Assessment of Market
Practice & Regulatory Policy
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ICMA Quarterly Report

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ICMA
International Capital Market Association

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

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

ICMA currently has over 600 members in 66 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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Uncertainty creates opportunity

By **Janet Wilkinson,**
Chair of the Board of **ICMA**

I am delighted to provide this Quarter's Foreword as the new Chair of the Board of ICMA. In opening I would like to say a heartfelt thank you to my predecessor, Mandy DeFilippo, for her exemplary role as Board Chair since 2018, chairing the Association during some unprecedented times in the market.

Having recently returned from our 55th AGM in Paris, I would like to extend a big thank you to my fellow Board members for their ongoing governance, and to Bryan, his leadership team, and everyone at ICMA for all their work in managing and running the Association. I would also like to thank all the keynote speakers and panellists for their engaging insights, views, and thought leadership shared during the conference. Without the ecosystem of our members, the ICMA team, and our Board, we would not be able to deliver the valuable work and strong foundations for the capital markets industry which ICMA provides.

As we head into the second half of 2023, we are faced with a high degree of uncertainty over the economic outlook. It is in these turbulent times that our members and market participants benefit from the value of ICMA and its core pillars to ensure resilient and well-functioning capital markets. At a time when the first proper international rate hiking cycle in more than 10 years is widely expected to come to a (temporary) halt, market participants are split between those worried about a looming recession and those more concerned about stickier than expected inflation.

After almost a decade of ultra-low or even negative interest rates and disinflation, the persistent high level of inflation came as a shock to central banks and most market participants, in part evidenced in the large deviations by official and private forecasts alike. Debate in the economics profession and markets ranges from scenarios that are reminiscent of the 1970's "stagflation periods" to a very sharp contraction in economic activity ultimately leading to large rate cuts by central banks in the not-too-distant future. This is compounded by us still not fully understanding the aftershocks of the global pandemic, and central banks displaying reduced confidence in their economic predictions. This uncertainty will leave its imprint in markets and the ability to issue, price and trade risk, with markets pricing a very large range of outcomes as a result, distorting the true signal that market prices usually send.

As I embark on my new journey as Chair, I have been reflecting on where the Association must continue to deliver for the benefit of market participants and where I would like to see ICMA progress. I hope we can achieve the following three goals together during my tenure:

(i) Establish ICMA as the leading Association for the framework and efficient functioning of secondary markets, as we have done in primary and repo markets.

(ii) Further leadership in sustainability, using our Principles as the foundation to leverage and influence the broader agenda of sustainability.

(iii) Create an established market framework for digitalisation, acting as a steward for the right kind of application for automated ecosystems.

ICMA has a great opportunity to build on an already established strong position of thought leadership and industry best practice in the capital markets, and the future ahead is exciting as we navigate challenging times.

Janet Wilkinson, is Managing Director, Head of Global Markets Institutional Sales, EMEA at RBC Capital Markets

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The UK's Future Regulatory Framework Review in a global context

by **Paul Richards**

Summary

The purpose of the UK's Future Regulatory Framework Review of financial services is to replace retained EU law with legislation designed specifically for UK financial services and markets. The regulatory process under English law post-Brexit is different from the regulatory process under EU law. There will also be changes to the substance of regulatory policy affecting firms in the UK. The UK Government is not pursuing regulatory reform for its own sake, but only where it believes that regulatory divergence from the EU meets the needs of UK markets. The Government is also committed to continuing to comply with high international standards. Regulatory reform in the UK needs to be considered in this global context, taking account of the authorities' response to the global financial turmoil earlier in 2023.

Introduction

1 In the EU, legislation on financial services is proposed by the European Commission and negotiated with the European Parliament and Council representing the 27 Member States so that the outcome reflects the views of the EU as a whole. The text of EU legislation at Level 1 is often set out in considerable detail as it needs to be implemented in the same way by all 27 EU Member States forming the EU Single Market. There is an increasing focus in the EU on legislating through Regulations, which apply directly in each Member State. Even in the case of Directives, which have to be transposed into the law of each Member State, one of the roles of the European Supervisory Authorities (ESAs), including ESMA, is to ensure that national differences within the EU are kept to the minimum. The ESAs are typically also mandated to specify technical details of EU legislation that go beyond the Level 1 text in the form of Level 2 standards, including Regulatory Technical Standards and Implementing Technical Standards. Given this process, EU legislation takes time to agree and implement and more time subsequently to review and reform.

2 At the end of the post-Brexit transition period after the UK voted in 2016 to leave the EU, all outstanding EU legislation relating to financial services was transferred onto the UK statute book under the EU (Withdrawal) Act 2018 in the form of "retained" EU law. The purpose of the UK's Future Regulatory Framework Review of financial services, launched by the UK Chancellor of the Exchequer in Edinburgh in December 2022 and updated by his Mansion House speech on 10 July 2023, is to replace retained EU law with legislation designed specifically for UK markets based on the model of the original UK Financial Services and Markets Act.[1] In doing so, the UK Government's approach "recognises and protects the foundations on which the UK's success as a financial services hub is built: agility, consistently high regulatory

1. Under the model of regulation in the original UK Financial Services and Markets Act, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) generally set the direct regulatory requirements which apply to firms in their rulebooks operating within a framework established by Government in Parliament: HM Treasury, *Building a Smarter Financial Services Framework for the UK:* Policy Statement, December 2022.

standards, and openness."[2] The process is designed to "provide an opportunity to deliver policy change so that regulation better meets the needs of UK markets."[3]

Changes in the UK regulatory process

3 The regulatory process under English law post-Brexit is different from the regulatory process under EU law. Under the new UK Financial Services and Markets Act 2023 (FSM Act), which received Royal Assent on 29 June, the UK Government is proposing that retained EU law should be repealed and either removed, where it is no longer needed, or replaced. It is intended that retained EU law will be removed or replaced at two levels:

- first, at the level of the statutory framework set by Parliament through primary legislation: this sets the overall approach to financial services regulation, including the regulators' objectives, and gives powers to HM Treasury to set the regulatory perimeter through secondary legislation that specifies in the Regulated Activities Order (RAO) those financial activities which should be regulated and the circumstances in which regulation should apply; and
- second, at the level of regulatory rules relating to the regulated activities of firms, which will be the responsibility of the PRA and the FCA.[4] The FSM Act also introduces a duty on the regulators to keep their rules under review and to have regard to any specific priorities set by the Government.[5]

4 In addition, the FSM Act creates a Designated Activities Regime (DAR) whose purpose is to ensure that UK markets continue to be subject to proportionate regulation reflecting the kind of risk that these activities pose, and the types of firms and persons who carry them out, once retained EU law is repealed. Where an activity has been designated, anyone conducting that activity will be required to follow the rules for that activity, unless they are exempt. The DAR will enable the FCA to make rules relating to the activity concerned, and it is designed to be forward-looking.

5 Within this framework, regulatory requirements under retained EU law are being addressed in one of three ways:

- removal, where the retained requirements are no longer needed, so the legislation is repealed without replacement;
- replacement with provisions consistent with the FSMA model, where there is no demonstrable need for policy change, so the requirements are either restated in legislation or repealed so that the regulators can replace them with regulatory rules; and
- replacement with provisions consistent with the FSMA model while also delivering targeted policy change, where HM Treasury leads on reform to the statutory framework, and the relevant regulator generally leads on reform to specific firm-facing requirements.

6 This process is intended to make the adaptation of the regulatory framework in the UK more agile (eg to respond to new global standards or to take account of market innovation) and less burdensome on Parliamentary time in future, while retaining accountability of the regulators to Ministers in Parliament.[6] But it is important to note that the process will take time to implement, and for industry to adapt, and that it will be implemented through a phased approach by dividing retained EU law into tranches.[7]

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2. Statement by the Chancellor of the Exchequer, Jeremy Hunt, 9 December 2022. In addition to capital market reforms, the statement also covered sustainable finance, technology and innovation, and other issues.

3. HM Treasury, *Building a Smarter Financial Services Framework for the UK:* Policy Statement, December 2022.

4. The FCA's strategic objective is to ensure that the relevant markets function well. Its operational objectives are to secure an appropriate degree of protection for consumers, protect and enhance the integrity of the UK financial system, and promote effective competition in the interests of consumers. The PRA's general objective is promoting the safety and soundness of PRA-authorised persons.

5. The framework will also be extended to the Bank of England in its role as regulator of central counterparties (CCPs) and central securities depositories (CSDs).

6. The FSM Act also introduces a secondary objective for the FCA and the PRA to facilitate the international competitiveness of the UK economy and its growth in the medium to long term, subject to aligning with international standards. Ensuring that UK markets are competitive does not mean that there will be a regulatory "race to the bottom" or a return to "light touch regulation" (of the kind that preceded the global financial crisis in 2008). Making UK markets competitive means ensuring that the regulatory framework helps to engender trust in UK markets and make them attractive internationally, bearing in mind the UK's role as a global financial centre.

7. In the Retained EU Law Bill, the sunset clause, under which retained EU laws should be reviewed or repealed by the end of 2023, has been dropped.

Changes in the substance of UK regulatory policy

7 Apart from these changes to the regulatory process, there will also be changes to the substance of regulatory policy affecting firms in the UK.[8] Examples on which the market has already been consulted include:

- implementing the recommendations from Lord Hill's UK Listing Review: this involves the repeal of the Prospectus Regulation and the implementation of an entirely new regime for admissions to trading and public offers, with a view to widening participation in the ownership of public companies and simplifying the capital raising process for companies on UK markets, and making the UK a more attractive destination for initial public offerings; and draft legislation on prospectus reforms was published on 10 July 2023;[9]
- implementing the results of the Wholesale Markets Review, which proposes substantial amendments to various parts of the MiFID framework, many of which are implemented in the FSM Act; and includes, for example:
  - committing, alongside the FCA, to putting a regulatory regime in place to support a consolidated tape for market data, so as to bring together market data from multiple platforms into one continuous feed; draft legislation on a regime for a consolidated tape was published on 10 July 2023;
  - removing burdensome EU reporting requirements under MiFIR;
  - launching the Investment Research Review as an independent review of investment research and its contribution to the competitiveness of UK capital markets; the Review was published on 10 July 2023; and
  - establishing a new industry-led Accelerated Settlement Taskforce to explore the potential of faster settlement of financial trades in the UK to reduce counterparty risk and increase operational efficiency;
- bringing forward relevant reforms identified in HM Treasury's 2021 review of the Securitisation Regulation; and
- reviewing the Solvency II Directive, where the Government is seeking to unlock £100 billion for UK insurers to invest in long-term productive assets.[10]

8 These are all part of the first tranche of retained EU law to be implemented.[11] The second tranche will consist of other areas where the potential benefits are greatest and can be delivered quickly.[12] They include:

- planning to repeal the regulations for the European Long Term Investment Fund (ELTIF) without replacement and introducing a newly established Long Term Asset Fund (LTAF) regime providing a fund structure better suited to the needs of the UK market;
- publishing the Short Selling Regulation Review with the aim of putting in place a regulatory regime tailored to the UK; and
- publishing *PRIIPs and UK Retail Disclosure,* a consultation on a proposed alternative framework for retail disclosure in the UK, following the repeal of the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation.[13]

An interim announcement on progress was made by the Chancellor at the Mansion House on 10 July 2023.

9 At an overall level, the UK Government expects to make significant progress on the first and second tranches by the end of 2023, though implementation of the programme as a whole is expected to take a number of years. During the transitional period in which the programme is being implemented, HM Treasury has stated that "the presumption is that the regulators will be responsible for firm-facing obligations".[14] HM Treasury has set up a working group involving the official and private sector to support the implementation programme.

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8. "Rules that were the product of negotiation between 28 Member States were not always well calibrated to the UK market.": HM Treasury, *Building a Smarter Financial Services Framework for the UK:* Policy Statement, December 2022.

9. "The Government is proposing a new "have regard" as part of its reform of the prospectus regime. ... The new "have regard" proposed for the replacement regime is intended to highlight the importance of facilitating offers of securities to the public being made to a wide range of investors." HM Treasury, *Building a Smarter Financial Services Framework for the UK,* Policy Statement, December 2022 (3.7 and 3.8).

10. Statement by the Chancellor of the Exchequer, Jeremy Hunt, on 9 December 2022.

11. The Government has identified 43 core files in scope of the programme.

12. Remaining implementation of the WMR, which reforms the MiFID framework; further work on Solvency II; the PRIIPS Regulation; the SSR; Taxonomy Regulation; MMF Regulation; Payment Services Directive and E-Money Directive; Insurance Mediation and Distribution Directives; Capital Requirements Regulation and Directive; Long-Term Investment Funds Regulation; consumer information rules in the Payment Accounts Regulations 2015: HM Treasury, *Building a Smarter Financial Services Framework for the UK:* Policy Statement, December 2022.

13. Statement by the Chancellor of the Exchequer, Jeremy Hunt, on 9 December 2022.

14. HM Treasury, *Building a Smarter Financial Services Framework for the UK:* Policy Statement, December 2022.

10 While there is a political imperative to move at pace, the FCA recognises that – at the level of detailed rule-making – it needs to consult the industry "in partnership" in order to achieve the best result. The FCA and participants in UK markets have a shared interest in making the implementation of the Future Regulatory Framework Review work well. This is seen as an opportunity for UK markets, and not just an administrative burden for the industry. There is also close cooperation between the FCA and the PRA, and they are both accountable to Ministers in Parliament.

Regulatory divergence between the UK and the EU in a global context

11 The UK Government is not pursuing regulatory reform for its own sake. After all, the UK had an important influence on the development of the EU Single Market when it was a member of the EU. The Government is also committed to continuing to comply with high international standards and is not engaging in a "race to the bottom". But the Government *is* proposing regulatory divergence from the EU, case by case, where it believes that divergence meets the needs of UK markets. In doing so, the Government needs to be conscious that divergence can give rise to costs for industry in complying with two different regimes (ie the UK and the EU), and the rationale for divergence needs to be explained and understood.[15] It is also important to remember that, in the EU, Capital Markets Union is still work in progress.[16] EU regulations are themselves changing, and not necessarily changing in the same direction as the UK. In that sense, both the UK and the EU will diverge from the previous regulatory regime.

12 Following the EU/UK agreement over the Northern Ireland Protocol on 27 February 2023, and subsequent Parliamentary approval in the UK, the EU/UK MOU on financial services regulatory cooperation, which was originally agreed in the form of a Joint Declaration in December 2020, was signed by the European Commission and the UK Government on 27 June 2023.[17] The MOU will establish a Joint EU/UK Regulatory Forum which will provide a platform for the exchange of information between EU and UK regulators to resolve financial services issues. The Forum should provide an opportunity to rebuild trust between the two sides over a period of time. But it is not yet clear whether the MOU will also lead to the grant of equivalence by the EU to the UK in more cases. The EU has not granted any equivalence to the UK since it left the EU Single Market so far, apart from UK CCPs, where the grant of equivalence is time limited. From a European perspective, an outstanding risk is that the main beneficiary will be New York.

13 Even when EU and UK regulations diverge, there is a case for equivalence to be granted if EU and UK regulatory outcomes are much the same. But there is also a question about how much difference EU equivalence would make in some cases to UK firms. In response to the UK's departure from the EU Single Market and in the absence of the grant of equivalence by the EU, UK firms with EU operations have established entities or enlarged their scale in the EU so that they are appropriately represented and regulated in both the EU and the UK. In doing so, UK firms with EU subsidiaries need to meet the supervisory requirements of the ECB, ESMA and National Competent Authorities. The EU authorities have made it clear that "brass plates" are not sufficient, and that operations in the EU need to be appropriately staffed and risks managed *within* the EU, and that their EU operations need to be stress-tested, where relevant, to ensure financial stability.

14 While the UK has no longer had any *direct* influence on EU financial services regulation since leaving the EU, the UK *is* in a position from time to time to influence EU financial services regulation *indirectly* through leading by example and through peer pressure. The UK is well positioned to do this because of the scale and scope of London's role as a global financial centre. And although the UK cannot participate in EU decision-making, it does participate actively at global level (eg through the Financial Stability Board, IOSCO and the Basel Committee on Banking Supervision). Decisions relating to the regulation of financial services at global level need to be implemented by member jurisdictions at both EU and national level, and in a broadly consistent way.

