recommendations in finalising the design and application of the UK's bond transparency framework, helping to reinforce the UK's position as a leading financial centre in the international capital markets.

ICMA also believes that, similar to the introduction of bond market transparency in the US, the introduction of the tape and further bond market transparency in the UK will be a journey, and working closely with the industry and based on regular review, with careful analysis of trading data and market liquidity conditions, the FCA should, over time, look to refine and recalibrate the transparency framework, shedding more light where it is warranted, and providing greater protection where it is needed. ICMA would like to consider itself a partner to the FCA on its voyage.

This response was prepared by ICMA's MiFID/R Working Group (MWG), which consists of a broad range of members representing sell-side and buy-side investment firms active in the international bond markets, as well as trading venues, data providers, and potential candidates to be consolidated tape providers.

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T+1 discussions in Europe

As North America is preparing for its migration to a T+1 settlement cycle on 27/28 May 2024, market participants and regulators in Europe are still making up their minds on whether, how and when the UK and the EU should follow in the US' footsteps.

In the UK, the long-awaited interim report of the Accelerated Settlement Taskforce (AST), the "Geffen report", was finally published on 28 March. The report recommends a UK move to T+1 by the end of 2027, but with some important caveats, including a scope that is narrower than initially suggested, applying only to transactions traded on a UK trading venue and settled on a UK CSD. One of the key suggestions of the interim report is to hand over the work to a Technical Group of market practitioners which is mandated to consider in more detail the challenges of moving the UK market to T+1, work out solutions and confirm the proposed migration timeline. Discussions in the Technical Group are already well under way across five working groups that have been established to focus on the key issues. The aim is to produce a final report with recommendations by September 2024. ICMA continues to actively engage in the group. Along with other industry bodies, we also actively advocate for close coordination between authorities across Europe.

In the EU, stakeholders are still digesting the outcome of a European Commission Roundtable held in Brussels on 25 January. During the event, Commissioner Mairead McGuinness made it clear that for the Commission T+1 in the EU is not a question of "if" but only "how" and "when". However, views are still very mixed as to what the right path for the EU should be. This is also reflected in the feedback to ESMA's call for evidence consultation which concluded in December 2023. On 21 March 2024, ESMA issued a feedback statement which summarises the responses received. On this basis, ESMA is now working on its final report for the European Commission which will assess potential impacts and costs and benefits of an EU move to T+1. ESMA is expected to finalise the report later this year, either in Q3 or Q4.

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European secondary bond market data report

On 19 March 2024, ICMA published its fourth semi-annual *European Secondary Bond Market Data Report*, covering the period from January 2022 through December 2023. An initiative of the ICMA Secondary Market Practices Committee (SMPC), the report compiles and analyses EU and UK secondary bond market data published under the MiFIR/MiFID II RTS 2 requirement, using Propellant.digital software. The data and analysis cover both sovereign and corporate bond markets.

The latest report has allowed ICMA to: (i) identify new patterns in the data; and (ii) confirm observations identified in previous editions and draw conclusions on potential trends.

Summary of observations from the data

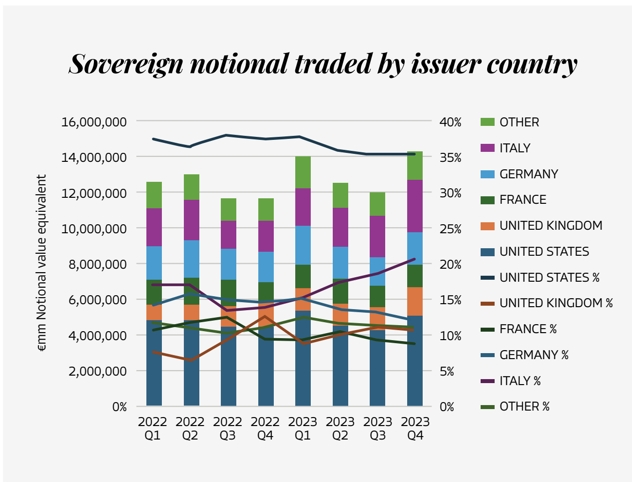
- Sovereign bond traded notional in H2 2023 decreased by 1% compared to H1 2023, whilst trade count increased 8%. Year-on-year, however, both traded notional and trade count increased by 8% and 25% respectively, compared to

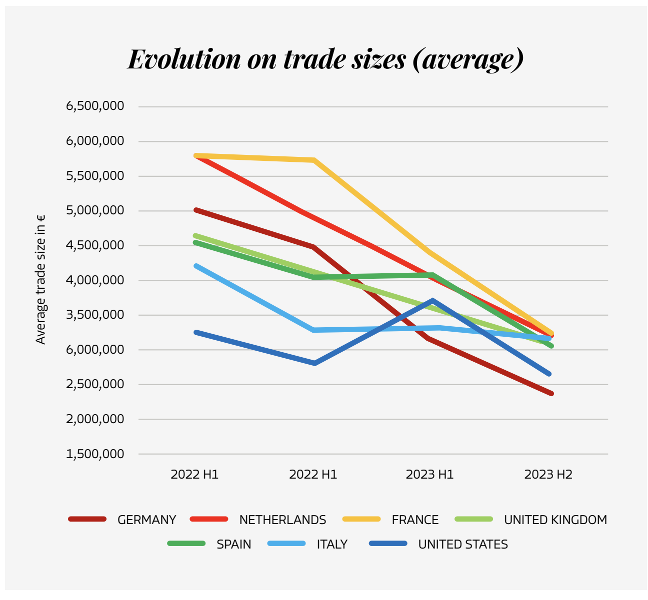
2022.

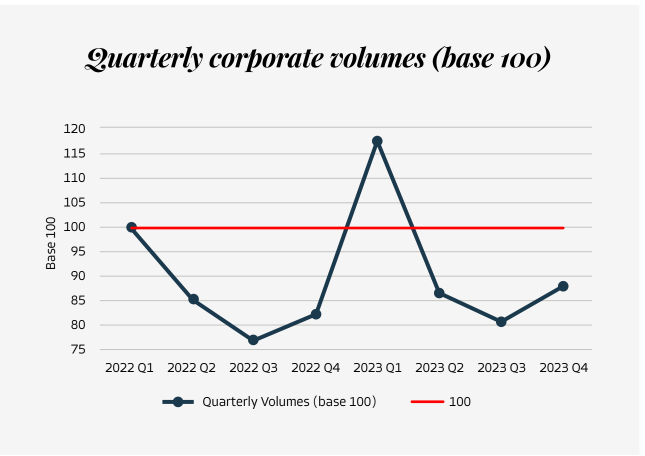
- Corporate bonds saw less trading activity in H2 2023 compared to H1 2023, with a decrease in notional traded of 17% and a decrease in trade count of 6%. Year-on-year, however, both traded notional and trade count increased (compared to 2022) by 8% and 11% respectively.
- 98% of sovereign notional and 96% of corporate notional was represented by EUR, USD and GBP denominated trades.
- Notional traded for sovereign bonds issued by the UK and Italy grew by 23% and 25% respectively, whilst France showed an 8% decrease. Italian sovereign debt shows the major increase in the percentage share of notional traded and trade counts.
- For the top seven sovereign issuers (making up 94.7% of traded notional), average trade size decreased from H1 2022 to H2 2023, with ranges between a maximum of -52.7% and a minimum of -18.1%.
- Year-on-year, corporate average trade sizes decreased 8% for EUR denominated bonds but grew by 7% for USD denominated bonds.
- For both sovereign and corporate bonds, the share of total notional executed via Systematic Internalisers (SI) decreased marginally in favour of dealer-to-dealer (D2D) and dealer-to-client (D2C) protocols.

Future reports

Working with Propellant, ICMA believes that this latest data set is a more accurate reflection than the previous reports, and the expectation is that future reports will see continued improvements in both the depth and quality of the underlying data. ICMA would welcome feedback on the report and suggestions to develop and enhance the analysis going forward.







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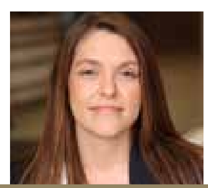
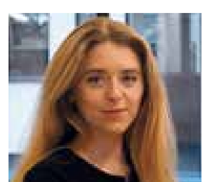
Repo and Collateral Markets

by **Andy Hill, Alexander Westphal, Deena Seoudy, Zhan Chen** and **Emma Thomas**





ICMA's European Repo and Collateral Council

25th anniversary of the ERCC: The European Repo and Collateral Council (ERCC) was founded in 1999 and is today firmly established as the main representative body for the cross-border repo and collateral market in Europe. In order to celebrate the 25th anniversary of the ERCC this year and its great success story, ICMA is hosting a gala dinner on 25 April 2024 at Plaisterer's Hall in London. Personal invitations have been sent to all current and past members of the ERCC Committee and other key contributors. In addition, there are a number of sponsorship opportunities available for member firms, including full (or half) tables of ten. To discuss sponsorship opportunities, please contact sanaa.clausse@icmagroup.org. A limited number of individual tickets are also available for members to purchase.