Regulatory reform in response to recent global financial turmoil

15 When considering regulatory reform in the EU and the UK, there is a related question whether and, if so, how the regulation of financial services and markets needs to be tightened, supervision enhanced, and the resolution framework reviewed, in response to the global financial turmoil earlier in 2023 following the failure of Silicon Valley

15. See, for example, Maros Sefcovic, Vice-President of the European Commission: "Over time, increased divergence may bring even more costs and it will further deepen the barriers to trade between EU and the UK.": EU-UK Forum Annual Conference, 12 June 2023.

16. See, for example, Mairead McGuinness, EU Financial Services Commissioner: "We face a collective action problem with the CMU. All of us agree with the goals: competitiveness, open strategic autonomy, financial stability and green and digital transitions. But then on specific files, conflicting national interests come into play.": Annual Joint Conference of the European Commission and the ECB on European Financial Integration: 7 June 2023.

17. Memorandum of Understanding establishing a framework for financial services regulatory cooperation between the EU and the UK, 27 June 2023.

Bank and First Republic Bank in the US and the takeover of Credit Suisse by UBS. The sharp rise in short-term interest rates by central banks needed to counter inflation has complicated the task of ensuring global financial stability, and raised concerns about whether the authorities' focus should be only on systemic banks or also on systemic situations.

16 The Chair of the Financial Stability Board reported to G20 Finance Ministers and Central Bank Governors in April 2023 that "the global financial system is much better placed to absorb adverse shocks as a result of the reforms that followed the 2008 Global Financial Crisis." But he argued that "the speed of developments in March, the precise nature of the vulnerabilities that crystallised and the associated market reactions provide important lessons for financial authorities, including for bank prudential and resolution frameworks."[18]

17 In response to recent market developments:

- the Financial Stability Board is expected to review global rules relating to banks which are "too big to fail":[19] The Chair has stated: "what Credit Suisse has taught us is that we need to further explore resolution strategies that are better able to stabilise a bank's liquidity position."[20] And the Swiss National Bank has stated that "the experience with Credit Suisse shows the need for a review of the "too big to fail" framework in order to facilitate early intervention".[21]
- The Governor of the Bank of England has drawn attention to the important role of the Financial Stability Board in relation to non-bank financial intermediation (NBFI), which "is a very large and heterogeneous landscape – it presents surveillance challenges of both breadth and depth; NBFI leverage and inter-connectivity can be hard to map; and NBFI issues are often inherently cross-border in nature."[22]
- The authorities' approach to financial stability has been summarised as follows: "Confidence and trust are the foundations of any well-functioning financial system, and we all know, or should know, that trust takes years to build, seconds to break and forever to fix."[23]

Conclusion

18 The UK Government is proposing regulatory divergence from the EU, case by case, where it believes that divergence meets the needs of UK markets. In doing so, the UK authorities need to be conscious that divergence can give rise to costs for industry in complying with two different regimes, and the rationale for divergence needs to be explained and understood. The UK authorities recognise that they need to consult the industry "in partnership" in order to achieve the best result. They have a shared interest in making implementation of the Future Regulatory Framework Review work well. This needs to be considered not only in relation to the EU but in a global context, taking account of the authorities' response to the global financial turmoil earlier in 2023.

Contact: Paul Richards
paul.richards@icmagroup.org

18. Klaas Knot, President of De Nederlandsche Bank in his capacity as Chair of the Financial Stability Board: letter to G20 Finance Ministers and Central Bank Governors, 6 April 2023.

19. See Politico, "FSB to review "too big to fail" rules after Credit Suisse collapse", 28 April 2023.

20. Klaas Knot, President of De Nederlandsche Bank in his capacity as Chair of the Financial Stability Board: letter to G20 Finance Ministers and Central Bank Governors, 6 April 2023.

21. Swiss National Bank, *Financial Stability Report 2023,* June 2023.

22. Andrew Bailey, Governor of the Bank of England: *Monetary and Financial Stability: Lessons from Recent Times,* IIF, Washington, 12 April 2023.

23. Klaas Knot, President of De Nederlandsche Bank, Whitaker Lecture, Central Bank of Ireland, 19 April 2023.

Sustainable Finance: 2023 Guidance announced at the AGM of the Principles

By **Nicholas Pfaff** and **Valérie Guillaumin, ICMA**

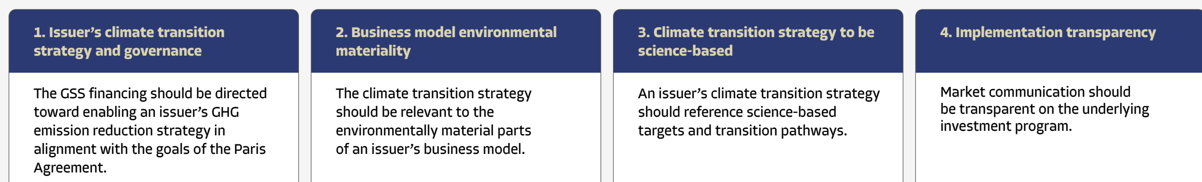
During its Annual General Meeting held virtually on 22 June, the Principles announced updated guidance for transition finance and climate-themed bonds, and the integration of sovereign issuer considerations in the recommendations and tools for sustainability-linked bonds.

With the 2023 edition of the Climate Transition Finance Handbook, the Principles provided the first update of this document since the original publication in 2020 integrating the progress made by the market and the official sector on climate transition guidance and disclosures. The document includes dedicated recommendations for climate-themed green, sustainability and sustainability-linked bonds and acknowledges the development of "climate transition" bonds in certain jurisdictions. It includes new annexes with illustrative disclosures, an infographic summarising best practice for issuers (see below) and a list of wider market and official sector guidance for climate-themed bonds.

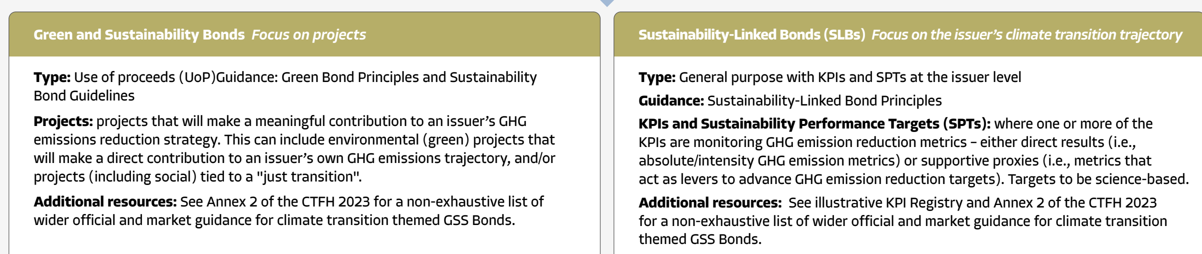
Guidance for climate transition-themed bonds

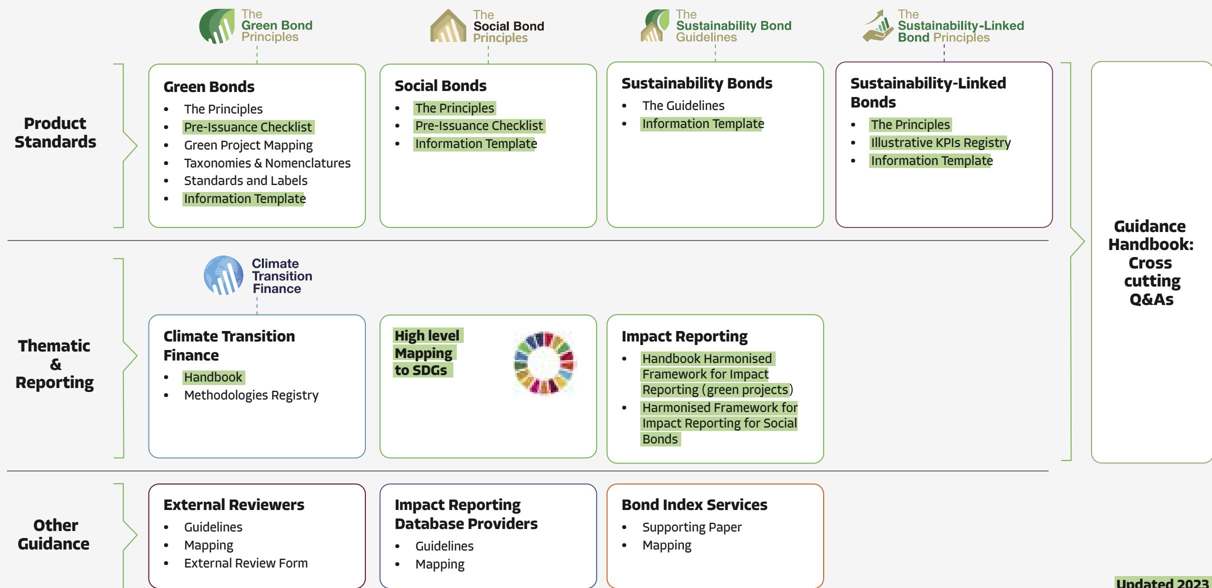
- **Climate transition focuses principally on the credibility of an issuer's Greenhouse Gas (GHG) emissions reduction strategy, commitments, and practices.**
- Bonds aligned with the Green, Sustainability, or Sustainability-Linked Bond Principles (GSS Bonds) to be underpinned by organisation level climate transition strategies and disclosures **aligned with recommendations of the Climate Transition Finance Handbook 2023** (CTFH 2023).
- Notably, GSS issuance from issuers in **'hard-to-abate' sectors would be strengthened through alignment** with the CTFH 2023.
- **Issuers are encouraged to reference the CTFH 2023** and align with the elements contained therein to communicate their GHG emissions reduction strategy. This is especially pertinent to green, sustainability or sustainability-linked instruments designated as "climate transition" bonds (which may take the form of an additional climate transition label, as is the case in certain jurisdictions).

Key Elements of the Climate Transition Finance Handbook



Sustainable Finance Solutions





The Principles also published an update of the Sustainability-Linked Bond Principles and related tools featuring notably adapted language for sovereign issuers, as well as new metrics for sovereigns and social issues in the illustrative KPIs Registry.

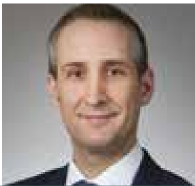
The Principles otherwise released further important guidance, specifically:

- additional Q&As for green, social and sustainability bond securitisation;
- revised language for the Social Bond Principles (SBP) confirming notably the need to identify target populations, and separately, specific guidance for impact reporting for Social Bonds;
- updates to the core recommendations for impact reporting for Green Bonds, and impact reporting metrics for energy efficiency & renewable energy;
- a revised mapping to the SDGs; and
- updated issuer information templates and external review forms.

Finally, the Principles also announced the results of the vote for the annual renewal of half of the 24 seats of its Executive Committee. The Executive Committee welcomed DZ Bank, Agence Française de Développement, ENEL S.p.A., SEB IM and BNPP AM as new members in 2023 with other seats remaining with the incumbents.

@ **Contacts: Nicholas Pfaff and Valérie Guillaumin**
nicholas.pfaff@icmagroup.org
valerie.guillaumin@icmagroup.org

Wholesale Central Bank Digital Currencies and their potential for capital markets



By **Josselin Hebert** and
Stefano Finesi, European Stability Mechanism

The financial sector and in particular capital markets have seen several technological changes over the last ten years.[1] Distributed ledger technology (DLT), DLT bonds[2] and Central Bank Digital Currencies (CBDCs) are now becoming hot topics among market participants. The Eurosystem has also started to explore potential solutions for central bank money settlement of wholesale financial transactions recorded on DLT platforms.[3]

At the European Stability Mechanism (ESM), we are always interested in developments that may improve market infrastructures, and we look at them not only from an issuer perspective but also from a financial stability standpoint. We co-hosted a conference with ICMA at our premises in April to consider the potential benefits of wholesale CBDCs for the capital markets, a topic we have also deepened in an ESM Discussion Paper. A wholesale CBDC is not a new concept: in the euro area, for example, wholesale transactions can be settled electronically in euro through TARGET services using a centralised ledger. However, benefits and use cases for wholesale CBDCs in the context of recent technological innovations still have to be explored in more detail.

In respect of these technological innovations, the panel discussion at the conference noted that the legal treatment of tokenised securities could be more robust, particularly with respect to the application of private law.

Uncertainty stems from the fact that tokens can be used for several purposes and it may also be challenging to fit traditional private law concepts into a DLT environment. Some countries have enacted laws to clarify the classification of these instruments through different approaches, for example either clarifying how these fit within the existing framework (Luxembourg) or providing a new, specialised framework for these instruments (eg France and Germany). Since these laws are relatively recent and untested, it is difficult to assess at this stage which one works better and whether harmonisation of such laws is achievable.[4] Further elements to consider, from a regulation standpoint, may also emerge from the regulatory sandbox provided by the EU DLT Pilot Regime.

Another point to examine about tokenised securities is their tradability in secondary markets. The Luxembourg Stock Exchange currently admits such securities to the Securities Official List, with indicative pricing shown, but these are not tradable. The objective of such approach is to provide more visibility as well as an access point to relevant information. Further work will be needed, notably in light of the experiments carried out under the EU DLT Pilot Regime, to explore whether it will be possible to enhance secondary trading of tokenised securities.

Let us remember that two of the main benefits of DLT lie in the automation capabilities brought by smart contracts, and the operational resilience brought by a decentralised network. The ability of smart contracts to replicate DvP and atomic settlement, that are already available in the Eurosystem's T2S platform, has been largely demonstrated by experiments over

1. For example, the wider use of more sophisticated electronic trading platforms, high-frequency trading, cloud computing.

2. See definition of DLT bonds: 5. What are DLT bonds? » ICMA (icmagroup.org).

3. Eurosystem to explore new technologies for wholesale central bank money settlement (europa.eu).

4. The only common effort to provide legislative guidance for issues related to private law seems to be the principle-based approach currently finalised by the UNIDROIT working group on digital assets and private law.

the last few years.[5] However, this novel technology offers new possibilities to bring efficiency to capital markets. Two examples seem particularly promising to us.

- First, bringing the whole issuance process on-chain, representing auctions or orders by pre-funded smart contracts, would allow for a complete automation of this process, thus reducing frictions and allowing for cost savings.
- Second, the transparency that is inherent to blockchain presents a significant potential for ESG bonds, allowing tracking of the use of proceeds, offering transparency to the investor in real time, and automating reporting.

An on-chain settlement instrument will be critical to enable these use cases. If only the asset leg is tokenised without the cash consideration, there would only be half of the benefits available out of technological innovation. And this is where a reliable form of digital money may easily play a role, also with a view to accelerate the uptake of such technologies.

It could be tokenised commercial bank money, central bank money in digital form, ie CBDC, or a form of "synthetic CBDC" (a private sector party issuing a token backed by central bank reserves). Among the three, CBDC seems the best option to allow central banks to keep providing a safe and liquid settlement instrument.[6]

Whether and how central bank money would be available on-chain remains to be determined. Several technical models are considered, from natively available on-chain money to trigger solutions where the payment is made in the traditional RTGS. All these solutions need to be tested and assessed from a financial stability perspective, in order to be prepared to issue a wholesale central bank digital currency. This will be extensively discussed by the newly established Eurosystem contact group on new technologies for wholesale central bank money settlement.

The evolution of the market infrastructure landscape will also determine the ability to realise all benefits arising from asset tokenisation. We see a private permissioned network as a better technical set-up than public blockchains, for reasons detailed in the ESM Discussion Paper. However, to reduce market fragmentation, it is important that prospective private permissioned networks allow for smooth interoperability and are easily accessible for issuers and investors alike.

Josselin Hebert is Senior Digital Innovation Officer, and Stefano Finesi is Senior Legal Counsel, European Stability Mechanism.

5. A list of examples of such experiments as well as live transactions is available at: New FinTech Applications in Bond Markets » ICMA (icmagroup.org).

6. See in that sense eg *ICMA Response to ECB Questionnaire on a Wholesale Digital Euro (from the ICMA Quarterly Report Q3 2022).* More recently, also BIS presented a blueprint for a future monetary system that harnesses the potential of tokenisation, stating that wholesale CBDCs are a key element to the functioning of a tokenised environment – see *III. Blueprint for the Future Monetary System: Improving the Old, Enabling the New (bis.org).*

The ICMA Bond Market Liquidity Taskforce

By **Andy Hill** and **Nicolette Moser, ICMA**

Background

At a meeting of ICMA's Committee of the Regional Representatives (CRR) in November 2022, it was suggested that ICMA should leverage its various initiatives related to fixed income market structure and liquidity to take a more holistic market view, looking also at the inter-dependencies of different markets, to identify potential risks and vulnerabilities. This would include an analysis of the impacts and interplay of prudential, market, and fund regulation. This multi-dimensional perspective is intended to inform recommendations to improve overall market resilience and liquidity. In response to the suggestion, ICMA proposed to create and mobilise a Bond Market Liquidity Taskforce ("The Taskforce") to drive this initiative. The Taskforce is made up of interested ICMA members, representing sovereign, corporate, short-term, and repo markets, including sell side, buy side, and relevant financial market infrastructures.