ERCC Committee and elections: On 8 February 2024, ICMA announced the results of the annual elections to the ERCC Committee. The results are based on valid votes received from 72 member firms (out of a total of 111 full members). Our thanks to all the 27 candidates who competed for the 19 seats on the Committee, as well as all the delegates who cast their votes. We are very pleased to see the continued engagement of members and look forward to working with the new Committee.

On 19 March, the new ERCC Committee came together for its first meeting after the elections, hosted by ICMA in its London office. At the meeting, members re-elected the current chair trio, led by Gareth Allen, UBS, as ERCC Chair and Emma Johnson, BlackRock, and Thomas Hansen, Santander, as Vice-Chairs. Congratulations to all three. As part of the agenda, members also discussed current repo market conditions, reviewed ERCC priorities for 2024 and focused on a number of key issues, ranging from repo clearing to the latest work on best practice, as well as the various regulatory initiatives that are impacting the repo market (see below). As always, meeting minutes will be made available to all ERCC members once approved by the Committee and can be accessed here.

Further meetings of the Committee have been scheduled for 25 April (London) and 18 June (Geneva).

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ICMA's Global Repo and Collateral Forum

Fourth GRCF meeting: ICMA's Global Repo and Collateral Forum (GRCF) continues to meet on a quarterly basis. The first meeting in 2024 was held in a virtual format on 21 March with almost 100 members participating. As usual, the agenda included updates from the different regions involved in the GRCF and looked at the key regional developments and repo market trends. This included a preview of the results of the latest European Repo Market Survey, due to be published shortly, a review of the results of the latest ICMA-ASIFMA APAC Repo Survey, as well as a presentation by Frontclear on the latest repo market developments across Africa. In addition to the regional updates, members also touched on a number of global themes and initiatives, including the discussions on a potential shortening of the settlement cycle, triggered by the US decision to move to T+1 in May 2024, as well as the latest legal developments related to the GMRA and ICMA's work related to the Common Domain Model (CDM). A date for the next GRCF meeting (Q2) will be announced in due course. The GRCF is open to all ICMA members with an interest in global cross-border repo markets. If you want to join the distribution list, please send an email to grcf@icmagroup.org.

Asia-Pacific Repo Market Survey: On 26 January 2024, the results of the latest survey of the Asia-Pacific repo market were jointly published by ICMA's Global Repo and Collateral Forum (GRCF) and ASIFMA's Secured Funding Markets Committee. The survey, which follows a similar methodology as the ERCC survey, focuses on cross-border business involving internationally active banks and covers the APAC region (excluding Japan). In terms of high-level results, the survey shows modest growth in the outstanding value of the ex-Japan APAC repo market but declining turnover, which implies longer-term transactions. Cross-border business with

APAC and non-European counterparties increased its share of the survey, while there was a shift in the allocation of collateral into JGBs and some other APAC securities. In addition, the newly added snapshot on China and India's onshore repo market highlights the similarities and differences in composition and operating environment between domestic and cross-border markets.

Joint ICMA-CCDC White Paper: On 26 March, ICMA and the China Central Depository & Clearing Co (CCDC) issued an English edition of their joint White Paper, *Use of RMB-Denominated Bonds as Collateral for Global Repo Transactions.* The paper was released at an ICMA event in Hong Kong (hosted by HKMA) which looked at innovation and opportunities in the Chinese and broader Asian cross-border bond markets. The paper reviews in-depth the differences between the domestic and international market structure, trade mechanisms and documentation, aiming to provide clarity for global market participants wishing to trade in China's repo market.

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ERCC report on the 2023 year-end

On 29 January 2024, ICMA's ERCC published its annual analysis of how the repo market performed over the recent year-end: *The European Repo Market at 2023 Year-End.* Following an expensive, but relatively calm, 2022 year-end and a year of central bank "normalisation" of monetary policy, the 2023 turn was never expected to be as problematic as previous year-ends, even though it was four calendar days in duration. In many ways, the interest was largely to see how "normal" the end of 2023 would be. The report shows that, compared to previous year-ends, the 2023 turn for the euro repo market proved to be relatively unexceptional and explains why. The report also provides commentary and analysis of year-end for the sterling, dollar, and yen repo markets.

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EBA report on NSFR

On 16 January 2024, the EBA published a *Report on Specific Aspects of the NSFR Framework under Article 510 CRR*, which has raised some concerns in the market. Perhaps most significantly, the report suggests that Required Stable Funding (RSF) factors for reverse repos should revert to the BCBS levels of 10% and 15% for transactions with a term of less than six months that are secured by Level 1 HQLA and non-Level 1 HQLA collateral respectively (rather than the current levels of 0% and 5%). The proposals are not in line with the approach taken in other major jurisdictions, including the US and the UK, and could have major detrimental impacts for repo markets and beyond. The concerns are not new and have been highlighted before, eg in a detailed 2016 ERCC briefing note on the potential NSFR impacts on repo. However, there is some urgency in this matter, as we understand that the proposed change would take effect automatically (in June 2025), unless the European Commission proposes specific legislative amendments by 28 June 2024. ICMA is working on a briefing note on the issue that will be the basis for further advocacy. The discussion is being led by the ERCC's Prudential Working Group.

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EBA Q&A on LCR treatment of open reverse repos

As a follow-up to previous outreach on the topic, ICMA has held a constructive call with the EBA to discuss industry concerns about an EBA Q&A on the LCR treatment of open reverse-repos, which states that these should not be considered as inflows. The ERCC's Prudential Working Group had previously highlighted potential adverse impacts, particularly with respect to the operational implications and related risks that this will cause, especially in the context of non-HQLA collateral. Given that open-SFTs are widely used in financing dealers' trading positions in credit and EM, this in turn could have consequences for liquidity provision in these bond markets. ICMA also noted that this treatment is not applied in other jurisdictions such as the US and UK. Further to the call, we expect to see in the next weeks some updates to the problematic Q&A which we hope will address the main concerns.

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SFTR reporting

On 24 January 2024, the European Commission published its review report on the macroprudential framework of the EU. As part of the report, the Commission announced a consultation on the review of the SFTR in 2024, aimed at improving transparency on funding and lending transactions and allowing for better monitoring of risks arising from non-bank credit intermediation. However, while the NBFI review may touch on some elements of SFTR, we understand that a full review of SFTR is not expected before 2025. That said, ICMA continues to engage with ESMA in anticipation of any review and is working with members of the ERCC SFTR Taskforce to compile a list of issues and proposals that can be raised in this context.

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Repo and sustainability

On 12 February 2024, ICMA launched its 2024 survey on repo and sustainability to further explore the challenges faced by firms in the space and identify potential solutions and best practices. The survey was initiated based on a number of member requests as well as the support from ICMA's Repo and Sustainability Taskforce. ICMA is keen to gain a better understanding of the current repo and sustainability market and its related market practices in order to assess the need for future voluntary guidance. The survey closed on 8 March 2024, following a two-week extension. ICMA is currently analysing the responses received and will share the findings with the Taskforce in due course.

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Annual GMRA Legal Opinion update

The 2024 annual GMRA Legal Opinion update is almost complete, with the 2024 updates due to be published on or around 11 April 2024. The suite of ICMA GMRA Legal Opinions have been expanded this year to include a new legal opinion to address certain counterparty types in Kazakhstan.

The ICMA GMRA Legal Opinions cover almost 70 jurisdictions and provide members with access to a substantive body of legal knowhow covering both the enforceability of the netting provisions of the GMRA as well as the validity of the GMRA as a whole.

The ICMA GMRA Legal Opinions are accessible on aosphere.com. Members who have not yet registered with aosphere are encouraged to do so as soon as is possible. As of 1 April 2024, access to the ICMA GMRA legal opinions is restricted to non-subscribing Tier 3 and Associate Members. Official institution members are exempt from the subscription service.

More information on the ICMA GMRA Legal Opinion subscription can be found at ICMA GMRA Legal Opinions » ICMA (icmagroup.org). Alternatively, if you have any questions please do contact our membership team.

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GMRA Digital Assets Annex

Work to produce an annex/additional terms to the GMRA continues so as to provide for the use of certain digital assets under the GMRA. The scope of this project has recently been expanded. In addition to providing for where a repo is collateralised by, or has the (re)purchase price paid in, digital cash, digital securities including tokenised traditional securities or asset-backed digital assets, it will now also include terms to cover traditional securities which use a digital platform to transfer ownership that in itself does not create a new digital asset that is property.

Members are encouraged to participate actively in the working group and continue to contribute to this project.

If you would like to be an active participant in the Legal Working Group or have any questions on the legal updates, please do reach out to Deena Seoudy directly.

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ICMA Repo Trading FinTech Directory: new web interface

In light of further digitalisation across capital markets, it is more important than ever to understand the evolving landscape of vendor solutions. ICMA's FinTech directories are designed to compare the key features and capabilities of over 335 solutions across debt issuance, electronic trading of bonds and repos, as well as operations. The directories have now been embedded into ICMA's website in a more user-friendly format, with options to filter according to areas of interest – such as trading protocols, links to CCPs, connectivity options and geographical coverage – allowing to directly compare service providers. The Repo Trading FinTech Directory has also been reviewed to update the information included in the directory. ICMA's other FinTech directories will soon be subject to this review process too. If you would like to amend an entry or be added to the directory as a service provider, please contact Fintech@icmagroup.org.

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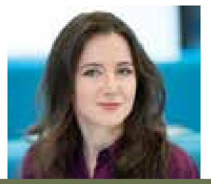
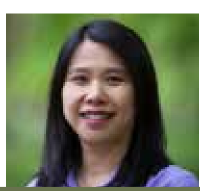
Asset Management

by **Nicolette Moser, Irene Rey** and **Miriam Patterson**

Liquidity mismatch in OEFs and guidance on anti-dilution LMTs

Background

Following the COVID-19 shock, which exposed vulnerabilities in the non-bank financial system, the Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) jointly analysed liquidity risk and its management. A "dash for cash" resulted when, in March 2020, it became clear that the global pandemic would cause large parts of the global economy to shut down, investors sold their most liquid assets and was the main driver of open-ended fund (OEF) redemptions and fund managers decision to sell assets. This flight to safety by investors was broken by massive central bank intervention.

However, determining the materiality and economic impact of the liquidity mismatch vulnerability contributing to market stress was difficult. A concern was that redeeming investors might benefit at the expense of remaining investors if proper asset valuation and the use of liquidity management tools (LMTs) did not remove the liquidity mismatch vulnerability. In 2022 IOSCO's Assessment Committee completed a *Thematic Review on Liquidity Risk Management Recommendations.* The FSB also undertook an assessment in 2022 regarding financial stability risks arising from liquidity mismatch in OEFs, noting that there was materiality variation in how anti-dilution LMTs were used. In June 2023, FSB and IOSCO held a joint outreach event to launch their respective consultations to inform policies released at the end of that year.

On 20 December 2023, the FSB released its revised policy recommendations setting out key objectives for an effective regulatory and supervisory framework to address structural vulnerabilities from liquidity mismatch in OEFs. The recommendations seek to achieve greater inclusion of anti-dilution LMTs by OEF managers to mitigate investor dilution and potential first-mover advantage arising from structural liquidity mismatch in OEFs.

In coordination with the FSB, IOSCO published its final guidance on anti-dilution LMTs to support the greater use of, and consistency in, the use of anti-dilution LMTs by OEFs. The recommendations, combined with the guidance, aim to strengthen liquidity management by OEF managers.

FSB

The FSB recommendations were addressed to financial regulators and supervisors with the aim of providing greater clarity regarding the redemption terms that OEFs can offer investors, based on the liquidity of the OEF's asset holdings. This would be achieved through a bucketing or so-called "categorisation" approach where OEFs would be grouped depending on the liquidity of their assets: "liquid, less liquid, illiquid". Depending on the category, different redemption expectations and conditions would apply. The FSB recommended that authorities set expectations for OEF managers to use a combination of quantitative and qualitative factors when determining the "liquidity" of OEFs in "normal" and "stressed" market conditions.

IOSCO

Following consultation feedback received by IOSCO regarding guidance on the use of anti-dilution LMTs, and to encourage the greater use of anti-dilution LMTs by OEFs in order to mitigate potential first-mover advantage arising from structural liquidity mismatch in OEFs, the IOSCO guidance published on 20 December 2023 proposed the following as part of everyday liquidity risk management to mitigate material investor dilution:

- Appropriate internal systems, procedures and controls should be in place for the design and use of anti-dilution LMTs and potential first-mover advantage arising from structural liquidity mismatch in OEFs.
- The use of appropriate anti-dilution LMTs should be considered.
- Anti-dilution LMTs used should impose the estimated cost of liquidity on subscribing and redeeming investors.
- Any thresholds for the activation of anti-dilution LMTs should be appropriate and prudent.
- Adequate governance should be in place for the liquidity management processes including for the use of LMTs.

- Clear disclosure of the objectives and operation of anti-dilution LMTs should be published in order that investors will be able to factor the cost of liquidity into investment decisions.

It is expected that, by 2028, the FSB and IOSCO will review the implementation progress and assess whether these recommendations have sufficiently addressed financial stability concerns.

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EU AIFMD and UCITS reviews: next steps

On 26 March 2024, the reviewed AIFMD/UCITS was published in the EU *Official Journal.*

The text will enter into force on 16 April 2024, which sets a transposition deadline for all Member States by 16 April 2026, and its full application by 16 April 2027.

ESMA is now working on the AIFMD/UCITS Level 2 measures, and the first draft guidelines and RTS for consultation are expected in July 2024 at the earliest. The scheduled publications for final ESMA Level 2 measures are listed in the table below.

AMIC will be engaging on the upcoming Level 2 measures and will be working closely with members on positioning, particularly to safeguard the agreement which was reached at Level 1.

AIFMD/UCITS Workstream	*Level 2/level 3 measure*	*Deadline for submission*	*Planned publication of consultation paper (ESMA CP timetable)*	*Estimated final publication*
Fund naming	ESMA guidelines to specify circumstances where the name of an AIF or UCITS is unfair, unclear or misleading.	By 24 months after entry into force	Consulted on guidelines on funds' names using ESG or sustainability-related terms in November 2022. Final publication was postponed to consider the new ESMA mandates (to develop guidelines specifying the circumstances where the name of an AIF or UCITS is unclear, unfair, or misleading) and to deliver one overarching set of final guidelines.	Any time after 16 April 2024
LMTs	ESMA draft RTS on characteristics of LMTs listed in Annex V	By 12 months after entry into force	Q2-Q3 2024 (July earliest)	By 16 April 2025
	ESMA guidelines on the selection and calibration of LMTs.		Q2-Q3 2024 (July earliest)	
Loan origination	ESMA draft RTS on requirements for loan-originating AIFs.		Q2-Q3 2024 (July earliest)	
LMTs	ESMA guidelines on NCA powers regarding the activation and deactivation of LMTs	By 24 months after entry into force	2025	By 16 April 2026
Reporting and data collection	ESMA draft RTS on NCA reporting	By 36 months after entry into force	TBC	
	ESMA draft ITS on NCA reporting	By 36 months after entry into force	TBC	By 16 April 2027

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EU Securitisation Regulation Article 7 templates

ICMA co-signed a Joint Associations' response, dated 21 March 2024, to the ESMA consultation of December 2023 on the review of the EU Securitisation Regulation (SECR) Article 7 templates.

The promotion of well-functioning cross-border debt securities markets, without unnecessary fragmentation, is at the heart of ICMA's mission and a priority for ICMA's members. This includes a healthy, efficient international securitisation market promoting global diversification and financial stability. For this reason, ICMA is supportive of the Joint Associations' response to the ESMA consultation of December 2023 on the review of the securitisation disclosure templates under Article 7 of the SECR. The response seeks to address in the interim period (prior to the wider review of the SECR) certain urgent matters that could help to revive the securitisation markets by reducing unnecessary complexities and cost of regulatory compliance. The Joint Associations collectively represent a very significant number of the key stakeholders in the European securitisation markets.

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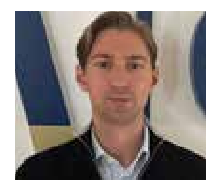
Sustainable Finance

by **Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck, Ozgur Altun** and **Stanislav Egorov**



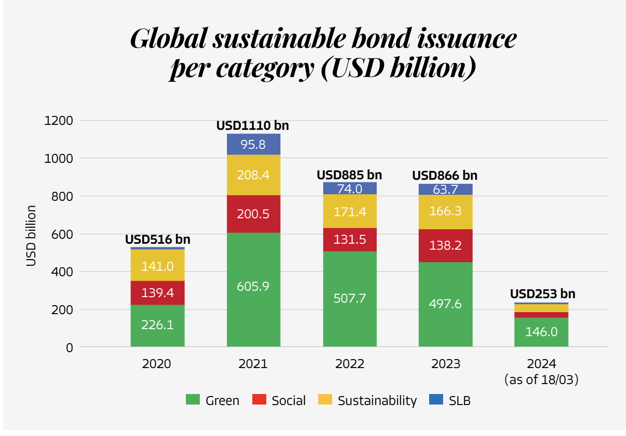
Summary

We provide an overview of the encouraging numbers for the sustainable bond market end-2023 and the good start year-to-date. We also report on some important developments from the Principles, not forgetting the 10th anniversary of the Green Bond Principles and the announcement of the 2024 Annual Conference of the Principles on 25 June in Amsterdam. We highlight the recent ICMA publication on transition finance (also covered in this Quarterly Report with a feature article). Finally, we summarise significant regulatory developments internationally and provide an update on the Code of Conduct for ESG Ratings and Data Products Providers.

Sustainable bond market: update

In 2023, sustainable bond issuance was essentially flat (with a 2% fall compared to 2022), while remaining also stable in proportion to the overall bond market at 12% of total issuance. During the year, the respective shares of green and social bonds at 56% and 17% of all sustainable bond issuance were the same as in 2022. Sustainability-linked bond issuance was lower, decreasing to 7% from 9% in 2022. Conversely, sustainability bonds grew to 20% of the market in 2023, marking a 2% increase from the prior year.