Phase 1

Following the first meeting of the Taskforce on 19 April, and a subsequent "open-to-all" call with a broader audience of members on 2 May, it was agreed that the Taskforce should approach its work in phases, addressing different bond market segments sequentially. The first phase of the Taskforce's work will focus on core European sovereign bond markets (Germany, France, Italy, Spain, and UK).

The initial stage of this work, which is currently under way, is for the ICMA Secretariat to undertake an extensive desk study on these markets, trying to map market structure, participants, and dynamics. This will also be supported by data gathering and analysis, which are intended to highlight potential vulnerabilities., particularly in stressed scenarios. Once finalised, this will be shared with Taskforce members for review and initial feedback on how to advance the work and areas for further qualitative and quantitative exploration.

ICMA is aiming to publish the outcome of Phase 1, along with recommendations to improve market liquidity and resilience, in due course.

Taskforce members

ICMA continues to identify any gaps in the Taskforce membership to ensure a balanced representation of different markets, regions, and roles. In particular, ICMA is keen to ensure that more sell-side and buy-side fixed income traders are involved.

Any ICMA member interested in contributing to the work of the Taskforce should contact Andy Hill, Secretary to the Secondary Market Practices Committee, or Nicolette Moser, Secretary to the Asset Management and Investors Council.

Contacts: Andy Hill and Nicolette Moser
andy.hill@icmagroup.org
nicolette.moser@icmagroup.org

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 *RPC:* ICMA's Regulatory Policy Committee (RPC) met on 8 June in Madrid, ahead of the Spanish EU Presidency in the second half of 2023 and ahead of the IOSCO AGM.

Primary markets

2 *ICMA Issuer Committees:* ICMA's Public Sector Issuer Forum (PSIF), Corporate Issuer Forum (CIF) and Financial Institution Issuer Forum (FIIF) all met in May and June 2023 to discuss market conditions following recent market turmoil, among other issues.

3 *EU and UK listing regimes:* ICMA has continued to consult members and engage with policy makers on proposals to reform the listing regimes in the EU and UK, including proposed reforms to the EU and UK prospectus regimes, the EU market abuse regime and the UK PRIIPs regime. In early July 2023, ICMA met the FCA to give feedback on the FCA's engagement papers of 18 May on certain aspects of the new UK prospectus regime.

Secondary markets

4 *ICMA Bond Market Liquidity Taskforce:* ICMA's Bond Market Liquidity Taskforce (BMLTF) has been established to bring together market experts from different ICMA Committees with a view to making recommendations for improving the functioning of markets, both in terms of market practice and regulation. The BMLTF's initial focus is on core sovereign bond markets.

5 *MiFIR and bond market transparency:* ICMA has continued to engage with the EU authorities on bond market transparency as part of the MiFIR Review. On behalf of members, ICMA has flagged a number of issues, including the importance of aligning price and volume deferrals and the importance of outstanding bond issuance as a determinant of liquidity classification. ICMA is also engaging in the UK with the FCA on a consolidated tape for bonds.

6 *CSDR mandatory buy-ins:* ICMA has continued to engage with the EU authorities on the proposal that CSDR mandatory buy-ins should be retained as a last resort.

7 *Secondary market data:* On 25 April 2023, ICMA published its second semi-annual report on European secondary bond market data, with data support from Propellant. The next report is expected to be published in Q3.

8 *Electronic Trading Working Group:* Following consultation with members, ICMA is looking to revive and change the format of the former Electronic Trading Council as a deliverables-focused, technical working group under the ICMA Secondary Market Practices Committee.

Repo and collateral markets

9 *ICMA GRCF:* Following the successful launch of ICMA's new Global Repo and Collateral Forum (GRCF) on 23 February 2023, ICMA held a second meeting of the GRCF on 29 June and established a working group on repo in new and emerging markets.

10 *Settlement efficiency:* Improving settlement efficiency continues to be a key priority for ICMA's European Repo and Collateral Council (ERCC), in particular in the context of the ongoing CSDR Refit discussions. Further to the conclusion of a second member survey on the topic, the ERCC is currently considering next steps.

11 *LCR and open repo:* The ERCC continues to be actively engaged on a number of key EU repo-related advocacy issues. In particular, the ERCC has been in discussion with the EBA following an unhelpful Q&A issued by the EBA in relation to the treatment of open reverse repo under the Liquidity Coverage Ratio (LCR).

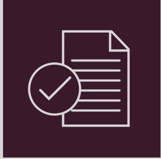
12 *T+1:* ICMA is also following closely the evolving discussion on a possible shortening of the settlement cycle to T+1. ICMA is part of a UK Taskforce on Accelerated Settlement launched by HM Treasury and, on the EU side, is participating in a cross-industry Taskforce on the same topic.

Asset management

13 *ICMA AMIC strategy:* The strategy of ICMA's Asset Management and Investors Council (AMIC) Committee has been reviewed by ICMA with its Co-Chairs, the Board and members.

14 *AIFM and UCITS Directives:* The AMIC Committee has continued to engage with the EU authorities on the AIFM and UCITS Directives' reviews.

15 *AMIC Committee:* The AMIC Committee met in Paris on 14 June 2023. As one of the agenda items, the Banque de France discussed market developments with members.



Sustainable finance

16 *Update on the EU GBS provisional agreement:* On 5 April 2023, following the announcement of the provisional agreement by the EU co-legislators, ICMA published an update note, which outlines key elements of the EU GBS agreement, anticipates what the broader market disclosures could look like and shares views regarding potential future uptake of the EU GBS as a voluntary label.

17 *Sustainable bond market data:* On 17 May 2023, ICMA entered into a partnership agreement with the Luxembourg Stock Exchange (LuxSE) and launched a new database dedicated to sustainable bond data. The database provides users with high level market analytics on sustainable bond issuance and an issuer database.

18 *Practical recommendations for sustainability-linked bonds:* On 22 May 2023, the European Leveraged Finance Association (ELFA) and ICMA published *Practical Recommendations for High Yield Sustainability-Linked Bonds*, a set of recommendations for the high yield bond market in line with ICMA's Sustainability-Linked Bond Principles (SLBP).

19 *The 2023 releases of the Principles:* On 22 June 2023, the Principles released several updates to its existing set of guidance, notably on the Climate Transition Finance Handbook and the Sustainability-Linked Bond Principles and related guidance.

20 *SFDR Level 2 consultation:* On 3 July 2023, ICMA responded to the ESAs' joint consultation on the Sustainable Finance Disclosure Regulation Level 2 consultation through a dedicated Taskforce established between its Asset Managers and Investor Council and the Executive Committee of the Principles.

21 *Code of Conduct for ESG Ratings and Data Product Providers:* On 5 July 2023, the voluntary *Code of Conduct for ESG Ratings and Data Product Providers* was published for consultation. ICMA together with IRSG provided the Secretariat. The consultation is open until 5 October 2023.

FinTech and digitalisation

22 *Wholesale CBDC:* ICMA has been selected to join the Eurosystem's New Technologies for Wholesale settlement Contact Group (NTW-CG). The first meeting took place on 21 June 2023.

23 *Post-trade harmonisation:* ICMA has been selected to join the ECB's AMI-SeCo Securities Group, replacing the AMI-SeCo Harmonisation Steering Group (HSG). The meeting of the outgoing HSG took place on 22 May 2023.

24 *Data collection and reporting:* ICMA attended meetings of the Data Standards Committee, which is part of the Transforming Data Collection programme of the Bank of England and the FCA.

25 *FinTech Advisory Committee (FinAC):* ICMA's FinAC held its second meeting on 4 May 2023 to discuss the UKJT Legal Statement on digital securities as well as wholesale CBDC developments.

26 *DLT bonds:* ICMA's DLT Bonds Working Group held a meeting on 17 May 2023 to discuss and agree action points on how to foster DLT-based bond markets. A legal sub-group was set up to identify the scope for a common approach in relation to risk factors and disclosure in bond documentation. A first meeting was held on 29 June 2023.

27 *Bond Data Taxonomy (BDT):* ICMA's BDT Working Group reconvened on 11 May 2023 to discuss the Working Group's governance and expansion of the BDT to capture DLT and sustainability-related data elements going forward.

28 *Common Domain Model (CDM):* ICMA has launched a new CDM Implementation Working Group, which seeks to assist member firms in developing CDM-based applications for repo trade processing. The first meeting was held on 7 June 2023.

LIBOR transition

29 *LIBOR transition in the bond market:* ICMA has continued to Chair the RFR Bond Market Sub-Group (BMSG) at the request of the FCA, as the global regulator of LIBOR, and the Bank of England. Both the FCA and Bank of England are closely involved in the BMSG's work. The BMSG's focus is now mainly on the US dollar LIBOR bond transition.

30 *Cessation of panel bank US dollar LIBOR:* The FCA announced on 3 April 2023 that, when panel bank US dollar LIBOR ceased on 30 June 2023, synthetic US dollar LIBOR would succeed it for legacy contracts, including all legacy US dollar LIBOR bonds outstanding, in one, three and six-month settings, under English law, until 30 September 2024. This was followed by joint statements by the FCA and the Bank of England on 12 April, and by the Financial Stability Board globally on 27 April, on encouraging final preparations for the US dollar LIBOR transition. An FCA announcement on 3 July confirmed that panel bank US dollar LIBOR ceased on 30 June, as planned. (See *Cessation of Panel Bank US Dollar LIBOR: Implications for Bonds Under English Law* in the ICMA Quarterly Report for the Second Quarter of 2023.)

Key ICMA regulatory policy messages

by **Julia Rodkiewicz**

ICMA is engaged with a wide range of policy makers and regulators in cooperation with our members. Our key messages, and information relating to the regulatory and policy initiatives on which we are most actively engaged, are summarised below. Additional information on regulatory and policy initiatives on which ICMA is engaged can be found elsewhere in this Quarterly Report.

Contact: Julia Rodkiewicz
julia.rodkiewicz@icmagroup.org

Primary markets

EU and UK Prospectus Regimes

- **Regulatory initiatives:**

  - EU Listing Act package (part of the wider Capital Markets Union (CMU) clearing, insolvency and listing package), including proposed changes to the EU Prospectus Regulation as well as to other legislation.

  - UK: Prospectus regime replacement (part of the UK's Edinburgh Reforms).

- **Key issue:** Appropriately calibrating the EU and UK prospectus regimes to allow smooth and efficient cross-border bond issuance in Europe.

- **Key messages:** The reasonably efficient functioning of wholesale bond markets in Europe under the current EU and UK Prospectus Regulations must be preserved.

  - EU: Such preservation seems to be the case under the EC's proposals. However: (i) the *status quo* should remain for fungible issuance exemptions; (ii) it should be clear that future financial statements can indeed be incorporated by reference into base prospectuses; (iii) incorporation by reference should not be mandatory; (iv) "tripartite" prospectuses should benefit from the same alleviations as other prospectuses; and (v) there should not be restrictions (such as page limits and mandatory formats) on an issuer's ability to include material information in a prospectus.

- UK: Whilst such preservation also seems to be the substantive intention of the UK authorities, many aspects will require clarification given the significant change in format being pursued.

Generally, in relation to retail bond markets and small and medium sized (SME) enterprise bond markets, the prospectus regime is only one factor among various other regulatory, commercial and market drivers (internationally as well as domestically). Constructing an appropriate regulatory regime in this respect requires holistic consideration of various regulatory tools and incentives.

- **Legislative stage:**

- EU: The European Commission (EC) adopted a proposal for a Listing Act Regulation on 7 December 2022 following its consultation of November 2021. It also published a proposal to repeal the EU Listing Directive and make certain other changes to rules relating to listing securities in the EU. The EC proposals are now subject to review by the Council of EU Member States (Council) and the European Parliament (EP). Council reached its position on the Regulation (with Annex) on 14 June 2023 and EP reached its draft position on 16 June with a view to starting a discussion on a final text before the end of 2024 at the earliest.

- UK: The Financial Services and Markets Act (FSMA),), which received Royal Assent on 29 June, , introduces powers for HM Treasury to repeal the current UK Prospectus Regulation and introduces a new regime in line with the outcome of HM Treasury's consultation on the UK Prospectus Regulation. As part of the Edinburgh Reforms, the UK Government published on 9 December 2022 a *Draft Statutory Instrument - Admissions to Trading and Public Offer Regime,* which demonstrates how these new powers will be used. Ahead of the approval of the Statutory Instrument, the UK Financial Conduct Authority (FCA) has begun an engagement process with market participants on the new regime for public offers and admission to trading, for which it will be responsible for setting rules. On 18 May 2023, it published the first four of an expected six engagement papers seeking views on these new rules.

- **ICMA engagement and materials**: In addition to bilateral engagement with relevant policy makers and regulators, ICMA submitted:

- EU: on 13 March, comments on the EC's proposals;

- UK: on 14 February, comments on the above Draft Statutory Instrument (including in terms of expectations concerning underlying FCA rules).

Contact: Ruari Ewing and Miriam Patterson.

Working Group/Lead Committee: Prospectus Regulation Working Group/Legal & Documentation Committee.

More information: The Primary Markets section of this Quarterly Report and ICMA's Prospectuses webpage.

EU and UK PRIIPs regime

- **Regulatory initiatives:**

- UK: Proposals to repeal and replace the UK's Packaged Retail Investment and Insurance Products (PRIIPs) disclosure regime.

- EU: EC proposal to amend the EU PRIIPs Regulation (as part of its wider Retail Investment Strategy package).

- **Key issue:** How retail investors can make informed investment decisions.

- **Key messages:**

  - UK: The proposed repeal of the UK PRIIPs regime and seemingly intended exclusion of mainstream bonds from the FCA's replacement disclosure regime are both welcome. (This is because there seem to be significant limitations to disclosure as a retail investor protection tool and the PRIIPs regime has been a significant disincentive to retail bond availability.) The exclusion however needs to be clear and could track the existing exclusions from the UK's new Consumer Duty in this respect. As noted above regarding the EU and UK prospectus regimes, the PRIIPs Regulation is also only one factor requiring holistic consideration in relation to retail bond markets.

  - EU: The product scope of the regime should clearly exclude mainstream bonds.

- **Legislative stage:**

  - UK: As part of the Edinburgh Reforms, the UK Government consulted on repealing the UK PRIIPs legislation, leaving the FCA to regulate on retail disclosure. In parallel, the FCA issued a discussion paper on various aspects of a future disclosure framework.

  - EU: The European Commission has published a proposed Regulation to amend the EU PRIIPs Regulation (as part of its wider Retail Investment Strategy package).

- **ICMA materials**: Various ICMA position papers and other materials can be found on ICMA's PRIIPs KIDs webpage (including ICMA's response to the UK Government consultation and ICMA's response to the FCA's discussion paper) and its Retail Access to Bond Markets webpage.

Contact: Ruari Ewing.

Working Group/Lead Committee: PRIIPs/MiFID II Product Governance Working Group.

More information: The Primary Markets section of this Quarterly Report.

EU MAR market sounding regime

- **Regulatory initiative:** EU Listing Act package (part of the wider CMU clearing, insolvency and listing package), including proposed changes to the EU Market Abuse Regulation (MAR).

- **Key issue:** An appropriately calibrated market sounding regime helping borrowers to avoid undermining market confidence and resilience by launching and then cancelling bond issues due to terms that do not fit market dynamics.

- **Key messages:** The incidence of market sounding is substantially reduced since the introduction of the MAR sounding regime in 2016, as the provisions were felt to be too onerous (especially to the extent they were held out as mandatory even when sounding information that is not inside information). The EC's proposal to confirm the regime as just providing a safe harbour for sharing inside information within its defined limits is welcome and should be adopted.

- **Legislative stage:** The EC adopted a proposed Listing Act Regulation, including amendments to the MAR sounding regime, on 7 December 2022 following its consultation of November 2021. The EC proposals are now subject to review by the Council and the EP. Council reached its position on the Regulation (with Annex) on 14 June 2023 and EP reached its draft position on 16 June with a view to starting a discussion on a final text before the end of 2024 at the earliest.

- **ICMA materials**: Various ICMA position responses and other papers can be found on ICMA's Market Abuse Regulation (MAR) - Primary Market Aspects webpage, including ICMA's 13 March comments on the EC's proposals.