As of 18 March 2024, sustainable bond issuance year-to-date is USD253 billion, marking a 12% increase year-on-year and accounting for 11% of the overall bond market in Q1 2024. Europe continues to be the leading region in the sustainable bond market representing 58% of the total issuance, followed by supranational issuers at 22%, Asia at 9% and North America at 8%.



Source: ICMA based on LGX DataHub and Bloomberg data as of 18 March 2024

Looking at issuer categories, SSA volumes to date in 2024 exceed USD138 billion, an 18% increase year-on-year, and account for 55% of sustainable bond issuance. Notable transactions in 2024 include Japan, which became the inaugural sovereign issuer to sell climate transition-labelled bonds. The auction of two JPY800 billion (USD 5.3 billion) climate transition bonds (5-year and 10-year) illustrated Japan's *Basic Policy for the Realisation of Green Transformation (GX)*, announced in February 2023.

AfDB became the first supranational institution to complete a sustainable hybrid capital transaction. The USD750 million perpetual hybrid structure allows the issuer to optimise its balance sheet in line with the G20 Capital Adequacy Framework (CAF) recommendations. Q1 2024 saw several sovereign issuers entering the sustainable bond market for the first time. These included Romania raising EUR2 billion from a 12-year green bond transaction and Ivory Coast selling a USD1.1 billion 9-year sustainability bond. Moreover, Iceland issued its first green bond, EUR750 million 10-year.

Corporate issuance reached USD61 billion, corresponding to 24% of sustainable bond issuance in Q1 2024 and representing a 4% increase year-on-year. New entrants to the green bond market included issuers from hard-to-abate sectors. For example Dow, a US chemicals company, completed a USD1.25 billion dual tranche transaction, USD650 million 10-year and USD600 million 30-year. In addition, Mazda Motor Corporation issued a transition themed bond, JPY15 billion (USD101 million) 5-year, first bond of such type issued by an automotive company, while Mundys, an Italian transportation services company, issued its inaugural sustainability-linked bond, EUR750 million 5-year. Furthermore, TUI Group, a German leisure, travel and

tourism company completed its first sustainability-linked bond sale by issuing a EUR500 million 5-year bond.

Issuance from the financial sector topped USD54 billion, a 2% decline year-on-year. Issuers that completed their debut green bond sales included Ibercaja Banco and HDFC Bank, selling EUR500 million 4.5-year and USD300 million 3-year bonds respectively.

Update from the Principles

10-year anniversary and Annual Conference of the Principles

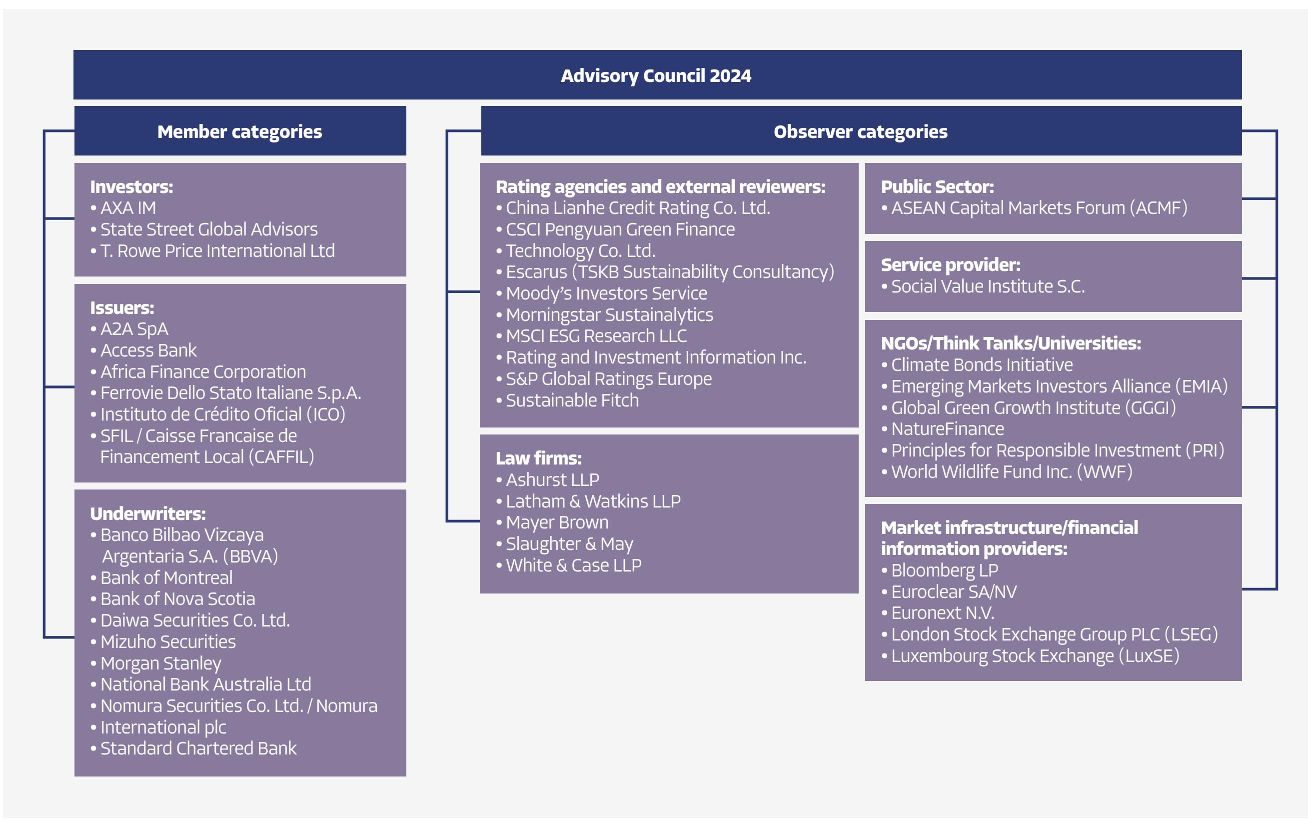
The Green Bond Principles celebrate their 10-year anniversary in 2024. ICMA released in January a commemorative video where we pay tribute to the progress made and the community driving this. The 2024 Annual Conference of the Principles will also echo this anniversary in its agenda. The Conference will be held this year in Amsterdam on Tuesday, 25 June. The full day conference programme will combine keynote speeches and panel discussions with leading market figures and experts in sustainable finance. It will feature key updates on the 2024 guidance from the Principles, as well as the critical topics being debated in sustainable finance from a global perspective including transition finance, market integrity and regulation. The conference will be in-person with an online facility for those who are unable to travel to Amsterdam. Sponsorship opportunities are already available.

New governance

Separately, with the support of the Executive Committee of the Principles and after extensive outreach to members and observers, ICMA initiated an online vote on 10 January 2024 to update the governance of the Principles. The primary purpose of the proposed changes was to require all for-profit member and observers to become members of ICMA or pay a mandatory financial contribution. The objective is to ensure a fair contribution from all for-profit organisations to the continued development of the Principles. On 13 February, ICMA announced the positive result of the vote that closed on 8 February. 70% of the members of the Principles participated in the vote approving the proposed changes by a majority of 93% giving strong legitimacy to the outcome. The 2024 Governance Framework is now available online. An information webinar on its implementation was held on 29 February.

2024 Advisory Council

The Executive Committee of the Principles finalised in January 2024 the selection of the Advisory Council. This year's Advisory Council, among other matters, will continue to focus on emerging markets and, following the 2023 Annual Conference of the Principles in Singapore, on developments in Asia. So far, the Advisory Council has met twice virtually for the kick-off meeting and to discuss transition finance. A third meeting in April 2024 will focus on nature and biodiversity. The composition of the 2024 Advisory Council, reflecting the diversity of organisations and geographies of the members & observers of the Principles, is illustrated in the infographic below.



ICMA publication and webinar on transition finance in the debt capital market

On 14 February 2024, ICMA published a thought leadership paper, *Transition Finance in the Debt Capital Market,* benefitting from the input of the Executive Committee as well other ICMA committees and members. The paper reviews the latest guidance and recommendations on transition finance from both the market and the official sector. It also underlines the progress of international taxonomies to integrate transition, as well as the latest developments on sectoral pathways and industry roadmaps. The Thought Leadership section of this Quarterly Report includes an article summarising the paper's key content.

Off the back of this paper, on 12 March, ICMA hosted a webinar with near 400 online participants (recording available here). The webinar started with a welcome speech by Bryan Pascoe, ICMA's CEO, followed by a presentation from Özgür Altun, Associate Director, on the ICMA's recent publication. These were followed by a panel of highly influential speakers moderated by Nicholas Pfaff, Deputy CEO, Head of Sustainable Finance, including Alice Carr (GFANZ), Sean Kidney (Climate Bonds Initiative), Izuru Kobayashi (Japan Ministry of Economy, Trade and Industry), Kate Levick (E3G and Transition Plan Taskforce) and Robert Youngman (OECD).

International regulatory developments

Global progress in corporate sustainability/climate reporting

In March 2024, the US SEC released its final (and long awaited) rules to enhance and standardise climate-related disclosures by public companies and in public offerings. Amongst other things, the rules mandate the disclosure of Scope 1 and Scope 2 emissions subject to materiality. Also in 2024, major Chinese stock exchanges (Shanghai, Shenzhen, and Beijing) released draft guidelines on disclosures, which cover a broad range of sustainability topics and adopt a "double materiality" approach. Accordingly, a broad range of sustainability disclosures also covering value chains will be required from 2026 (for FY2025) for more than 450 large companies whose capitalisation represents more than half of the entire market.

Meanwhile, Türkiye has already transposed the ISSB standards (IFRS S1 - general requirements and IFRS S2 – climate change) into national law, while several other countries including Australia, Malaysia, Nigeria, Pakistan and the Philippines have reportedly recently opened or concluded their consultations to this end. Singapore will introduce mandatory climate reporting for listed and large non-listed companies as of 2025 and introduced a Government grant programme to help partially cover the reporting costs.

The UK FCA is expected to launch a consultation in H1 2024 on the adoption of the ISSB standards and its transition plan disclosure framework building on the recommendation of the Transition Plan Taskforce. Also, ISSB released a *Preview of the Inaugural Jurisdictional Guide for the Adoption or Other Use of ISSB Standards*. Going forward, ISSB is expected to focus on, among other matters, avoiding jurisdictional fragmentation in the adoption of its standards.

Asia-Pacific

In December 2023, the Monetary Authority of Singapore (MAS) launched the Singapore-Asia Taxonomy for Sustainable Finance, which sets out detailed thresholds and criteria for defining green and transition activities. In February 2024, the ASEAN Taxonomy Board released the ASEAN Taxonomy Version 2, effective from 19 February. Also in February, Bangko Sentral NG Pilipinas adopted the Philippine Sustainable Finance Taxonomy Guidelines while the Indonesian regulator OJK published a revised version of the country's taxonomy.

Most recently, we understand that the Hong Kong Monetary Authority will also develop a transition taxonomy in addition to its ongoing work on a green taxonomy while in China, the former "Green Industries Guidance Catalogue", following public consultations, has been updated and renamed the *Guidance Catalogue for Green and Low-Carbon Transformation Industries (2024 edition)*.

Europe

In March 2024, the EU Council adopted a revised version of the CSDD Directive following opposition from some Member States to the previous political agreement of December 2023. The new version notably narrows the personal scope of the legislation and the coverage of downstream activities while introducing a phased application (see a summary here from EY). As a reminder, the CSDD Directive sets obligations for large companies regarding actual and potential adverse impacts on human rights and the environment. It also requires in-scope EU and non-EU entities to adopt transition plans compatible with the 1.5°C objective of the Paris Agreement.

Code of Conduct for ESG Ratings and Data Products Providers: update

On 14 December 2023, the *Code of Conduct for ESG Ratings and Data Products Providers* supported by ICMA was published. On 31 January 2024, the market welcomed the Code with a hybrid event at the London Stock Exchange Group. The event featured a keynote from IOSCO and two panels on "The Code in Practice" and on "The International Context". Regulators from the FCA, JFSA and MAS participated in the latter one. The recording of the event is available here.

In line with recommendations by IOSCO, the Code focuses on promoting transparency, good governance, management of conflicts of interest, and strengthening systems and controls in the sector. As such, it is intended to be internationally interoperable and could be used by jurisdictions where no local code or regulation is in place. Providers are encouraged to implement this voluntary Code and explain in a Statement of Application how the Principles have been embedded within their organisation. The implementation period for ESG ratings providers is six months and the implementation period for ESG data products providers is twelve months. ICMA is keeping a list of providers who signed up to the Code on the ICMA website.

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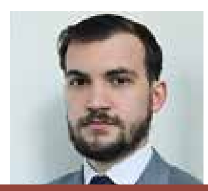
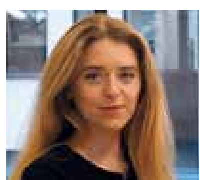
FinTech and Digitalisation

by **Georgina Jarratt, Gabriel Callsen, Simone Bruno** and **Emma Thomas**

ICMA FinTech Advisory Committee

ICMA's FinTech Advisory Committee reconvened on 29 November 2023 and 21 February 2024. In its November meeting, members discussed latest developments with regard to bond tokenisation in APAC, Euroclear's digital financial market infrastructure (DFMI) and wider implications for international bond markets. The Committee also exchanged views on recent developments related to AI and machine learning and notably generative AI, and potential implications for bond markets.

In February, the Committee provided guidance on ICMA's FinTech and Digitalisation priorities ahead of ICMA's Board meeting in March 2024. Another item for discussion were the opportunities and risks of digital (DLT-based) bonds from an asset management perspective and the importance of wider engagement by investors. Armin Peter, previously Global Head of Syndicate and Head of Sustainable Banking, EMEA, at UBS, announced he was stepping down as Chair in light of his departure from UBS. Committee members exchanged views on the Committee composition and the process of appointing new Chair(s) looking ahead.

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ICMA DLT Bonds Working Group

The Working Group held its first quarterly meeting on 20 March 2024, bringing together issuers, banks, investors, central banks, market infrastructures, law firms and technology providers across ICMA's membership. Following a call for interest in previous meetings and approval by ICMA's FinTech Advisory Committee, ICMA was pleased to announce the appointment of Christoph Hock, Head of Tokenisation and Digital Assets at Union Investment, as new Chair of ICMA's DLT Bonds Working Group.

On the agenda were (i) updates on the Working Group's deliverables, (ii) regulatory developments, and (iii) discussions of proposals for a market-wide approach to foster the development of digital (DLT-based) bonds.

Updates on the Working Group's deliverables to foster harmonisation and increase buy-side engagement included the adoption of ICMA's Bond Data Taxonomy (BDT) by the Hong Kong SAR Government in its digital green bonds issued on 7 February 2024; the release of BDT version 1.2, including a DLT extension that enables firms to communicate a bond's DLT-related features in a structured format; a summary of two workshops of the Working Group's buy-side sub-group focused on digital assets and portfolio management, internal processes, trading and custody arrangements.

Latest regulatory developments comprised a joint trade association response co-signed by ICMA to the BCBS consultation on banks' disclosure of crypto-asset exposures on 31 January 2024; the Eurosystem's New Technologies for Wholesale Settlement Contact Group; and the Law Commission of England and Wales's consultation on potential law reform around digital and other novel assets.

A proposal for DvP securities settlement based on ICMA's Bond Data Taxonomy was presented at the meeting as well as a broader framework for digital (DLT-based) bonds building on common standards, both of which will be discussed further amongst the Working Group's diverse constituencies of market stakeholders.

Resources on digital (DLT-based) bonds and further information on the Working Group can be found on ICMA's website.

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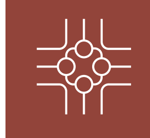

Bond Data Taxonomy

Promoting market efficiency and avoiding the risk of fragmentation not only within the issuance process of traditional debt instruments but also digital (DLT-based) bonds are key objectives of ICMA's Bond Data Taxonomy (BDT).

A DLT extension of ICMA's BDT was released in version 1.2 in February 2024, alongside minor enhancements. The purpose of the DLT extension is to provide a framework to capture a bond's DLT-related information such as DLT platform operator, accessibility features of the DLT network, relevant identifiers and new roles in a transaction such as crypto securities registrar or tokenisation manager.

On 27 February 2024, the BDT Working Group held its quarterly meeting to discuss implementation approaches, including a presentation by Inveztor on the integration of the BDT in its platform, as well as focus areas and potential extensions looking ahead. The digital green bonds issued by the Hong Kong SAR Government on 7 February 2024 marks the first adoption of ICMA's Bond Data Taxonomy by a sovereign, supranational and agency (SSA) issuer. This is also a first for a green bond.

Further information on ICMA's Bond Data Taxonomy, including a video tutorial, is publicly available and can be found here. The BDT Working Group meets on a quarterly basis to discuss implementation approaches and review enhancements or potential extensions. If you would like to become involved, please get in touch.

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CDM for repo and bonds

ICMA, ISDA and ISLA held a joint CDM showcase event on 28 February 2024 in London. After the success of the inaugural CDM showcase in 2023, this second annual event brought together over 130 members and relevant industry stakeholders from across derivatives, repo, and securities lending markets.

Shortening settlement cycles, automating operationally cumbersome post-trade processes, forthcoming reporting requirements for swaps under EMIR Refit, for bilateral repos in the US, and issuance and trading of tokenised securities, will inevitably lead to further digitisation and automation across capital markets.

The CDM showcase featured a series of panel discussions, presentations and demos on how to automate securities lending processes from contract negotiation to trading, optimise collateral management operations with a focus on collateral eligibility criteria, and leverage the open-source CDM to automate repo-post-trade and derivatives reporting.