Contact: Ruari Ewing.

Working Group/Lead Committee: Primary Market Compliance Forum.

More information: The Primary Markets section of this Quarterly Report.

Secondary and repo markets

EU Central Securities Depositories Regulation (mandatory buy-in regime)

- **Regulatory initiative:** Review of the EU Central Securities Depositories Regulation (CSDR).

- **Key issues:** Settlement discipline (SD), including application of mandatory buy-in (MBI) requirement.

- **Key messages:** The adopted revision of the CSDR removes the MBI requirement, but introduces a possibility to impose MBIs for certain financial instruments or categories of transactions, by a means of the EC's decision. ICMA continues to caution against imposing an MBI regime, particularly for bond markets. ICMA supports the adopted approach where penalties should first be allowed time to run and possibly be recalibrated. In parallel, other measures to improve settlement efficiency should be exhausted in the first instance (either market-based or regulatory, eg auto partialling, auto borrowing and lending facilities). In the absence of a full deletion of MBI provisions ICMA welcomes a number of improvements expected in the revised regulation in order to make sure MBIs can only be implemented as a last resort measure after strict conditions are met and that explicit exemptions apply, eg for securities financing transactions (SFTs).

- **Legislative stage:** On 27 June 2023, the Council and EP reached a provisional interinstitutional agreement on the CSDR Refit. The CSDR Refit is expected to be passed into law in late 2023.

- **UK related developments:** In 2020, HMT elected not to implement the EU's settlement discipline regime, including MBIs. As part of the Edinburgh Reforms, announced on 9 December 2022, the UK Government launched the Accelerated Settlement Taskforce to, *inter alia*, evaluate current settlement discipline and examine potential reforms in the UK.

- **ICMA engagement and materials:** On 28 June 2023, ICMA published a note on the provisional agreement on the CSDR. ICMA will continue to engage with EU institutions and national competent authorities, who will now focus on drafting implementing legislation. ICMA is a member of the UK Accelerated Settlement Taskforce.

Contacts: Andy Hill and Alexander Westphal.

Working Group/Lead Committee: CSDR-SD Working Group/Secondary Market Practices Committee (SMPC).

More information: The Secondary Markets section of this Quarterly Report and ICMA's dedicated webpage.

EU MiFIR and UK Wholesale Markets Review

- **Regulatory initiatives:**
  - EU Review of the Markets in Financial Instruments Regulation (MiFIR) and certain elements of Markets in Financial Instruments Directive (MiFID).

  - UK Wholesale Markets Review (WMR).

- **Key issues:** Pre-trade and post-trade transparency and consolidated tape for bond markets.

- **Key messages:** ICMA members would like to see the introduction of an effective, appropriately calibrated and dynamic post-trade transparency regime for all bonds, including corporate and sovereign bonds. In particular, large and extra-large illiquid trades should benefit from delayed publication of both price and size to prevent undue risk to counterparties involved. Once deferrals have expired, all bond trades should be published in a centralised place (a single-source bond consolidated tape) on a trade-by-trade-basis.

  In the EU, after the recent adoption of the transparency and consolidated tape framework, ICMA will now encourage the development of implementing legislation that supports these objectives.

- **Legislative stage:**

  - EU: On 29 June, the Council and EP reached a provisional interinstitutional agreement on MiFIR/MiFID Review. The revised MiFIR/MiFID are expected to be passed into law in late 2023.

  - UK: The FSMA introduces powers for HM Treasury to repeal the current UK MiFIR (as well as other retained EU financial services regulation) and introduce a new regime in line with the March 2022 outcome of HMT's July 2021 WMR consultation. In some areas, including UK MiFIR, the FSMB amends the current legislative framework, for example to simplify the fixed income transparency regime. As part of the Edinburgh Reforms, HMT is also committing, alongside the FCA, to having a regulatory regime in place by 2024 to support a consolidated tape for market data. The FCA published a consultation paper on a consolidated tape on 5 July 2023 and is expected to publish a consultation paper on fixed income and derivatives transparency requirements in Q4 2023.

- **ICMA engagement and materials:** Meetings with representatives of UK and EU policy makers and competent authorities, including on both primary and secondary legislation as relevant. ICMA published a position paper on post-trade transparency for corporate bonds in December 2021, feedback to the EC's proposal in March 2022 and its response to the WMR consultation in September 2021. On 3 July 2023, ICMA published a note on the provisional agreement on MiFIR.

Contacts: Andy Hill and Nina Suhaib-Wolf.

Working Group/Lead Committee: MiFID II/R Working Group (MWG)/ Secondary Market Practices Committee (SMPC).

More information: The Secondary Markets section of this Quarterly Report.

EU Capital Requirements Regulation 3

- **Regulatory initiative:** Review of the EU Capital Requirements Regulation (CRR), the so-called CRR3 proposal, which is a part of a broader review of EU prudential rules for banks.
- **Key issue:** Capital treatment of Securities Financing Transactions (SFTs).
- **Key message:** ICMA advocates for the recognition of the short-term nature of SFT transactions in risk weighted assets (RWA) calculation under the Standardised Approach with respect to banks' counterparty credit risk exposures to non-banks.

  ICMA understands that now, after the agreement on the revised CRR3, the 100% RWA for SFT exposures with un-rated non-bank entities under the Standardised Approach will be entered into EU law. However, based on a report from the European Banking Authority (EBA) by the end of 2025, the Commission could propose legislative changes by the end of 2027.
- **Legislative stage:** On 27 June, the Council and EP reached a provisional interinstitutional agreement on CRR3 Review (as a part of the broader reform of prudential rules). The revised CRR3 is expected to be passed into law in late 2023.
- **ICMA engagement and materials:** Outreach to key representatives of relevant EU institutions and competent authorities. ICMA published a briefing note in July 2022.

Contacts: Andy Hill and Alexander Westphal.

Working Group/Lead Committee: European Repo and Collateral Council (ERCC) Committee.

More information: The Repo and Collateral Markets section of this Quarterly Report.

Asset management

EU Alternative Investment Fund Managers Directive

- **Regulatory initiative:** Review of EU Alternative Investment Fund Managers Directive (AIFMD).
- **Key issues:** Liquidity management tools, delegation, loan originating funds and reporting.
- **Key messages:** ICMA's Asset Management and Investors Council (AMIC) in general welcomes the EC's targeted review of the AIFMD and supports the Council's and EP's proposals for recognising the critical risk management responsibilities that should remain with Alternative Investment Fund (AIF) managers. However, there are several outstanding concerns regarding loan originating AIFs and newly introduced provisions on undue costs and fees as well as on fund labels.
- **Legislative stage:** The Council and the EP have both finalised their respective positions (the Council and the EP) on the EC's AIFMD review proposal of November 2021 and are now in the final stage of trilogue negotiations with a view to reaching an agreement on a final compromise text in Q3 2023 at the earliest.

- **ICMA engagement and materials:** Meetings with representatives of the EC, EP and Council. ICMA AMIC's response to the EC's proposals on AIFMD was published in January 2021.

Contacts: Nicolette Moser and Irene Rey.

Working Group/Lead Committee: AMIC Risk Management Working Group/AMIC Committee.

Sustainable finance

EU Green Bond Standard

- **Regulatory initiative:** The EU Regulation on European Green Bonds (EU GBS).
- **Key issues**: The voluntary nature of the EU GBS and of wider sustainable bond disclosures, up to 15% flexibility pocket for certain activities (eg activities not yet covered by the EU Taxonomy technical screening criteria (TSC)), grandfathering, and registration and supervision of external reviewers for EU GBS.
- **Key messages:** ICMA welcomes the voluntary nature of the EU GBS and of wider disclosures templates for certain sustainable bonds (ie green use of proceeds bonds and environmental sustainability linked bonds). ICMA will continue to make recommendations to ensure, among other things, that the proposed voluntary disclosure templates minimise duplication or inconsistencies across other EU sustainable finance legislation. The future uptake of the EU GBS will be closely correlated with the resolution of the considerable usability challenges of the EU Taxonomy identified in the extensive report of the EC's Platform on Sustainable Finance (PSF) as well as ICMA's earlier report (eg widespread data unavailability, heavy reliance on EU legislation and criteria (hindering the assessment of non-EU projects), and lack of assessment of proportionality for smaller projects and SMEs).
- **Legislative stage:** On 28 February 2023, the EU institutions reached a provisional agreement on the EU GBS Regulation. The final text of the Regulation is expected to be published in Q3 2023.
- **ICMA engagement and materials:** On 5 April 2023, ICMA published an update on the provisional agreement on the EU GBS (see previous ICMA's position papers and statements). ICMA will continue to engage with EU institutions and national competent authorities, who will now focus on drafting implementing legislation.

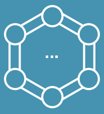
Contacts: Nicholas Pfaff and Ozgur Altun.

FinTech and digitalisation

Wholesale Central Bank Digital Currency (wCBDC)

- **Regulatory initiative:** Eurosystem's exploratory work on new technologies for wholesale central bank money settlement.
- **Key issue:** Whether to introduce a wholesale digital euro (CBDC) for wholesale payments, securities settlement and collateral management or use the existing TARGET platform via a so-called "trigger solution".
- **Key message:** ICMA advocates for a wholesale digital euro (CBDC) to support next-level automation, more efficient securities settlement and post-trade processing and increase the attractiveness of capital markets as a source of funding for the real economy.
- **Policy development stage:** Following the Eurosystem's consultation on the potential use of new technologies such as Distributed Ledger Technology (DLT) for wholesale central bank money settlement in June 2022 and a subsequent announcement in April 2023, Eurosystem's New Technologies for Wholesale settlement Contact Group (NTW-CG) has been launched. The NTW-CG provides a forum for market participants to articulate their needs, share information, provide their views on Eurosystem proposals and possibly act as a sounding board for the Eurosystem-led exploratory work. However, it does not prejudge any policy direction of the Eurosystem. The NTW-CG held its first meeting on 21 June 2023. On a related note, following its call for evidence in April 2022, on 28 June the EC adopted its legislative proposal on a retail digital euro for the EU.
- **ICMA engagement and materials:** ICMA responded to the ECB consultation in June 2022, published a one-page viewpoint on wholesale CBDC and participated in an ECB stakeholder meeting in September 2022. ICMA also published FAQs on DLT and blockchain in bond markets in September 2022. ICMA participates in Eurosystem's NTW-CG and continues to engage with regulators globally on the topic of DLT and wholesale CBDC.

Contact: Gabriel Callsen



Primary Markets

by **Ruari Ewing, Miriam Patterson** and **Katie Kelly**

EU Listing Act: Prospectus Regulation, MAR pre-sounding and official listing

The Second Quarter 2023 edition of this Quarterly Report reported on ICMA's formal comments on the European Commission's Listing Act omnibus Regulation proposal ("LAR proposal" – notably amending the existing Prospectus Regulation and the Market Abuse Regulation's pre-sounding provisions) and Listing Act omnibus Directive proposal ("LAD proposal" – notably repealing the existing Listing Directive). This article reports on some subsequent developments.

At its 16 June ECOFIN meeting, the EU Council formally adopted a general approach on the LAR proposal (and related Annex) and also a general approach on the LAD proposal.

- Regarding the LAR proposal, the Council *inter alia* (i) limits to 30% the Commission's proposal to exempt from the prospectus requirement fungible issuance up to 40% (up from the existing 20% ceiling), (ii) improves the drafting for the Commission's proposal to allow the incorporation of future financials by reference into base prospectuses, (iii) reinstates the requirement to present the most material risk factors first, (iv) requires the Commission by the end of 2025 to review prospectus liability provisions (whilst assessing any further harmonisation potential), and (v) adds some incidental requirements to the Commission's proposal to confirm the safe harbour status of the pre-sounding provisions.
- Regarding the LAR proposal, the Council *inter alia* acknowledges that the repeal of the Listing Directive should be without prejudice to the ongoing validity of national "admission to official listing" regimes.
- These general positions now will serve as the Council's opening position in later trilogue negotiations with the Commission and the European Parliament (which has started work on developing its own position, as noted below).

Distinctly on 16 June, the rapporteur for the European Parliament ECON Committee issued a draft report on the LAR proposal and also a draft report on the LAD proposal.

- Regarding the LAR proposal, the rapporteur *inter alia* (i) also limits the Commission's proposals to exempt fungible issuance (going further than the Council's general approach in some respects), (ii) inserts a "business day" definition based on the "relevant" regulator and including Saturdays, (iii) rejects the Commission's proposal to allow future incorporation by reference, (iv) also reinstates the requirement to present the most material risk factors first, (v) rejects the Commission's proposal to cap prospectus length at 300 pages (whilst in parallel requiring ESMA to develop comprehensibility/plain language guidelines), (vi) requires prospectus summaries to state the proportions of Taxonomy alignment and fossil fuel financed by an instrument, and (vii) requires coordination with the recently-adopted EU Green Bond Standard.
- The rapporteur was silent on the Market Abuse Regulation pre-sounding provisions and, regarding the LAD proposal, on "admission to official listing".
- ICMA is approaching several MEPs regarding the draft report on the LAR proposal. Reportedly, ECON MEPs are due to table amendments to the draft reports by 7 July, with a consequent ECON formal vote potentially on 24 October or 7 November. The result of the vote is expected to serve as the Parliament's opening position in the later trilogue negotiations.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

UK prospectus regime: FCA engagement process on new proposed regime

On 9 December 2022, the UK Chancellor of the Exchequer announced the Edinburgh Reforms which are intended to drive growth and competitiveness in the UK financial sector. Following on from this announcement, HM Treasury published a draft statutory instrument (SI), Financial Services and Markets Act 2000 (Public Offers and Admissions to Trading) Regulations 2023 (8th draft 01/12/22), which sets out a new regime for public offers and admissions to trading on UK public markets, including for when a prospectus will be required in the UK. ICMA commented on the draft SI in February 2023 (see the previous report on *UK Edinburgh Reforms: Prospectus Regime* in the Second Quarter 2023 edition of this Quarterly Report). As a part of that response, ICMA included comments on the areas that it expected the FCA to be addressing in its future rulemaking. The SI has not been finalised yet, and it is not expected to be laid in Parliament until the autumn.

In advance of the SI being finalised, the FCA has begun a process of engagement and dialogue with market participants about areas where, under the new SI, they are likely to be making new rules. They would like to seek views and test ideas before making policy proposals and as a result are launching a new process of extensive stakeholder engagement before announcing a formal consultation proposal next year.

FCA process and proposed timeline

To begin, the FCA held a private event with several trade associations, including ICMA, on 9 May 2023. It was a high-level introductory meeting and the start of the FCA's engagement with the market on the rules that the FCA will be adopting on the new UK prospectus regulation.

The FCA has plans to publish six engagement papers and then to participate in focus group meetings with market participants on each of the papers thereafter. The six papers are:

- Paper 1: Admission to trading on a regulated market.
- Paper 2: Further issuances of equity on regulated markets.
- Paper 3: Protected forward-looking statements.
- Paper 4: Non-equity securities.
- Paper 5: Public offer platform.
- Paper 6: Primary MTFs.

The first four papers were published on 18 May. 29 September is the closing date for written responses to these four papers.

The final two papers are expected to be published by mid-July, followed by focus group discussions on those papers. There is the possibility that the FCA may publish further papers in early autumn depending on their initial discussions with the market.

The FCA plans to give some feedback in late autumn on key themes following its focus group discussions and review of written responses. A formal consultation period will likely be launched in Q2 2024. New rules will probably not come into force until 2025.

ICMA engagement on first four papers

Since the publication of the first four FCA engagement papers, ICMA has been seeking feedback from members mainly via its Prospectus Regulation Working Group and also through UK-based members of its FIIF and CIF issuer groups. ICMA participated in focus group meetings with the FCA in early July on the first four engagement papers.

Broadly speaking, there is a strong focus on equity capital markets and retail offerings (equity and debt) in the engagement papers. However, although only Paper 4 specifically references non-equity securities in the title, there are aspects of all four papers that are relevant to debt, including specific proposals relating to sustainable finance in Papers 1, 3 and 4. ICMA is likely to engage with the FCA on, among other things:

- The necessary information test as it applies to bond disclosure.
- Future incorporation by reference in base prospectuses.
- Base prospectus supplement regime.
- Length of validity period of base prospectuses.
- Sustainable finance disclosure.
- Proposed protected forward looking statement regime.

ICMA values the opportunity to engage with the FCA on the topics addressed in the six FCA engagement papers in advance of the formal consultation on the UK's replacement of the prospectus regime next year.