The fire-side chat moderated by ICMA focused on industry priorities and opportunities for adoption of the CDM, the core issues the CDM is seeking to solve, lessons from hackathons and integration projects in order to lower implementation costs, avoid fragmentation and accelerate the development of new services. ICMA's CDM demo highlighted how to use the "CDM toolkit" to implement ERCC best practices for pair-offs (bilateral netting). Further information including presentations from the event are available on ICMA's website.

Fostering adoption continues to be a key objective. ICMA's CDM Implementation Working Group brings together developers and IT specialists and focuses on how to build repo trading and post-trade applications based on the CDM. Further working groups on collateral and technology & architecture, amongst others, operate under the FINOS framework, which is hosting the CDM repository.

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Eurosystem New Technologies for Wholesale Settlement Contact Group

ICMA continues to participate in the Eurosystem's New Technologies for Wholesale Settlement Contact Group (NTW-CG). Following the Eurosystem's call for interest launched in December 2023, financial market stakeholders who would like to participate in trials and experiments for using central bank money to settle securities and payments recorded on distributed ledger platforms, can apply until 30 April 2024. Further information is available on the ECB's website.

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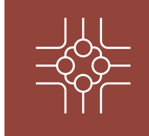

AI in international capital markets

Unleashing the power of AI and its potential ability to revolutionise the global capital markets

In recent years, the industrial landscape has witnessed a profound transformation propelled by advances in AI. Generative AI is a new and hugely disruptive force with the potential to reshape the dynamics of many different industries, financial services and beyond.

There are some compelling statistics already emerging around its adoption:

- 35% of businesses have already adopted AI.
- AI is expected to add 15.7 trillion dollars to the world's GDP by 2030 (boosting it by 14%).
- AI technology is expected to increase banking industry revenue by US$1 billion within the next three years.
- The AI software market's global annual revenue currently exceeds US$50 billion.
- By 2025, AI could eliminate around 85 million jobs, but it is predicted to potentially create over 97 million new ones.

Sources: Authority Hacker, IBM, NewVantage Partners, Gartner, PwC, MIT Sloan Management, Statista, Forbes, Accenture, McKinsey, Tractica, Harvard Business Review, Flexis, Google.

For the bond markets, the power of AI lies in its ability to enhance efficiency, improve decision-making, and mitigate risks for investors and market participants alike. However, it is essential to ensure that AI systems are carefully designed and implemented to mitigate potential biases and to ensure fair and transparent market outcomes.

Different parts of the trade lifecycle are already benefitting, but could also be further improved with this technology:

- *Trading processes:* AI-driven algorithms can already navigate vast datasets at unparalleled speeds, enabling real-time analysis and execution of trades.
- *Predicting future movements in bond prices, interest rates, and market sentiment:* helping investors make more informed decisions about when to buy or sell bonds, potentially maximizing returns and minimizing risks.
- *Optimisation of bond portfolios:* considering factors such as asset correlations, diversification benefits, and market dynamics to construct well-balanced portfolios tailored to individual investor preferences.
- *Risk management systems can assess the risk exposure of bond portfolios:* identifying potential vulnerabilities, helping investors optimize their portfolios to achieve their desired risk-return profiles.
- *Boosting market surveillance:* detecting irregularities in real time, anomalies, or potential market abuses helping firms and regulators alike protect investors and the stability of the markets as a whole.
- *Assisting in predicting market movements and interest rate changes:* analysing a wide range of economic indicators, geopolitical events, and market sentiment.

Global regulators are making important moves building on existing regulations, for example relating to algorithmic trading. In a February 2024 article, the ECB highlighted how it is future-proofing its staff on the topic of AI by enhancing education on the new EU AI Act, and is itself implementing the power of AI to make European banking supervision more effective.

ICMA has been tracking activity around the advance of the technology since 2017. ICMA published an article on big data and securities markets in 2019, which took stock of AI/ML use cases and regulatory developments. ICMA also held an event on *AI and Debt Capital Markets* on 5 March in Paris, hosted by Banque de France.

Next steps: Nearly every international organisation such as the FSB, BIS, IOSCO, OECD and major industry associations are working on the topic. The BCBS and CPMI will focus on it in 2025. The US SEC is expected to put out a paper on principles in the coming weeks.

The team at ICMA will formally work on the topic this year. If members are keen to get involved, please do get in touch with us.

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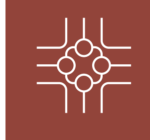


FinTech regulatory developments

Bank of England and FCA: Transforming Data Collection – response to phase two industry recommendations and future strategy

On 28 March 2024, the Bank of England and the Financial Conduct Authority (FCA) published a report outlining several projects planned for the next 18 months to improve data collection, as part of their Transforming Data Collection initiative. The report is based on three key areas highlighted in their 2021 plan: defining and adopting common data standards; modernising reporting instructions; and integrating reporting, in addition to the feedback from two industry committees included in the initiative. The document sets out what the designed solutions are, their workstreams, and how they will be beneficial to the industry.

BIS: Working paper No 1171 on DeFi Leverage

On 14 March, the Bank for International Settlements (BIS) published working paper No 1171 on *DeFi Leverage.* Through three focus areas, the paper highlights the importance of considering user behaviour, market dynamics, and automated risk mitigation in the design and management of collateralized borrowing platforms with emerging tokenized assets. First, the paper examines the asset-to-equity ratio using wallet-by-wallet data on major lending platforms. Second, it studies new empirical evidence on the systemic risk impact of high leverage on DeFi lending platforms, and third, it reviews the similarities between DeFi and repo and securities lending markets. By using granular data from the Ethereum blockchain, the paper provides an extensive examination of DeFi leverage, elucidating its overall trends, group disparities, and driving factors.

DIFC: Digital Assets Law DIFC Law No. 2 of 2024

On 8 March, the Dubai International Financial Centre (DIFC) Digital Assets Law No. 2 of 2024 came into effect following an extensive review of the legal approaches taken to digital assets in multiple jurisdictions, and a period of public consultation in 2023. In doing so DIFC has enacted a new Law of Security and related amendments that select existing legislation to cater for the consequences of the new digital assets regime and revised security regime. The legislative enactments aim to ensure DIFC Laws keep pace with the rapid developments in international trade and financial markets arising from technological developments, and to provide legal certainty for investors in, and users of, digital assets.

EBA: Consultation on redemption plans under Articles 47 and 55 of Regulation (EU) 2023/1114 (MiCA)

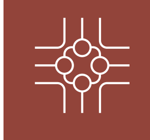
On 8 March, the European Banking Authority (EBA) published a consultative document on draft guidelines for the plans to orderly redeem asset-referenced tokens or e-money tokens, in the event that the issuer fails to fulfil its obligations under the Markets in Crypto-Assets Regulation (MiCA). The guidelines clarify the main principles governing the redemption plan and describe the main steps for its orderly and timely implementation, including the activation triggers by the competent authority and the cooperation with the prudential and resolution authorities. The guidelines also cover the case of pooled issuance, where the same token is issued by multiple issuers. The aim is to ensure appropriate coordination between the prudential and resolution authority and the MiCA competent authority. The consultation closes on 10 June 2024.

HKMA: Announcement of the commencement of Project Ensemble

On 7 March, the HKMA announced the commencement of Project Ensemble, a new wholesale central bank digital currency (wCBDC) project to render support of the development of the tokenisation market in Hong Kong. The project explores innovative financial market infrastructure that will facilitate seamless interbank settlement of tokenised money through wCBDC. Project Ensemble will initially focus on tokenised deposits, and at the core of the project is a wCBDC Sandbox that the HKMA will launch this year to further research and test tokenisation use cases that include, among others, settlement of tokenised real-world assets (eg green bonds). Project Ensemble forms a key part of the HKMA's broader initiatives to facilitate the development of the tokenisation market, comprising e-HKD and collaboration with the BIS Innovation Hub Hong Kong Centre, and build on the experimentation of tokenised deposit use cases that the HKMA conducted with HSBC, Hang Seng Bank and Ant Group in 2023.

BIS Innovation Hub and HKMA: Launch of second phase of Project Aurum

On 6 March, the BIS Innovation Hub Hong Kong centre launched the second phase of Project Aurum, in collaboration with HKMA. The second phase comes after testing the feasibility of a technological stack that integrates a wholesale interbank system and a retail e-wallet. Project Aurum 2.0 will now focus on how to enhance privacy for retail central bank digital currencies. With reference to several public consultations on the topic in different countries, the project is based on privacy being one of the key considerations of consumers when contemplating the adoption of CBDC. As a result, the project seeks to advance the practical understanding of central banks around privacy



when designing their CBDC systems and to demonstrate to the public sector how technology can protect personal data in the CBDC space.

EU Commission: Adoption of four delegated regulations supplementing MiCA

On 22 February, the EU Commission adopted four delegated regulations supplementing Regulation (EU) 2023/1114 under MiCA. The first delegated regulation specifies the procedural rules for the power to impose fines by the European Banking Authority on issuers of significant asset referenced and e-money tokens. The second regulation covers certain criteria for classifying asset-referenced tokens and e-money tokens as significant, and the third regulation specifies the fees charged by the EBA to issuers of significant asset-referenced and e-money tokens. The final regulation covers the criteria and factors to be considered by ESMA, the EBA and other competent authorities in relation to their intervention powers. These acts are the first of a series to complete the EU regulatory framework on matters for the financial sector and crypto-assets. The European Parliament and European Commission have three months to raise any objections before the delegated acts will begin to apply.