Contact: Miriam Patterson
miriam.patterson@icmagroup.org

EU Retail Investment Strategy: PRIIPs and MiFID product governance and inducements

On 24 May 2023, the European Commission published a Retail Investment Strategy ("RIS") omnibus Directive proposal and related annex (notably amending various investor protection provisions in MiFID) and an RIS Regulation proposal (amending the PRIIPs Regulation). The European Commission also published various related papers on its RIS webpage (including an Impact Statement). These proposals were preceded by a consultation to which ICMA responded in August 2021 (as reported the Fourth Quarter 2021 edition of this Quarterly Report).

The proposed MiFID amendments *inter alia* (i) amend the product governance regime (but essentially in relation to product costs and value for money and so seemingly away from the mainstream bond markets), (ii) ban "inducements" in the execution-only context (but with an exception regarding underwriting and placing of instruments that are not PRIIPs), (iii) require marketing communications/practices to include the "essential characteristics", "key features" and "main risks" of instruments, and (iv) widen the criteria for elective professionals (rather than creating a completely new category of "semi-professional" investors as had been previously mooted).

The proposed PRIIPs amendments notably attempt to exclude at least some make-whole provisions from the PRIIPs regime by adding a proviso to the definition of a PRIIP (they also make various amendments to the content requirement of the PRIIPs key information document). The Impact Statement distinctly notes in passing that "plain corporate bonds do not satisfy requirements to be included in the PRIIPs scope" since (referencing Recital 6 of the PRIIPs Regulation) "the repayable amount is fixed (= the coupon and the principal) and the asset (the bond) is held directly by the retail investor." It also notes that "Plain corporate bonds (ie which are not particularly complex) have a number of advantages that would seem to justify their purchase by retail investors" and that "European firms that do not want to take the risk associated with the publication of a KID".

The next step in the legislative process is for the European Parliament and EU Council to consider the Commission's proposals. There is also an opportunity for market participants and others to provide feedback to the Commission's proposals by 28 August via the Commission's distinct "Retail investment" webpage (which also sets out some of the above documents). ICMA is working with members to publish formal feedback in this respect.

Distinctly on 16 June, ESMA published a 25-page call for evidence on the integration of sustainability preferences, including a half-page passing reference to the product governance context. ICMA is likely to respond reiterating material from its October 2023 response to ESMA's consultation on the review of its MiFID product governance guidelines (which was reported the First Quarter 2023 edition of this Quarterly Report).

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

Pricing references for new sterling Eurobonds

On 21 June 2023, ICMA published a notice of pending changes to the ICMA Primary Market Handbook (the amendment of Recommendation R.7.3 and the deletion of related item 7.3A), noting the likelihood of primary market practitioners choosing to apply these pending changes from 22 June.

Recommendation R.7.3 (together with related Recommendations R7.4 and R7.5) seeks to clarify the appropriate gilt to use when pricing new sterling Eurobond issues. In this respect, it currently references a few generic reasons why a gilt might not be appropriate as a benchmark (which are due to be amended). Related item 7.4 (which is due to be deleted) currently references two existing gilts that primary market practitioners have generally considered to be inappropriate as credit benchmarks in the context of R7.3 (5% March 2025 and 6% December 2028).

ICMA will shortly update the Handbook in this respect.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

Secondary Markets

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

MiFIR Review and bond market transparency

On 29 June 2023, the trilogue discussions involving the EU Council and European Parliament for the MiFIR Review came to their political conclusion. While ICMA was very focused on some of the technical issues related to the introduction of an EU consolidated tape for bonds and the related transparency framework, the regulatory discussions were dominated by other topics, in particular the details for the equity consolidated tape, payment for order flow (PFOF), and the reporting obligation for commodity derivatives.

While we wait for the final regulatory text, ICMA has reason to believe that the following has been agreed with respect to the bond consolidated tape and transparency regime, while cautioning that there is still the possibility of changes to the final text.

Deferral regime

ICMA believes that the co-legislators have settled on the following deferral framework for bonds. The five deferral categories proposed by the Council and Parliament are similar to a proposal made by ICMA, with the timelines largely consistent with the EP proposal.

Category	*Transaction type*	*Price deferral*	*Volume deferral*
1	Small/Liquid bonds	< 15 mins	< 15 mins
2	Small/Illiquid bonds	End of Day	End of Day
3	Large/Liquid bonds	T+1	One week
4	Large/Illiquid bonds	T+2	Two weeks
5	Very large	Four weeks	Four weeks

ICMA had advocated for both the price and volume deferral for Category 4 transactions (large trades in illiquid bonds) to be aligned and to be at least two weeks. The reason for requesting alignment is that it is relatively easy to infer a lot of information about a bond trade from seeing the price alone, including whether it is a "risk trade" (ie a market maker has taken the trade onto its books), the direction of the trade, as well as its relative size.

Sovereign bond deferrals

Currently, the Regulation provides for National Competent Authorities (NCAs) to elect for the aggregation of trades in their respective sovereign bond markets. This limits the amount of useful information available to market participants. The co-legislators appear to have agreed on the European Parliament's proposal allowing for NCAs to elect for (a) the omission of the publication of the volume of an individual transaction for an extended time period not exceeding six months; or (b) the deferral of the publication of the details of several transactions in an aggregated form for an extended time period not exceeding six months. This is a largely welcomed improvement on the existing sovereign bond aggregation framework which allows for trades to be aggregated indefinitely.

Pre-trade reporting obligation

ICMA and its members had advocated for the removal of the pre-trade reporting requirement related to Request-for-Quotes (RFQs) to systematic internalisers (SIs). This is because the regime is disproportionately onerous and generally not used. This appears to have been taken on board by the co-legislators, with the deletion of the SI pre-trade reporting for non-equities.

Application of deferrals

The European Parliament introduced a proposal for the application of deferrals to be applied by the eventual consolidated tape provider (CTP), in addition to those applied by Authorised Publication Arrangements (APAs) and

trading venues. While some market participants point to the potential efficiency and consistency of having a single point of application, many felt that this was incompatible with the current reporting ecosystem and would lead to additional cost and risks. It was also noted that such a significant change to market architecture should have been proposed much earlier in the regulatory process to allow for sufficient scrutiny as well as a cost-benefit analysis.

ICMA understands that the proposal has been dropped.

Next steps

While political agreement on the MiFIR Review has been reached, the technical deliberations, particularly related to the equity tape, are likely to continue into the summer. The final text will still need to be signed off by the Council and Parliament, as well as subject to legal review and translation, before it can be published in the EU *Official Journal*, after which it will enter into law. ICMA would expect this process to be finalised before the end of 2023.

UK bond transparency

The UK FCA published a consultation paper on a consolidated tape on 5 July 2023. ICMA intends to respond on behalf of its members. And a further consultation paper on the transparency framework is expected in Q4 2023. The go-live for a UK consolidated tape is likely to be early 2025.

Contact: Andy Hill
andy.hill@icmagroup.org

CSDR Refit and mandatory buy-ins

On 27 June 2023, the EU Council and European Parliament reached a provisional interinstitutional agreement on the CSDR Refit. A critical element of the Refit is the revised settlement efficiency regime, in particular the highly controversial application of mandatory buy-ins in the event of settlement fails. ICMA has long opposed the introduction of a mandatory buy-in (MBI) regime in the EU bond markets, and challenged their inclusion in the original CSD Regulation, pointing to the risks to market liquidity and stability, and noting that existing, contractual buy-ins already provided an effective and well-designed tool for managing settlement risk. Despite being passed into law in 2014, mandatory buy-ins have never been implemented.

While ICMA and the broader industry saw the CSDR Refit as an opportunity to remove the MBI framework from EU law, in the initial proposal published in March 2022 the European Commission decided to keep the regime as a "last resort" in the event that the cash penalty mechanism, introduced in February 2022, did not result in improving settlement efficiency rates for certain financial instruments. The Commission further suggested some enhancements to the mandatory buy-in process, which are more in line with existing contractual buy-ins, such as symmetrical payments of the buy-in price differential (thereby preserving the economics of the original trade) and the possibility for a pass-on mechanism (allowing for the settlement of multiple linked fails by means of a single buy-in).

During the subsequent legislative process to finalise the text, ICMA engaged with the co-legislators to ensure that MBIs are genuinely a last resort measure subject to appropriate conditions and to address a number of more technical issues with the initial proposal related to the application of buy-ins as well as the buy-in mechanism itself.

While we await the finalised text, ICMA understands that the co-legislators have agreed on very strict conditions for applying mandatory buy-ins, requiring that cash penalties have been shown not to have resulted in sustaining settlement efficiency, even after considering adjusting the penalty rates, and that this also presents a risk to financial stability in the EU. As part of this process, the authorities would also be expected to consider the market impact of mandatory buy-ins as well as whether contractual remedies already exist. ICMA also expects the revised Regulation to provide that ESMA look at alternative, more proportionate and targeted tools to improve settlement efficiency, such as "shaping" (splitting large trades into smaller tickets), "partialing" (the partial settlement of failing trades), as well as the use of CSD auto-borrowing and lending programmes: all of which are already incorporated into ICMA's best practice for both bond and repo trading.

While ICMA and the industry more broadly would have preferred that mandatory buy-ins were removed from EU regulation completely, ICMA welcomes their de-prioritisation as a settlement discipline mechanism. ICMA will continue to work with its members and market authorities to improve settlement efficiency in international bond and repo markets, helping to underpin effective and stable financial markets.

The CSDR Refit is expected to be passed into law in late 2023.

Contact: Andy Hill and Alexander Westphal
andy.hill@icmagroup.org
alexander.westphal@icmagroup.org

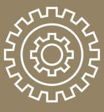
ICMA's Electronic Trading Working Group

Background: The Electronic Trading Council (ETC) was originally established as a member forum, under the umbrella of the ICMA Secondary Market Practices Committee (SMPC), intended to focus specifically on the rapidly evolving impacts of electronification of the secondary bond markets. At the time, this new forum was given "council" status to represent the intended diversity of engagement and to recognize the fact that it was broader than a technical working group. It attracted significant and diverse interest from ICMA's broad membership, including sell sides, buy sides, as well as trading venues and other e-solutions. Since its inauguration, the ETC has been responsible for two notable outputs: ICMA's much referenced mapping directory of European fixed income electronic trading platforms, and the ground-breaking guide to definitions and best practice for bond pricing distribution. Due to the completion of various projects as well as the high interconnection of the ETC's work with the agendas of the SMPC, the European Repo and Collateral Council (ERCC) and the FinTech Advisory Committee (FinAC), a meeting between the ETC members and secretariat was held in May 2023 to establish its future status and position.

Outcome: During the meeting, a consensus was reached amongst the ETC's members that, whilst much of the ETC's focus naturally fits into the remit and agenda of the SMPC, it should nonetheless continue to exist as a separate, specialist forum, as part of ICMA's secondary market constituency, albeit in form of a technical working group rather than council. This revised structure will enable the Electronic Trading Working Group (ETWG) to be issue- and output-driven and provide a higher degree of agility and focus on present technical, e-trading and data related issues that would be too granular for the SMPC and FinAC, or regulatory working groups. A small steering committee/advisory group will be formed to raise issues and drive the agenda.

Next steps: Members are invited over the next weeks to put themselves forward to join the steering committee/advisory group. Members are also encouraged to suggest specific topics that they think would be most relevant for the ETWG's agenda. Based on feedback and further engagement, the next meeting will be set up in September.

Contact: Andy Hill and Nina Suhaib-Wolf
andy.hill@icmagroup.org
nina.suhaib-wolf@icmagroup.org



Repo and Collateral Markets

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

ICMA's Global Repo and Collateral Forum

Second GRCF meeting on 29 June: ICMA's newly established Global Repo and Collateral Forum (GRCF) held its latest meeting on 29 June 2023. This was the second meeting of the group following the successful launch in February. The meeting covered a broad range of topics, including regional repo market developments with updates on recent discussions in the European Repo and Collateral Council (ERCC) as well as ASIFMA's Asian Secured Funding Committee, as well as a particular focus on the Chinese repo market. Other topics covered at the meeting included ICMA's GMRA Clause Library and Taxonomy, upcoming work on repo and digital assets, as well as ICMA's work related to repo and sustainability and the Common Domain Model (CDM) for repo and bonds. The GRCF is meeting on a quarterly basis and is open to all ICMA members globally with an interest in cross-border repo and collateral markets. To sign up for the GRCF, please e-mail us and we will add you to the distribution list.

GRCF Working Group on New and Emerging Markets: Based on the feedback received from members, it was decided to launch a GRCF working group to focus specifically on the important issues around the development of stable and efficient repo markets in emerging and frontier markets. The group will bring together local market participants and international institutions with an interest in the relevant markets. It will be a unique forum for members to exchange views and experiences. The new working group will continue to be closely linked to the GRCF's main forum and will report back into the quarterly meetings. If you are interested to sign up to the GRCF working group on new and emerging markets, please send us an e-mail. The first meeting of the new working group will be organised in the autumn.

Separately, ICMA is also creating an informal GRCF Steering Committee to provide guidance in relation to the meeting agenda and help advise on the strategic direction and priorities for the GRCF.

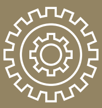
GRCF survey on Chinese onshore repo market: Following recent discussions, in May the Hong Kong Monetary Authority (HKMA) on behalf of the People's Bank of China (PBOC) shared a series of questions with ICMA on the Chinese onshore repo market. The PBOC is interested in gaining insights into members' appetite and criteria for accessing this market. ICMA leveraged the newly established GRCF to launch a short online survey to gather feedback on the questions which was subsequently passed on to the HKMA and a summary of which has been presented to the GRCF.

Contact: Alexander Westphal and Zhan Chen
alexander.westphal@icmagroup.org
zhan.chen@icmagroup.org

ICMA's European Repo and Collateral Council

ERCC Committee meetings: On 20 June 2023, the ICMA European Repo and Collateral Council (ERCC) Committee came together for the third meeting of the year, which was held in Lisbon, ahead of the start of ISLA's 30th Annual Securities Finance & Collateral Management Conference. Previously, Committee members met on 16 May in Brussels, kindly hosted by Euroclear in the margins of the Collateral Conference 2023. The ERCC was also represented at ICMA's recent AGM and Conference in Paris which featured a lively panel discussion with the title *Oiling the Wheels – Are Global Repo and Collateral Markets Still up to the Task?* moderated by Nicola Danese, Tradeweb. A recording of the panel is available on the ICMA website.

Upcoming ERCC events in the autumn: ICMA is looking forward to inviting members to two of the ERCC's annual flagship events which will be held this autumn in London. The ERCC Annual General Meeting will be hosted by Brokertec this year and is tentatively scheduled for 17 October. Registrations will open in due course and further details on the agenda will be announced in the coming weeks. As always, this will be a good opportunity for members to catch



up on the latest repo market developments, as well as the related ERCC initiatives. In addition, the ERCC's Professional Repo and Collateral Management workshop, ICMA's annual educational event, will return as an in-person event this year. The workshop will be hosted by UBS over three days in October. Exact dates and registration details will be announced in due course in the events section of the ICMA website and by e-mail.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org

T+1 discussions in Europe

On 15 February 2023, the SEC published a final rule on the shortening of the settlement cycle in the US to T+1. The new settlement cycle is due to apply as of 28 May 2024, leaving only 15 months for the industry to prepare for a challenging transition. While US firms are working frantically towards the May deadline, the move has also triggered a discussion in Europe on the direct implications for the UK and the EU markets, as well as the need for Europe to follow suit and work towards a T+1 settlement cycle. ICMA is actively involved in these discussions.

In the UK, the Government decided in early 2023 to set up the Taskforce on Accelerated Settlement in order to assess the need and the feasibility to move the UK market to a T+1 settlement cycle. ICMA is represented on the Taskforce which aims to present its findings by the end of 2023.

On the EU side, the discussion is also gaining traction, although it is clear that a potential shortening of the settlement cycle is a significantly more challenging undertaking, given the added complexity and fragmentation of the current market infrastructure. On top of this, the scope of a move to T+1 in the EU would be broader given that all securities, including government bonds, are currently settling on a T+2 basis, while the treasury market in the US and the gilts market in the UK are already settling on a T+1 basis. There is therefore little appetite, including among regulators, to rush a move to T+1, considering also the continued focus on settlement efficiency in the current T+2 environment. That said, CSDR Refit is still likely to mandate ESMA to produce a report by the end of 2024 assessing the costs and benefits of a shorter settlement cycle. In order to anticipate this work, the industry has come together and formed a cross-industry taskforce which aims to develop a common industry position on the topic and related recommendations. The aim is to produce the report by the end of this year, in order to inform the upcoming ESMA analysis on the topic.