HKMA: A provision of custodial services for digital assets

On 20 February, the HKMA published a provision of custodial services for digital assets. The guidance sets out to ensure that client digital assets held by authorised institutions in custody are adequately safeguarded, and that the risks involved are properly managed. The guidance covers governance and risk management, segregation and safeguarding of client digital assets, delegation and outsourcing, disclosure, counter-financing of terrorism and ongoing monitoring. The standards are intended to be applied by authorised institutions whether the assets are received while conducting virtual asset related activities as an intermediary, distributing tokenised products, or providing standalone custodial services. Such authorised institutions should notify the HKMA and confirm that they meet the expected standards in the annex within six months from the date of the circular.

HKMA: Consultation on proposals for new regulation on the prudential treatment of crypto-asset exposure

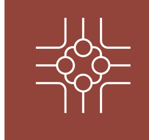
On 7 February, the HKMA launched its consultation for implementing new regulations on the prudential treatment of crypto-asset exposures. This consultation paper addresses the December 2022 BCBS standard on prudential treatment of crypto-asset exposures and its two subsequent consultative documents. The consultative publication by the HKMA outlines how it intends to implement the Basel Committee's standard into Hong Kong law, including through amendments to the banking capital, liquidity, disclosure, exposure limit rules, and its supervisory policy manual and other guidance. Although so far not all the additional requirements proposed have been incorporated, the HKMA intends to further update the local implementation proposal after the conclusion of the Basel Committee's consultation process. The deadline for comments on the HKMA proposal is 6 May 2024.

UK Government: Consultation on the strategic approach to AI

On 6 February, the UK Government wrote to key regulators, including the Financial Conduct Authority and Bank of England, requesting an update of each institution's strategic approach to AI by 30 April 2024. The UK Government is encouraging regulators to reply in line with the expectations set out in its March 2023 White Paper, a pro-innovation regulatory framework for AI. This includes an analysis of AI-related risks, an explanation of their current capabilities, and a forward-looking plan. By assessing the updates on the strategic approaches to AI provided by these regulators, the Government intends to review its current AI framework.

ESMA: Consultations on reverse solicitation under MiCA and crypto-assets as financial instruments

On 29 January, ESMA published two consultations. The first consultation invited comments on the draft guidelines on reverse solicitation under the MiCA. The publication aims to provide more guidance on the conditions of application of the reverse solicitation exemption, and the supervision practices that national competent authorities may take to prevent its circumvention. Comments must be submitted to ESMA by 29 April 2024. The second consultation ESMA launched is on the draft guidelines on the conditions and criteria for the qualification of crypto-assets as financial instruments. This publication seeks to address how the different approaches to the national transposition of MiFID across Member States mean that there is no commonly adopted application of the definition of "financial instrument" under MiFID in the EU. Whilst this issue has been noted as a concern for some time, practical consequences may emerge with MiCA regarding the classification of crypto-assets as financial instruments. The deadline for comments submitted on this consultation is 29 April 2024.



ESAs: Set of rules under DORA for ICT and third-party risk management and incident classification

On 17 January, the three European Supervisory Authorities (EBA, EIOPA and ESMA – the ESAs) published the first set of final draft technical standards under the Digital Operational Resilience Act (DORA) aimed at enhancing the digital operational resilience of the EU financial sector. The standards aim to strengthen financial entities' information and communication technology (ICT), third-party risk management and incident reporting frameworks. The standards include Regulatory Technical Standards (RTS) on ICT risk management framework, RTS on criteria for the classification of ICT-related incidents, RTS to specify the policy on ICT services supporting critical or important functions provided by ICT third-party service providers and Implementing Technical Standards (ITS) to establish the templates for the register of information. The technical standards have been submitted to the European Commission, which will now start working on their review with the objective to adopt these first standards in the coming months.

ECB: Working paper on CBDC: when price and bank stability collide

On 15 January, the ECB published a working paper on *Central Bank Digital Currency: When Price and Stability Collide*. This paper discusses the possible conflicts of interest that arise if a central bank starts offering an account based CBDC. Account based CBDCs allow citizens access to the central bank's balance sheet 24 hours a day 7 days a week, in the form of demand-deposit accounts. First, the paper sets out three main goals of a central bank: price stability, followed by offering optimal risk-sharing, and resilience against runs. As the main finding, the working paper shows that all three goals can never be attained at the same time and term this impossible result the central bank "trilemma". According to the paper's findings, the central bank can offer optimal risk-sharing while deterring central bank runs only by credibly threatening with inflation, that is, by giving up her remaining objective.

BIS: Working paper No 1164 on public information and stablecoin runs

On 12 January, the BIS published working paper No 1164 on public information and stablecoin runs. The paper provides a global games framework to study how the promise of par convertibility by various types of stablecoins breaks down and finds empirical evidence to support the testable implications of the model throughout. It explores the effects of collateral disclosure and transparency as well as the perceived quality and volatility of reserve assets on stablecoins' peg stability, in doing so providing a classification of different types of stablecoins and their distinct run dynamic. The paper also considers how the quality of issuers' reserve assets and public information about these assets change both stablecoin exposure to run risk, and the type of global game being played among stablecoin holders.

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ICMA Capital Market Research

Use of RMB-Denominated Bonds as Collateral for Global Repo Transactions
Published: 26 March 2024
Author: Joint report by ICMA and the China Central Depository & Clearing Co Ltd (CCDC)

The Asian International Bond Markets: Development and Trends (Fourth edition)
Published: 26 March 2024
Author: Andy Hill, Mushtaq Kapasi, Alex Tsang and Christhoper Matthew, ICMA, with support from the Hong Kong Monetary Authority

Bond Markets to Meet EU Investment Challenges
Published: 21 March 2024
Author: Julia Rodkiewicz, ICMA

ICMA Report: European Secondary Bond Market Data (H2 2023)
Published: 19 March 2024
Authors: Simone Bruno and Andy Hill, ICMA (produced in collaboration with Propellant digital)

Liquidity and Resilience in the Core European Sovereign Bond Markets
Published: 5 March 2024
Author: Andy Hill and Simone Bruno, ICMA

Transition Finance in the Debt Capital Market
Published: 14 February 2024
Authors: Nicholas Pfaff, Ozgur Altun and Stanislav Egorov, ICMA

ICMA ERCC Briefing Note: The European Repo Market at 2023 Year-End
Published: 29 January 2024
Author: Andy Hill, ICMA

Considerations for Risk Factors and Disclosure in DLT Bond Offering Documents
Published: 21 November 2023
Author: Gabriel Callsen, ICMA

ICMA Guide to Asia Repo Markets: South Korea
Published: 8 November 2023
Author: Richard Comotto

Market Integrity and Greenwashing Risks in Sustainable Finance
Published: 10 October 2023
Authors: Nicholas Pfaff, Simone Utermarck, Ozgur Altun and Stanislav Egorov, ICMA

ICMA Report: European Secondary Bond Market Data (H1 2023)
Published: 27 September 2023
Authors: Simone Bruno, Andy Hill, Nina Suhaib-Wolf, ICMA (third semi-annual report, produced in collaboration with Propellant digital)

ICMA Report: European Secondary Bond Market Data (H2 2022)
Published: 25 April 2023
Author: Andy Hill, ICMA (second semi-annual report, produced in collaboration with Propellant digital)

ICMA Analysis: SFTR Public Data for Repo in 2022
Published: 31 March 2023
Author: Richard Comotto

The Asian International Bond Markets: Development and Trends (Third edition)
Published: 29 March 2023
Authors: Andy Hill, Mushtaq Kapasi, and Yanqing Jia, ICMA, with support from the Hong Kong Monetary Authority

ICMA ERCC Briefing Note: The European Repo Market at 2022 Year-End
Published: 26 January 2023
Author: Andy Hill, ICMA

White Paper on ESG Practices in China
Published: 10 January 2023
Author: Joint report by ICMA and the China Central Depository & Clearing Co Ltd (CCDC)

Observations and Categorisation Relating to Sustainability in the Repo Market
Published: 26 October 2022
Author: Zhan Chen, ICMA

ICMA Report: European Secondary Bond Market Data (H1 2022)
Published: 24 October 2022
Author: Andy Hill, ICMA (First semi-annual report, produced in collaboration with Propellant digital)

Frequently Asked Questions on DLT and blockchain in bond markets
Published: 22 September 2022
Author: Gabriel Callsen, ICMA

ICMA Strategy Paper: GMRA Clause Taxonomy & Library Project
Published: 25 May 2022
Authors: Lisa Cleary, ICMA, assisted by D2 Legal Technology (D2L)

ICMA Guide to Asia Repo Markets
Published: 3 May 2022 (latest chapter covering Vietnam)
Author: Richard Comotto

The Asian International Bond Markets: Development and Trends
(Second edition)
Published: 24 March 2022
Authors: Andy Hill, Mushtaq Kapasi, and Yanqing Jia, ICMA, with support from the Hong Kong Monetary Authority

Ensuring the Usability of the EU Taxonomy
Published: 14 February 2022
Authors: Nicholas Pfaff and Ozgur Altun, ICMA

Optimising Settlement Efficiency: An ERCC Discussion Paper
Published: 1 February 2022
Author: Alexander Westphal, ICMA

ICMA ERCC Briefing Note: The European Repo Market at 2021 Year-End
Published: 17 January 2022
Author: Andy Hill, ICMA

ICMA Events, Education and Training

SPOTLIGHT – Japan Securities Summit

On 6 March, an international audience gathered at the prestigious Mansion House for the Japan Securities Summit, jointly hosted by ICMA, the Japan Securities Dealers Association (JSDA) and the Japan Exchange Group, Inc. (JPX). The summit was opened by both ICMA's Chief Executive, Bryan Pascoe and Toshio Morita, Chairman and CEO, Japan Securities Dealers Association (JSDA).

Alderman Professor Michael Mainelli, The Rt Hon the Lord Mayor welcomed our 400 attendees, who were also privileged to hear an address from the video message by Mr. Fumio Kishida, Prime Minister of Japan.

The summit featured high profile speakers from the Japanese market and Government and provided European investors and financial market professionals with the outlook for Japanese economy and the latest developments in Japanese securities market focusing on the challenges and possibilities of realizing a leading asset management centre and doubling asset-based income plan under the *New Form of Capitalism* set out by the Prime Minister Fumio Kishida's Cabinet.

SPOTLIGHT – European Primary Bond Markets Regulation Conference

ICMA and Allen & Overy presented the second joint European Primary Bond Markets Regulation Conference in London, at the end of January 2024. The event featured an enlightening discussion with Brandon Thompson, Head of Primary Markets, Securities and Markets, HM Treasury and a presentation from Jim Moran, Head of Listing Transactions from the Financial Conduct Authority (FCA), as well as contributions from the European Commission, ESMA, various EU national regulators, major stock exchanges and leading market practitioners.

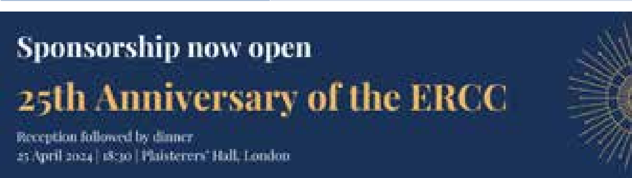
SPOTLIGHT – China Bond Market Forum

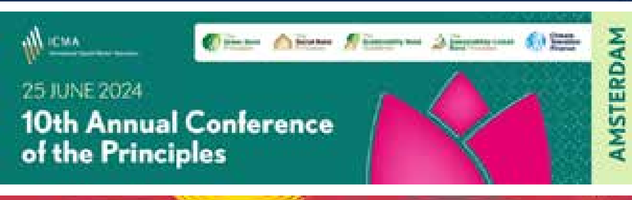
In 2024, the macroeconomic outlook for China remains uncertain but new innovations in both the Chinese domestic and international bond markets are expected. To explore these important developments, ICMA's China Bond Forum, held in Beijing, brought together Government officials, regulators, issuers, investors, and other market participants for a full day event. The event explored a number of themes including primary market issuance trends, transition finance and taxonomies, repo and secondary markets, fintech and digital bonds, Chinese regulatory reforms, and potential new opportunities in the cross-border capital markets.

ICMA's forthcoming events

ICMA's spring calendar, which includes our highly anticipated annual conference, will cover a broad range of key topics for the primary, secondary, FinTech, asset management and repo markets, as well as looking at developments in sustainable finance.

23 April 2024 **ZURICH**	ICMA Switzerland and Liechtenstein Regional General Meeting
1 May 2024 **DUBAI**	Building depth and resilience in the MENA bond markets
6 May 2024 **COPENHAGEN**	ICMA Women's Network: Leadership, career progression and gender equality through a sustainable finance lens
6 June 2024 **FRANKFURT**	Covered Bond Investor Conference





ICMA Annual General Meeting & Conference
BRUSSELS | 22 to 24 May, 2024
REGISTER NOW

Registration is now open for the 56th ICMA Annual General Meeting (AGM) and Conference, in Brussels from 22 to 24 May 2024.

The packed agenda will feature many high-profile speakers and we are honoured to announce that Alexia Bertrand, State Secretary for the Budget and Consumer Protection, added to the Minister of Justice and the North Sea, of the Federal Government of Belgium, will open day one of the conference.

Complimentary passes are available for the buy side (asset managers, pension funds, insurance companies, hedge funds) and to young professionals in the early stages of their career. Apply for your place now.

There is still time to associate your brand with our flagship event. Download the sponsorship brochure for details of available packages.

To discuss sponsoring an ICMA event, contact: sponsorship@icmagroup.org

Recordings of a selection of our events are available via the ICMA website. In addition, we continue to produce a range of podcasts featuring important stakeholders in the market, discussing their views on a variety of issues relating to capital markets. With more than 330 podcasts and an impressive 135541 downloads to date from across the globe, the ICMA podcast series remains a valued service for the market.

How ICMA supports capacity building in the capital markets

Few people familiar with the work that trade associations like ICMA do would disagree with the idea that we play an important role in fostering growth and development within the capital markets, enhancing market efficiency, transparency, and resilience. Our ability to bring together different stakeholders including market participants, regulators, and policy makers enables the exchange of best practices, industry insights, and expertise which is instrumental in building the capacity of market participants, enabling them to stay abreast of the latest trends, regulations, and innovations shaping the industry.

What people may be less familiar with is how ICMA supports capacity building through our structured education and training initiatives, from providing professional development and upskilling opportunities to staff from member (and non-member) firms through to working with international agencies like the UNDP and multinational development banks like Asian Development Bank, African Development Bank and others on technical assistance programmes that aim to build capacity in emerging and frontier capital markets.

As an association known for its role in developing market conventions, guidelines, and principles such as the ICMA Primary Market Handbook and the Green Bond Principles which govern various aspects of the capital markets, our training programmes and workshops serve as benchmarks for market participants, helping to streamline processes, reduce risks, and enhance market efficiency. These programmes can often serve as a bridge between market participants and regulatory bodies, playing a crucial role in advocating for policies that promote market integrity, transparency, and stability.

Our training programmes also provide a platform for networking and collaboration, offering valuable opportunities for market participants to connect, share ideas, and foster partnerships. These interactions not only facilitate the exchange of knowledge and expertise but also pave the way for innovative solutions to emerging market challenges.

The main objective of ICMA is to support robust and resilient capital markets on a global scale, and a sustainable capital market ecosystem that drives global economic growth and development. In addition to our advocacy work, establishment of market standards, events and research activities our education and training programmes play a major role in enhancing market efficiency, transparency, and resilience.

For more information, contact Marc Granville (Head of ICMA Education & Training) on marc.granville@icmagroup.org or 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
BDT	Bond Data Taxonomy
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
CBDC	Central Bank Digital Currency
CBIC	ICMA Covered Bond Investor Council
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDM	Common Domain Model
CDS	Credit default swap
CIF	ICMA Corporate Issuer Forum
CMU	EU Capital Markets Union
CoCo	Contingent convertible
COREPER	Committee of Permanent Representatives (in the EU)
CPC	ICMA Commercial Paper Committee
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
CSPP	Corporate Sector Purchase Programme
CSRD	Corporate Sustainability Reporting Directive
CT	Consolidated tape
DCM	Debt Capital Markets
DEI	Diversity, equity and inclusion
DLT	Distributed ledger technology
DMO	Debt Management Office
DNSH	Do no significant harm
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
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)
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
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
ESAP	European single access point
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
ESRS	European Sustainability Reporting Standards
ETF	Exchange-traded fund
ETP	Electronic trading platform
€STR	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
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	Financial 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
GHG	Greenhouse gas
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
HKMA	Hong Kong Monetary Authority
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 Depositories
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
ISSB	International Sustainability Standards Board
ITS	Implementing Technical Standards
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
LMT	Liquidity management tool
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
ML	Machine learning
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
NBFI	Non-bank financial intermediary
NCA	National competent authority
NCB	National central bank
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio (or Requirement)
OEF	Open-ended fund
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
OTC	Over-the-counter
OTF	Organised Trading Facility
PBOC	People's Bank of China
PCS	Prime Collateralised Securities
PEPP	Pandemic Emergency Purchase Programme
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QMV	Qualified majority voting
RFQ	Request for quote
RFRs	Near risk-free reference rates
RM	Regulated Market
RMB	Chinese renminbi
RMO	Recognised Market Operator (in Singapore)
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
SFC	Securities and Futures Commission
SFDR	Sustainable Finance Disclosure Regulation
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Statutory instrument
SLB	Sustainability-Linked Bond
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+1	Trade date plus one business day
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
TR	Trade repository
VNAV	Variable net asset value

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