Within ICMA, the ERCC Operations Group is taking a lead role in discussing and coordinating ICMA's input into the various groups. However, in order to ensure that our contributions are representative of ICMA's diverse membership we are keen to take into account views from all the relevant constituencies within ICMA. On 5 July, ICMA therefore held a virtual workshop on the topic of T+1, jointly organised by the SMPC and the ERCC, with representation from over 50 ICMA member firms, covering the whole range of market participants from sell-side to buy-side and market infrastructures. The feedback from the workshop will guide ICMA's further work on the topic of T+1 and will inform our contributions to the various workstreams. Members who would like to be involved in the ongoing discussions on T+1, please reach out to the ERCC.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org

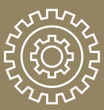
SFT data and reporting

Third edition of ESMA's data quality report: On 19 April, ESMA published the *third edition of its Data Quality Report* covering EMIR, SFTR and for the first time also MiFIR transaction reporting. The report highlights the increased use of transaction data by EU financial regulatory authorities in their day-to-day supervision and identifies significant quality improvements following a new approach to data monitoring under key reporting regimes. Specifically, it consists of two new elements: (i) a centralised data quality dashboard with EU-wide indicators covering the most fundamental data quality aspects under EMIR; and (ii) a data sharing framework that enables relevant authorities to follow up with counterparties when potentially significant data quality issues are detected.

Updated ESMA SFTR Q&A: ESMA has released two recent updates to its SFTR Q&As. The March update introduced a new question regarding the reporting of the "jurisdiction of the issuers". In the June update, ESMA addressed reporting responsibilities for SFTs concluded by pension funds. ICMA is following the process closely and continues to reflect any new guidance in the *ICMA Recommendations for Reporting under SFTR*.

Implementation of the updated EU SFTR validation rules and schema changes: Members, including the trade repositories, continue to work on the implementation of the updated EU validation rules and schema changes in order to meet the go-live date of 11 September 2023. The FCA has not yet published any equivalent updates. ICMA understands that the FCA is currently not planning to mirror the ESMA changes in the near future and would do so only after a consultation process.

Contact: Zhan Chen
zhan.chen@icmagroup.org



EBA Q&A on LCR treatment of open reverse repos

On 30 September 2022, the EBA published a Q&A [Question ID 2021-6163] in response to a question about the LCR treatment of open maturity reverse repos. The EBA concluded that: "reverse repos with open maturity not formally called for within the 30-day horizon and contingent on the option for the reporting institution of the reverse-repo to trigger the liquidity inflow, shall not be considered as inflows in the LCR."

This conflicts with the general treatment of open SFTs as rolling short-term SFTs, based on the relevant notification period of the transaction (which in most cases is 24 or 48 hours, and which is the contractual right of both parties), and which is also consistent with previous EBA guidance.

The ERCC, anticipating such a possible interpretation of the Regulation, wrote to the EBA and ECB in January 2022. The industry concern is that the likely outcome of this guidance would be for the market to switch to rolling short-term SFTs, in place of open trades, resulting in significant additional costs and operational inefficiencies for market users, with a likely increase in settlement fails, while having no impact on the overall LCR calculation.

In December 2022, ICMA discussed the industry concerns with the EBA. The EBA explained the rationale for its guidance, which is based on: (i) the assumption that where a loan is subject to a call, under stressed conditions there is a risk that the lender may elect not to execute the option to recall the loan (eg for reputational reasons); and (ii) the fact the Regulation does not provide for any exceptions in the treatment of contingent inflows/outflows. The EBA further suggested that where the reverse repo is against HQLA, the lending (reversing) party has the ability to include the HQLA in their LCR calculation, which could be seen as an advantage.

In February 2023, ICMA held a further call with the EBA, this time with ERCC members who were able to outline the industry concerns, particularly with respect to the operational implications and related risks that this will cause, particularly in the context of non-HQLA. Given that open-SFTs are widely used in financing dealers' trading positions in credit and EM, this is turn could have consequences for liquidity provision in these bond markets.

ICMA is currently in the process of assessing a potential data gathering exercise with members intended to highlight the potential scale and impacts of the EBA's interpretation, particularly if this prompts a switch from using open reverses to short-term reverses, or simply moving this business outside of the EU to other jurisdictions.

Contact: Andy Hill And Alexander Westphal
andy.hill@icmagroup.org
alexander.westphal@icmagroup.org

CRR3 and the treatment of RWA weightings for SFTs

On 27 June 2023, the EU co-legislators agreed a deal on the European Commission's Banking Package, intended to strengthen the resilience of banks operating in the EU, and finalising the implementation of the Basel III regulatory forms, in the form of the third EU Capital Requirements Regulation (CRR3) and the sixth Capital Requirements Directive (CRD6).

Two of the key elements of the new regulatory framework for bank capital are the introduction of the "output floor", intended to align more closely banks' application of internal models (IM) and the Standardised Approach (SA), and more proportionate application of the rules for smaller, less complex institutions.

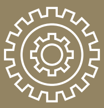
Over the past months, the ERCC has been particularly focused on a critical feature of CRR3 related to the capital risk weighting of SFTs. One of the key provisions of the Final Basel III framework is a more granular but less sensitive recalibration of the credit risk (CR) weighting calculations under the Standardised Approach. This is particularly punitive in the case of SFTs since it does not recognise the relatively short-term nature of SFTs in the case of exposures to non-banks. Accordingly, this results in the Risk Weighted Asset (RWA) computations for SFTs with many key market participants under the SA being multiples of those calculated under banks' internal models. This contrasts with the treatment of short-term SFT exposures to banks for which Final Basel III recognises their lower risk. Furthermore, this detrimental treatment will also impact banks relying on their own IMs. There is no explanation as to why short-term exposures with non-banks are treated less favourably.

Ahead of the Council and European Parliament discussions on the CRR3 proposal, the ERCC shared and discussed a position paper widely with Member States and MEPs. The ERCC recommends the introduction of a maturity adjustment under the SA-CR for short-term SFTs. This would be consistent with other aspects of CRR2 and CRR3 that take into account maturity sensitivities in the SA.

As outlined in previous Quarterly Reports, the Council unfortunately proposed that the new calibration remain, but that the EBA, in close collaboration with ESMA, report to the Commission by the end of 2025 an assessment of whether a recalibration of the associated risk weights in the SA is appropriate, given the associated risks with respect to short term maturities, specifically for residual maturities below one year. On the basis of this report, the Commission could propose legislative changes by the end of 2027.

ICMA understands that this proposal was agreed in the final trilogue process, and that the 100% RWA for SFT exposures with un-rated non-bank entities will be entered into EU law.

Contact: Andy Hill
andy.hill@icmagroup.org



GMRA legal opinions

ICMA obtains and annually updates legal opinions on the GMRA in over 65 jurisdictions worldwide. On 13 April 2023, ICMA published updates to legal opinions in 66 jurisdictions. The 2023 GMRA opinion updates cover both the enforceability of the netting provisions of the GMRA, as well as the validity of the GMRA as a whole (subject to certain limitations). Furthermore, the 2023 GMRA opinion updates address the issue of recharacterisation risk (in respect of both the transfer of securities and the transfer of margin). While all 2023 GMRA opinion updates cover, as a minimum, companies, banks and securities dealers, many opinions also cover insurance companies, hedge funds and mutual funds as parties to the GMRA. Where relevant, each opinion also covers the central or national bank of the relevant jurisdiction as a party to the GMRA. The ICMA GMRA legal opinions are available exclusively to ICMA members on the ICMA website.

Contact: Deena Seoudy
deena.seoudy@icmagroup.org

Sustainable Finance

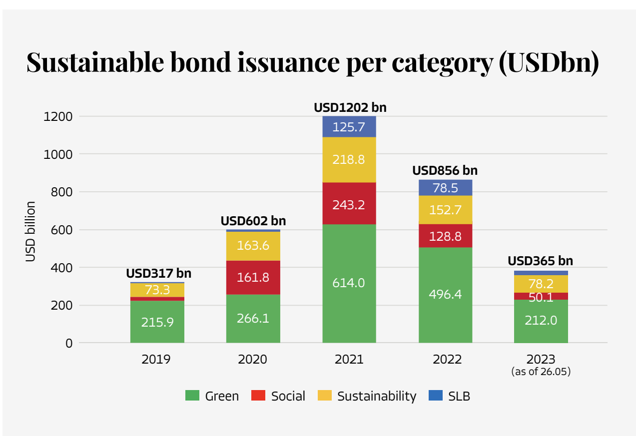
by **Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck, Ozgur Altun, Yanqing Jia** and **Stanislav Egorov**

Introduction

After reporting on sustainable bond market developments in the second quarter of 2023, we comment on the European Commission's recent sustainable finance package and especially its recommendations on transition finance. We then review several important international regulatory and market developments relating to ESG Ratings. Finally, we summarise other significant regulatory initiatives both in Europe and in Asia. (See also, earlier in this Quarterly Report on pages 10-11, the 2023 Guidance released at the AGM of the Principles marked by announcements relating to transition finance and the Sustainability-Linked Bond Principles.)

Sustainable bond market update

As of 26 May, the 2023 sustainable bond issuance volume reached USD365 billion, which is in line with the issuance over the same period in 2022.



Source: ICMA with data provided by the Luxembourg Stock Exchange via the LGX DataHub 26/05/2023

Europe remains the leading region in sustainable bond sales; issuance exceeded USD187 billion (vs. USD184 billion over the same period in 2022) and accounted for over 50% of total amount issued in 2023. Q2 highlights include Cyprus raising EUR1 billion from the sale of its inaugural sustainability bond and Turkey issuing its debut USD2.5 billion 7-year green bond. In addition, Italy issued a EUR10 billion 8-year green bond, which is the largest sustainable bond issued in 2023 so far.

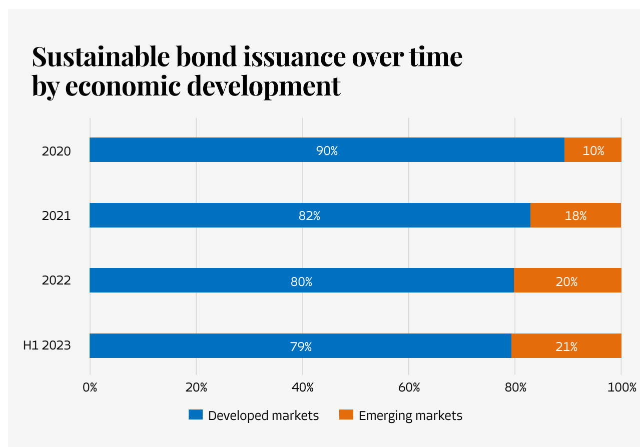
Several corporate issuers entered the green bond market for the first time: Siemens Energy raised EUR1.5 billion through a dual tranche transaction (EUR750 million 3-year and EUR750 million 6-year), while Ethias, a Belgian insurance company, issued a EUR250 million 10-year bond. In addition, Unedic, third largest social bond issuer worldwide, issued a EUR1 billion 10-year social bond. Sustainability-linked bond issuance continues to expand, new issuers entering the market included Nexans, which specialises in power cabling technologies, issuing a EUR400 million 5-year bond and a mining company Eramet completing a EUR500 million 5-year bond issuance.

Supranational issuance reached USD54 billion, a 13% increase in comparison to the same period in 2022. Notable deals include AIIB's AUD500 million (~USD340 million) 5-year first climate adaptation bond and New Development Bank's USD1.25 billion 3-year green bond. IBRD remains the largest issuer of sustainable bonds and continued to grow its portfolio by issuing USD5 billion 5-year and EUR2 billion 15-year sustainable development bonds.

Sustainable bond issuance in Asia topped USD70 billion vs. USD77 billion over the same period in 2022. Deals to highlight include Indonesia's JPY20.7 billion (~USD148 million) debut "blue" bond transactions and Hong Kong's multi-currency deal worth close to USD6 billion denominated in USD, EUR and RMB. Japan International Cooperation Agency, with previous activity in sustainable finance focused on social bonds, raised USD1.25 billion from the issuance of its inaugural sustainability bond.

In the Americas, total sustainable bond issuance reached USD32 billion, with USA and Canada accounting for over 70% of total issuance. LyondellBasell and Mars completed their inaugural green bond deals, issuing USD500 million 10-year and USD500 million 8-year bonds respectively.

It is noteworthy that while the majority of issuance still originates from developed economies, emerging markets have experienced significant growth, doubling their share from 10% to 21% since 2020.



Source: ICMA with data provided by the Luxembourg Stock Exchange via the LGX DataHub 26/05/2023

ICMA launch of a new sustainable bond database powered by the LGX DataHub

On 17 May 2023, ICMA launched a new publicly available database for sustainable bonds in partnership with the Luxembourg Stock Exchange (LuxSE). The objective is to support market practitioners by providing valuable market insights, enhance their understanding of the sustainable bond market, track market trends, identify sustainable opportunities, and integrate ESG factors into decision-making processes.

Established by ICMA and built and fed by the Luxembourg Green Exchange (LGX), LuxSE's leading platform for sustainable finance, the database provides ICMA members and the wider financial community with important insights into the sustainable bond market. A comprehensive database includes bonds from over 2,100 issuers and more than 9,000 listed green, social, sustainability and sustainability-linked bonds aligned with the Principles and is openly available to all users on ICMA's website.

ICMA's new sustainable bond database also provides market analytics including details on the evolution of sustainable bond issuance since 2019, with breakdowns per region, issuer sector, currency, and time to maturity for each bond category, as well as an overview of GSSS bonds' intended contribution to UN SDGs, as reflected in the pre-issuance bond documentation.

The Commission's sustainable finance package and its recommendations on transition finance

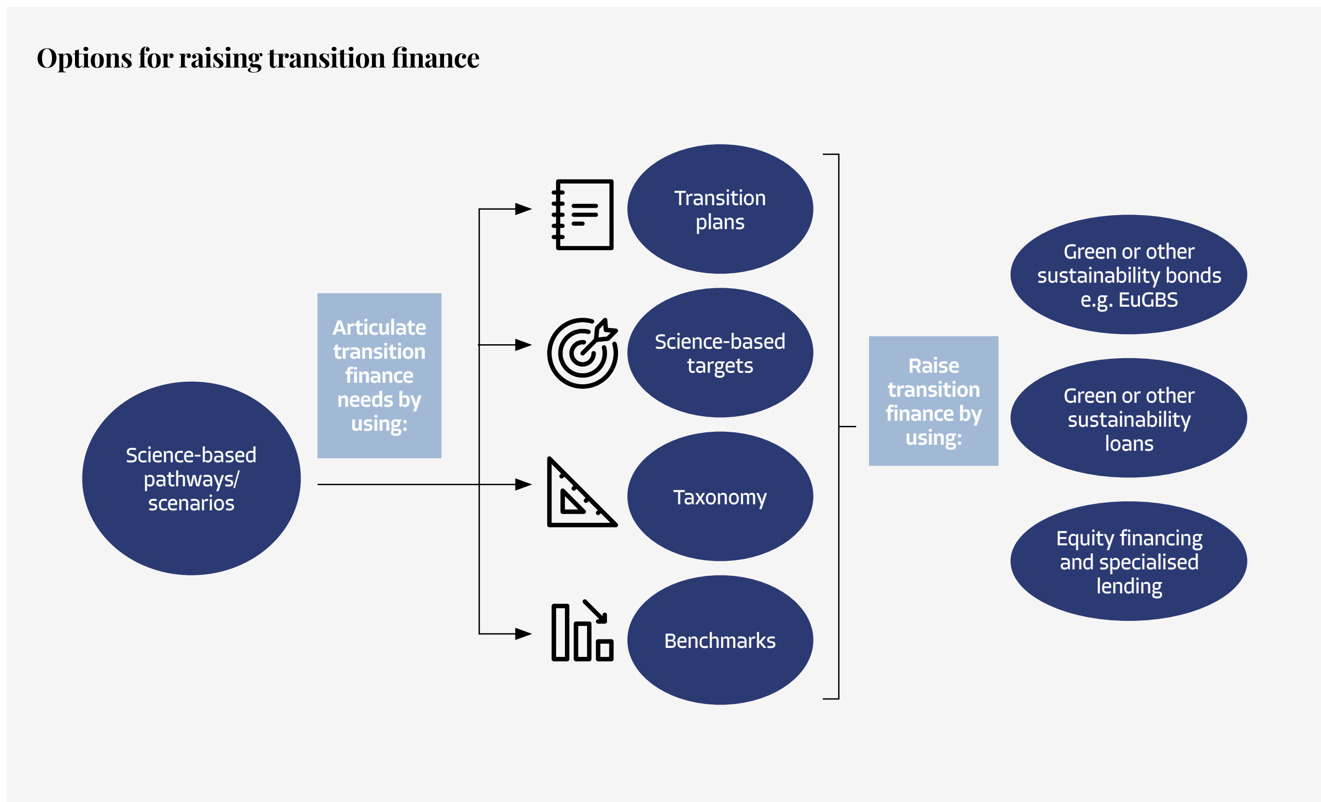
On 13 June 2023, the European Commission announced a package of sustainable finance measures. The main elements of the package are the completion of the Taxonomy through Delegated Acts for the remaining four environmental goals (sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems), a staff working document focused on the usability of the EU Taxonomy, a proposed Regulation on the transparency and integrity of ESG rating activities (see below) and a recommendation on how to use sustainable finance for the transition.

We believe the latter publication represents a significant development in the Commission's thinking on both sustainable and transition finance. It indeed emphasizes voluntary guidance rather than regulation. It is open and inclusive of other important international official sector guidance and recommendations rather than being focused on the EU only. Finally, it recognises the role of the sustainable bond market in financing the transition.

The recommendation aims to show how companies can use the various tools of the EU sustainable finance framework on a voluntary basis to channel the investments into the transition and manage their risks stemming from climate change and environmental degradation. The stated objective is to facilitate transition finance, not only for companies that have strong sustainability records already, but also for those that are at different starting points, with credible plans or targets to improve their sustainability performance. It also acknowledges the need for proportionality and that small and medium-sized enterprises face specific challenges.

The recommendation builds on elements from leading international initiatives for transition finance such as the OECD Guidance on Transition Finance, the G20 Framework for Transition Finance, the Report on Transition Finance of the International Platform on Sustainable Finance and the Report of the United Nations High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities. Recognising that transition finance is not just about companies that are already sustainable, the Commission paper provides guidance on how to become more sustainable for companies at different starting points.

We note the EU's guidance on how to finance the transition is consistent with ICMA's CTFH which promotes issuer level strategy and disclosures, as well as transition as a theme that can be financed via green or sustainability bonds as well as sustainability-linked bonds.



Source: Annex of EU Commission recommendation on facilitating finance for the transition

Launch of the ISSB standards

On 26 June 2023, the ISSB issued its inaugural standards IFRS S1 and IFRS S2 providing a global baseline for corporate sustainability reporting. IFRS S1 provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. IFRS S2 sets out specific climate-related disclosures and is designed to be used with IFRS S1. Both fully incorporate the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The ISSB will now work with jurisdictions and companies to support the adoption of its standards. As a first step, it will create a Transition Implementation Group to support companies that apply the Standards and launch capacity-building initiatives to support effective implementation.

The Sustainable Finance Disclosure Regulation Level 2 consultation

On 12 April 2023, the European Supervisory Agencies (ESAs) launched a joint consultation proposing amendments to the existing Sustainable Finance Disclosure Regulation (SFDR) Delegated Regulation which follows on from a 2022 mandate from the European Commission (EC). ICMA established a joint Taskforce involving its Asset Management and Investors Council (AMIC) and the Executive Committee of the Principles to respond to the consultation by the deadline of 4 July.

Separately, and as a reminder, the EC had announced in December 2022 a comprehensive assessment of the SFDR, and more recently confirmed that there will be a public consultation in autumn 2023. Given both the EC and European Supervisory Authorities (ESAs) now see some fundamental aspects of the SFDR as sources of implementation challenges and potential greenwashing drivers (eg the current classification in Art. 8/9 disclosures being used as a *de facto* labelling scheme), the EC's upcoming assessment of the SFDR framework could also potentially lead to Level 1 amendments.

In this context, ICMA's response queries the timing and sequencing of the proposed changes at Level 2. A deep revision of the SFDR framework including its key concepts and approaches could indeed turn these changes into yet another interim implementation effort with significant costs and efforts ultimately borne by asset owners. Furthermore, ESMA's *Progress Report on Greenwashing* itself acknowledges that a fast moving regulatory framework has created implementation challenges both for market participants and for National Competent Authorities. ICMA's response also highlights that the perception of a "constantly changing SFDR" is ultimately damaging its credibility while the regulatory uncertainty and instability are arguably increasing greenwashing risks.

On substance, the ESAs are consulting on numerous questions including ones of a highly technical nature. There are changes proposed for the Principal Adverse Impact (PAI) framework including additional mandatory and optional social PAI indicators, consideration of investees' value chain impact in PAI disclosures, and a proposed approach on the treatment of derivatives. Regarding the SFDR "Do No Significant Harm" (DNSH) framework, the ESAs present a number of options that include maintaining the *status quo*, disclosure of quantitative thresholds, and the use of the Taxonomy as the basis of DNSH assessment in the longer term. The ESAs also propose a new approach on and parameters for Taxonomy estimates known as the concept of "equivalent information". The proposals also include new disclosures for products with Green House Gases (GHG) reduction targets as well as changes to existing templates with an intention to simplify those.

Beyond ICMA's general comment on the timing and sequencing, we highlight in our response the need for consistency between different EU regulations. Especially, full alignment should be achieved between the data points under Corporate Sustainability Reporting Directive (CSRD)/European Sustainability Reporting Standards (ESRS) and the SFDR requirements both in content and implementation timeline. This also includes consistency between the CSRD and the SFDR when it comes to the scope of materiality assessment of disclosures.

Regarding the DNSH framework, ICMA supports maintaining the status quo for the time being due to the upcoming broader SFDR review and considers that imposing quantitative thresholds would not be adequate for a number of reasons including current data gaps. ICMA otherwise highlights the shortcomings of the EU Taxonomy framework including the usability issues and argue for flexible but common and clear market guidance for Taxonomy estimates.

Many financial market participants otherwise support the standardisation of the products with GHG targets as an overall direction of travel. In the short run, however, sufficient flexibility and transparency are needed to allow methodologies and metrics to mature while ensuring credibility and integrity via transparency. There is support regarding the newly proposed dashboard and the removal of the asset allocation, subject to ICMA's broader general comments on the timing and sequencing of the changes.

ICMA's full response to the consultation can be found here.

Regulatory and market developments relating to ESG ratings

Since In line with IOSCO's report in November 2021, regulators have expressed concerns about the transparency, quality and reliability of ESG ratings and data products, calling for closer regulatory scrutiny of their providers. This has led to regulatory initiatives in several major jurisdictions.

Several global jurisdictions have already published or announced Codes of Conduct (eg Japan JFSA in December 2022 and Singapore MAS in Q2 2023) or regulation (eg EU proposed regulation and UK consultation on ESG ratings). We cover below the most significant recent developments.

FCA sponsorship of a Code of Conduct for ESG Ratings and Data Product Providers

The *Code of Conduct for ESG Ratings and Data Product Providers* was published for consultation on 5 July 2023. Following their appointment by the FCA, ICMA and the International Regulatory Strategy Group (IRSG) jointly provide the Secretariat for the Data and Ratings Working Group (DRWG) developing this Code of Conduct.

The DRWG is chaired by M&G and Moody's with LSEG and Slaughter & May as vice chairs. It brings together stakeholders such as ratings and data providers, asset managers, asset owners, banks, corporate rated entities, NGOs, academics and other organisations. Its monthly plenary meetings since December 2022 have also been virtually attended by various international observers. More information on the composition of the group and the meetings can be found on the ICMA website.

The six Principles of the Code of Conduct are based on IOSCO's recommendations for ESG ratings and data product providers. As it has been created by an industry-led group with members from the UK, EU and US, some of them representing global companies, it is meant to be able to be used by providers internationally.

HM Treasury consultation on ESG ratings

On 21 June 2023, ICMA submitted a response to the HM Treasury consultation on a potential regulatory regime for Environmental, Social, and Governance (ESG) ratings providers. The feedback was given on behalf of ICMA's buy-side members from the Asset Management & Investors Council (AMIC).

Asset managers agreed that regulation should be introduced for ESG ratings providers but also argued that equally regulation should be extended to/introduced for ESG data providers. This would also be in line with IOSCO's recommendations from its final report on *ESG Ratings and Data Products Providers* as well as the FCA's conclusion. The response emphasised that it is important that ESG ratings and data providers are covered by proportionate and balanced regulatory obligations, as any other contributor to the (sustainable) investment value chain, accountable for their duties (from the reporting entities to asset managers).

As HM Treasury left the definition of ESG ratings quite broad, the response asked for further clarification on what constitutes an "assessment". Data that does not involve an assessment such as raw data should nevertheless be part of the transparency aspect of any regulation (eg how and when has it been sourced).

The response encouraged HM Treasury to continue the dialogue with other jurisdictions (especially the EU) as, given the global nature of ESG ratings providers and uses, alignment on disclosures would further enhance the benefits of increased transparency.

The EU's proposed Regulation on the transparency and integrity of ESG rating activities

The Commission's proposal aims to enhance the quality of information about ESG ratings, by (i) improving transparency of ESG ratings characteristics and methodologies, and by (ii) ensuring increased clarity on operations of ESG rating providers and (iii) the prevention of risks of conflict of interest at ESG rating providers' level. The European Securities and Markets Authority (ESMA) would provide supervision with a special focus on the latter concern.

The general objective of the initiative is to improve the quality of ESG ratings to enable investors to make better informed investment decisions relating to sustainability objectives. It also aims to help rated entities to take informed decisions about managing ESG risks and the impact of their operations and to foster trust and confidence in the operations of ESG rating providers by ensuring that the market operates properly and ESG rating providers prevent and manage conflicts of interest.

It is important to underline that the proposal does not intend to harmonise the methodologies for the calculation of ESG ratings, but to increase their transparency. ESG rating providers will remain in full control of the methodologies they use and will continue to be independent in their choice, to ensure that a variety of approaches are available in the ESG ratings market (ie ESG ratings may differ amongst themselves and cover different areas).

Regarding the proposal for a regulation of ESG ratings providers, the Commission will now engage in discussions with the European Parliament and Council.

MAS consultation on ESG rating and data providers

On 28 June 2023, the Monetary Authority of Singapore (MAS) launched a consultation on an industry code of conduct for ESG rating and data providers. Based on the IOSCO's

recommendations and "Call for Action" paper, Singapore's code will cover best practices on governance, management of conflicts of interest, and transparency of methodologies and data sources, including disclosure on how forward-looking elements are taken into account in the products. MAS intends to make the code voluntary in the first phase and may develop it into the local regulatory regime when there is greater regulatory convergence globally. In the consultation, MAS notably seeks views on whether external reviews such as Second Party Opinions should be scoped in as ESG data products under the code.

S Other regulatory developments

Update on the European Sustainability Reporting Standards (ESRS)

On 9 June 2023, the EC presented a new version of the first set of the ESRS that will supplement the Corporate Sustainability Reporting Directive as delegated act (open for feedback until the 7th of July). The EC proposes to introduce some important changes to the earlier draft of EFRAG with an explicit aim of ensuring further proportionality and reducing reporting requirements. These include:

- making all disclosures and data points (including on GHG emissions) subject to entities' own materiality assessment (with the exception for "General Disclosures") as well as making it voluntary to disclose why an entity has considered a given sustainability topic as not material;
- accommodating additional phase-ins (e.g., first year exemptions from Scope 3 emission disclosure (for entities with less than 750) and anticipated financial effects related to non-climate environmental issues (all entities)), and
- making certain disclosures (e.g., biodiversity transition plans) voluntary as well as introducing certain flexibilities in a few disclosures.

The EC states that some changes have been proposed to achieve interoperability following close engagement with ISSB and GRI. Also, it will set up an interpretation mechanism to provide formal interpretation of the standards.

ESAs' Progress Report on Greenwashing

On 1 June 2023, the ESAs released their Progress Report on Greenwashing. As background, the ESAs launched a Call for Evidence to gather stakeholder input and evidence on the "greenwashing" phenomenon, occurrences, and risks in November 2022, following up on an EC mandate earlier (see here ICMA's response). The final report will be published in May 2024.

In the Progress Report, the ESAs share their common high-level definition of greenwashing which remains very broad in nature. The Report also assesses the risk areas for and potential drivers of greenwashing, as well as the potential remediation actions. Enhancing the current regulatory framework as well as complementing it (for transition finance, "impact" definitions and considerations, substantiation of engagement efforts, etc) are especially underlined among such potential remediations going forward. Others are: (i) upgrading firms' governance, processes, skills and IT systems; (ii) establishing reliable, comprehensive sustainability data, and (iii) supporting comprehensibility for retail investors.

Taxonomy developments in Asia

The ASEAN Taxonomy Board released the *ASEAN Taxonomy for Sustainable Finance Version 2* on 27 March 2023. The major updates include:

- The version 2 provides further guidance on the two approaches proposed in the version 1. For the principles-base Foundation Framework, guiding questions, decision trees and use cases have been provided. For the Plus Standard with quantitative metrics and thresholds, this version proposes the technical screening criteria for the energy sector for both green and amber categories.
- The version 2 introduces "Social Aspects", alongside the essential criteria of "Do No Significant Harm" and "Remedial Measures to Transition". For an activity to be classified as green or amber under the ASEAN Taxonomy, it proposes that an assessment at the company level should be conducted on at least three social aspects: promotion and protection of human rights, prevention of forced labour and protection of children's rights, and impact on people living close to investments.

HKMA published its Prototype Taxonomy and Annex on 30 May 2023 for public consultation till 30 June. As the first phase, the paper works out the internal structure, core elements and key mechanisms of a taxonomy for Hong Kong. It is a framework to classify "green" activities and is based on the Common Ground Taxonomy (CGT), which is a comparison made by the IPSF on the EU Taxonomy and China's Green Bond Endorsed Project Catalogue.

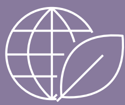
At this stage, the central environmental objective of the taxonomy is climate change mitigation. The taxonomy takes into account the taxonomy developments in mainland China, EU and ASEAN, as well as the Climate Bonds Taxonomy. The criteria proposed are divided into Main and Additional. Main criteria are the criteria taken from the CGT to the extent practicable, referencing the Climate Bonds Taxonomy in some cases, and adjusted to Hong Kong's local context (for example on green building standards). Additional criteria are primarily those considered more stringent and/or detailed for specific markets by the CGT. These criteria are only relevant when the project is executed in the jurisdiction mentioned in the criterion.

The prototype focuses on 12 specific activities in the energy, transport, buildings, waste and water sectors. It will be

expanded to cover more activities (including transition activities) and other environmental objectives, and will propose DNSH and MSS criteria in the future phases.

Separately, after three rounds of consultations about Singapore's taxonomy developed by the Green Finance Industry Taskforce, MAS launched a new public consultation on 28 June 2023 on criteria for coal phase-out in its taxonomy. It proposes technical screening criteria at both facility and entity level for managed, early phase-out of coal-fired power plants. Early coal phase-out will not be classified using the traffic light system of the Singapore-Asia Taxonomy but will be considered separately under the taxonomy. It proposes that investments towards early coal phase-out will be eligible as transition finance.

Contacts: Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck, Ozgur Altun, Yanqing Jia and Stanislav Egorov
nicholas.pfaff@icmagroup.org
valerie.guillaumin@icmagroup.org
simone.utermarck@icmagroup.org
ozgur.altun@icmagroup.org
yanqing.jia@icmagroup.org
stanislav.egorov@icmagroup.org



The 9th Annual Conference of the Principles in Singapore

The 9th Annual Conference of the Principles was held in Singapore on 28 June 2023. It combined keynote speeches and panel discussions with leading market figures and experts in sustainable finance. In his welcome address to open the 9th Annual Conference of the Principles in Singapore, Bryan Pascoe, Chief Executive of ICMA, remarked on the key issues in Sustainable Finance that are being discussed internationally and how the Green, Social, Sustainability and Sustainability-Linked Bond Principles remain the *de facto* global issuance standard for the $3.2 trillion sustainable bond market that represents the largest source of market finance dedicated to sustainability and climate transition available internationally.

Indranee Rajah, Minister, Prime Ministers' Office of Singapore, Second Minister for Finance and Second Minister for National Development, highlighted that the scale of sustainable debt market in Singapore grew by about 10 times over the past 5 years from about USD2 billion in 2018 to more than USD20 billion in 2022. The Singapore Government has committed to issue up to SGD35 billion worth of green bonds by 2030 under a framework based on the Principles managed by ICMA. She also announced that MAS launched the public consultation on the criteria for managed early coal phase-out in the Singapore-Asia Taxonomy.

Moderated by Nicholas Pfaff, Deputy Chief Executive, Head of Sustainable Finance, ICMA, the panel *2023 Innovations and Guidance from the Principles* included Angela Brusas, Member of the Executive Committee of the Principles, Director, Funding and Investor Relations, Nordic Investment Bank (NIB); Agnes Gourc, Vice Chair of the Executive Committee of the Principles, Head Sustainable Capital Markets, BNP Paribas; and Isabelle Laurent, Chair of the Executive Committee of the Principles, Deputy Treasurer, European Bank for Reconstruction and Development (EBRD). The panel gave an overview of the newly published updates to the guidance issued by the Principles featuring updated guidance for transition finance and climate-themed bonds, and the integration of sovereign issuer considerations in the recommendations and tools for sustainability-linked bonds.

In his keynote address, Boon-Chye Loh, Chief Executive Officer, Singapore Exchange (SGX Group) pointed out that, in the past year, green, social, sustainability and sustainability-linked (GSSS) bonds have grown to almost 20% of all bonds outstanding at SGX. He also emphasised that in 2022, SGX introduced a phased approach to mandatory climate reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) and is looking into incorporating International Sustainability Standards Board (ISSB) standards into SGX's listing rules.

The panel discussion was moderated by Mushtaq Kapasi, Managing Director and Head of ICMA Asia Pacific with panellists: Gladys Chua, Chief Executive Officer, RAM Group Sustainability; Puja Shah, Executive Director, DCM and Head ESG DCM, AXJ, J.P. Morgan; Rahul Sheth, Global Head of Sustainable Bonds, Standard Chartered Bank; and Xuan Sheng Ou Yong, Green Bonds & ESG Analyst APAC, BNP Paribas Asset Management. They agreed that, as of 2023, Asian corporate issuers are on board with ESG strategies. The panel covered a wide range of topics, including: new ICMA guidance on transition, transparency and disclosure and the "greenium" (cheaper borrowing for green bonds compared to conventional bonds), which still exists in Asia.

In his keynote address, Shinichi Kihara presented Japan's Green Transformation which aims at both emissions reduction and economic growth. Japan plans to contribute to global emissions reduction by not only reducing its own emissions but also contributing to a reduction in its global share. He stated that ICMA's Climate Transition Finance Handbook 2020 was a milestone and the update of 2023 is another milestone for global transition related initiatives.

The panel moderated by Reiko Hayashi, Director and Deputy president, Bank of America Securities Japan, and including Mariano Benito Zamarriego, Director of Financing, Repsol; Bridget Boulle, Director of Technical Development, Climate Bond Initiative; Alban de Faÿ, Head of Fixed Income SRI Processes, Amundi Asset Management; Sean Henderson, Managing Director & Co Head of Debt Capital Markets Asia Pacific, HSBC; and Shinichi Kihara, Deputy Director General for Environmental Affairs, Ministry of Economy, Trade and Industry, Japan (METI), brought together an international issuer, investor, underwriter, a standard setter and an Asian regulator. Panellists noted that, as not all investors have the same capabilities to assess sustainable bonds, standardisation is crucial. They underlined that Net Zero by 2050 is a powerful way to push the market towards transition but if everyone is committed to 2050, it still leaves the question of what 2040 and 2030 will look like.

The panel, moderated by Colleen Keenan, Senior Financial Officer, Capital Markets and Investments, The World Bank Treasury, included Modupe Famakinwa, Head of Funding, Treasury, African Finance Corporation; Domenico Nardelli, Treasurer, AIIB; and Arturo Seco Presencio, Deputy Chief Financial Officer, Council of Europe Development Bank. The panel provided unique regional perspectives from issuers of sustainable bonds in the supranational space, raising funds to finance investments in Europe, Asia, and Africa.

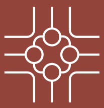
In his keynote speech, Jingdong Hua, Vice Chair, International Sustainability Standards Board (ISSB) highlighted the importance of speaking a common language across capital markets which benefits all, including investors. Among other things, Mr. Hua emphasised that the standards recognise the different starting points of regions and corporates and incorporate proportionality including “a climate first, but not only” approach. Jurisdictions can go beyond the global baseline where they see it necessary.

Eugene Wong, CEO, Sustainable Finance Institute, Asia invited distinguished panellists to discuss 3 topical themes, regulatory vs market discipline, transition, and social considerations and reporting: Eila Kreivi, Director, Chief Sustainable Finance Advisor, European Investment Bank; Kelvin Lester Lee, Commissioner, Securities and Exchange Commission Philippines; Jarek Olszowka, Head of International Sustainable Finance, Nomura; Professor Yao Wang, Deputy Secretary General, China Green Finance Committee; and Azreen Idayu Zainal, General Manager, Securities Commission Malaysia. The panel debated their understanding and expectations of regulation in the field of sustainable finance, whether in Europe or in APAC. Panellists agreed that interoperability, common language, collaboration and market stakeholders’ consultation are key factors in avoiding market fragmentation.

Liew Tzu Mi, Chief Investment Officer, Fixed Income and Multi Asset, and Chair, Sustainability Committee, GIC discussed GIC’s approach towards sustainability in her keynote address. Believing in better risk-adjusted return in the long term from companies with strong sustainability practices, GIC takes a holistic and long-term approach to sustainability. Ms. Liew pointed out that the pathway to Net Zero is unlikely to be smooth and may need trade-off and holistic approaches. Data challenges – around data availability, timeliness, relevance, and consistency – remain.

In the final panel of the day Orith Azoulay, Global Head of Green & Sustainable Finance, Natixis CIB was joined by Julie Becker, CEO, Luxembourg Stock Exchange [virtual]; Bram Bos, Managing Director, Goldman Sachs Asset Management; Nicole Della Vedova, Head of Corporate Finance, ENEL Group [virtual]; Christa Clapp, Managing Director, Sustainable Finance, Shades of Green, formerly part of CICERO, now a part of S&P Global; Cedric Rimaud, Senior Credit Analyst, Asia Pacific, Anthropocene Fixed Income Institute; and Rahul Ghosh, Managing Director, Sustainable Finance, Moody’s Investors Service. They discussed market integrity and greenwashing risks. Clear definitions for “greenwashing” would help avoiding reputation risks and broader deterrence against sustainable finance. As sustainability is contextual and starting points differ, level of ambitions may be perceived and interpreted differently. Overall, standardisation, transparency, and proportionate and targeted regulation can support integrity while orienting capital flows towards climate transition and wider sustainability objectives.

Mary Schapiro, Vice Chair, Glasgow Financial Alliance for Net Zero, provided the closing remarks for the 9th Annual Conference of the Principles. She powerfully stated that “climate change is a risk we cannot diversify away from”. In her comments to delegates Ms Schapiro spoke of the vision for GFANZ “to bring together the entire value chain of the net-zero committed financial sector banks, asset owners, asset managers, insurers, financial services providers and others, to address shared challenges, most notably developing the common tools and frameworks needed to deliver on net zero commitments.”



FinTech and Digitalisation

by **Georgina Jarratt, Gabriel Callsen** and **Dimitrios Kletsas**

ICMA participation in new ECB Groups

ICMA is delighted to be collaborating with the ECB on the topics of new technologies, DLT and central bank money as well as post-trade harmonisation through the following ECB Groups.

Eurosystem's New Technologies for Wholesale settlement Contact Group (NTW-CG): Following the Eurosystem's announcement in April 2023 and subsequent call for applications, ICMA was selected to join the NTW-CG. The purpose of the NTW-CG is to facilitate an active dialogue between the Eurosystem and financial market stakeholders in the context of new technologies for wholesale settlement (i) to consolidate the members' feedback and further develop the ongoing work of Eurosystem central banks in this area, and (ii) gain insight into how different solutions could facilitate interaction between TARGET Services and DLT platforms. The first meeting was held on 21 June 2023.

AMI-SeCo Securities Group: ICMA has been selected to join the ECB's new Securities Group (SEG), a subgroup of the AMI-SeCo which replaces the Harmonisation Steering Group (HSG). The purpose of the SEG is to support harmonisation and integration of securities clearing, settlement and post-trade services activities in Europe. This includes, for instance, assessing implementation of the TARGET2-Securities harmonisation standards and best market practices, providing analysis of harmonisation and integration proposals, and if requested, supporting the Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) in assessing and forming an opinion on the potential impact of financial innovation on post-trade and the wider EU financial market harmonisation and integration.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

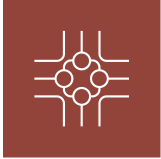
ICMA's DLT Bonds Working Group

ICMA's DLT Bonds Working Group held a meeting on 17 May 2023 to discuss initial guidance received on how to foster scalable, efficient and liquid cross-border DLT bond markets. ICMA previously gathered feedback from individual constituencies of the Working Group, notably SSA and private sector issuers, investors, banks, market infrastructures and law firms. The Working Group agreed to focus on the following areas.

First, fostering harmonisation and common standards with a focus on:

- *Legal harmonisation:* Identifying the scope for a common approach in relation to risk factors and disclosure in the legal documentation of debt securities involving the use of DLT. A legal sub-group was established and held a meeting on 29 June.
- *Digital custody:* Facilitating the participation of investors in DLT-based bond transactions through engagement with custodians and potential standardisation of contractual arrangements.
- *Interoperability:* Promoting the use of ICMA's Bond Data Taxonomy for DLT securities (whether in tokenised or "native" form) with a view to enabling interoperability both between DLT networks and existing market infrastructure and related solutions.

Secondly, advocacy and outreach building on ICMA's existing engagement with regulators and other relevant stakeholders. As highlighted in ICMA's response to the Eurosystem's consultation in June 2022, member firms across the spectrum of bond markets consider a wholesale CBDC to be a critical component to enable the development of DLT-based bond markets at scale. While the regulatory environment is evolving, and diverging between different jurisdictions, member firms stressed the importance of equal treatment of DLT-based securities and traditional securities.



Thirdly, Working Group members highlighted the need for further education of both market stakeholders and internally, notably by sharing learning experiences of DLT-based transactions. To this end, ICMA will be holding a series of interactive workshops. In parallel, ICMA Education has also launched a new course on Digital Assets and Securities, which will be livestreamed in October 2023. Furthermore, member firms welcome thought leadership to guide both industry and regulators.

ICMA's FAQs on DLT and blockchain in bond markets, amongst other resources, are available on ICMA's website. If you would like to become involved or learn more about ICMA's initiatives, please get in touch.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

ICMA's Bond Data Taxonomy: driving interoperability in bond markets

Since the publication of ICMA's Bond Data Taxonomy (BDT) in March, the BDT Working Group has updated its terms of reference to facilitate development in support of industry implementation. From an initial focus on promoting automation and reducing fragmentation in primary bond markets, the group's remit has expanded to also promote interoperability across trading, settlement, and distribution of bonds.

Two key areas are being explored to expand the current scope of over 90 definitions capturing vanilla bond data elements.

- The first relates to data points seen at issuance relating to green, social, sustainability, and sustainability-linked (GSSS) bonds. To ensure alignment with established best practices, data definitions for GSSS information in the BDT will leverage language agreed through "The Principles" along with consultation among relevant committees.
- The second focus area arises from discussions within ICMA's DLT Bonds Working Group on how to support scalable DLT bond markets. Following recent meetings, there is agreement to use the BDT as an operational foundation to represent DLT bonds (both "native" and tokenised). Additional data points capturing DLT-related information such as party roles (eg common account keeper, platform operator, cask token manager and others depending on jurisdictions), ledgers and addresses, among others, are on the agenda for further integration.

Expansion of the BDT to incorporate both ESG and DLT related data points in an unambiguous, machine-readable format will provide a foundation for this evolving market.

Three main pathways are available for members to engage in the BDT initiative:

- *BDT Working Group*: The Working Group is responsible for the maintenance and development of the BDT scope, building on the current definitions for over 90 data vanilla bond data elements, in coordination with relevant ICMA committees and working groups.
- *BDT Implementation Sub-Group*: The Sub-Group is designed to provide technical guidance for any members who are looking to better understand the BDT components and integrate into issuance processes and bond documentation. The scope includes training, tutorials, walkthroughs, and a list of examples of how the BDT may be implemented.
- *Bilateral engagement:* Members are also invited to reach out bilaterally to discuss how ICMA could support potential projects, proof of concepts, or other implementation scenarios.

The BDT Working Group is open to all ICMA members and represents over 55 organisations from issuers, banks, investors, market infrastructures, law firms and vendor firms. By establishing a common language and promoting interoperability, ICMA's Bond Data Taxonomy lays the foundation for enhanced efficiency, transparency, and innovation in bond markets. Further information can be found on the BDT webpage. Please contact us if you would like to join.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

CDM for repo and bonds

Following completion of ICMA's CDM phase 2 project and the transition of the CDM to FINOS, a key focus for ICMA is to support implementation and promote adoption of the CDM across the repo industry. To learn how to design and implement CDM-based applications for repo trading and post-trade, ICMA has established a dedicated CDM Implementation Working Group. This group is designed to assist IT teams and developers in using the CDM. A CDM demo – Automating repo transactions and other resources are available on ICMA's CDM webpage.

If you would like to become involved, please get in touch.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

ICMA FinTech and Digitalisation Forum

We are pleased to announce that the 5th annual ICMA FinTech and Digitalisation Forum is scheduled for 5 December 2023 in London.

The innovation and digitalisation of the industry is a critical strategic topic of focus for ICMA and all its 600+ members globally.

Providing a forum at which all the industry's participants can network and share insights and information on the most critical topics driving this evolution is key – from technology firms, data vendors, market infrastructure providers and law firms – to issuers, investors and banks.

This will be an all-day event with several interesting and stimulating panels, and will, importantly, provide the opportunity for the vendors to showcase their products and solutions to the market. There are also opportunities to sponsor the event and to book exhibition stands.

This is an in-person event, and *we are expecting over 250 delegates to attend across the spectrum of the international capital markets***.** The event will be held at the Congress Centre, 28 Great Russell Street, WC1B 3LS (see link for location).

Contact: Georgina Jarratt
georgina.jarratt@icmagroup.org

For more information, please contact:
Sanaa Clausse-BenAbdelhadi and Natalie Duke: for sponsorship. ICMA events: for all other queries.

FinTech regulatory developments

BIS Innovation Hub and central banks: interim report on Project Mariana

On 28 June 2023, the BIS Innovation Hub published an interim report on Project Mariana, a projects which looks to a future world where central banks have issued wholesale central bank digital currencies (wCBDCs) and explores novel options for tokenised FX trading and settlement. Project Mariana is the first BIS Innovation Hub cross-centre project, bringing together the Switzerland, Singapore and Eurosystem Centres, together with the Bank of France, the Monetary Authority of Singapore and the Swiss National Bank. It expands on previous wCBDC experiments by the BIS Innovation Hub, exploring concepts developed in decentralised finance (DeFi) applications. It sets out to investigate whether so-called automated market makers (AMMs) using wCBDCs could improve the effectiveness, safety and transparency of FX trading and settlement, eliminating some of their associated risks in FX markets. The project also examined cross-border interoperability using wCBDC based on a uniform technical standard, as a way to future-proof CBDC developments.

BIS: Annual Economic Report chapter on the monetary system of the future

On 20 June 2023, the BIS released a special chapter of its *Annual Economic Report*, outlining a blueprint for the future monetary system by improving the old, enabling the new. The key elements of the blueprint are CBDCs, tokenised deposits and other tokenised claims on financial and real assets. The blueprint envisages these elements being brought together in a new type of financial market infrastructure (FMI) – a "unified ledger". The full benefits of tokenisation could be harnessed in a unified ledger due to the settlement finality that comes from central bank money residing in the same venue as other claims. Through programmability and the platform's ability to bundle transactions ("composability"), a unified ledger allows sequences of financial transactions to be automated and integrated as well as supports simultaneous and instantaneous settlement, thereby reducing credit risks.

IMF: note on the rise of payment and contracting platforms

On 19 June 2023, the IMF published its note on *The Rise of Payment and Contracting Platforms*. The note explores the design and governance of platforms to enhance cross-border payments in line with public policy goals. While much innovation in recent years has more narrowly targeted

end-user frictions, the vision in this paper is based on the mandate of the IMF, governed by the central banks and finance ministries of 190 member countries. Cross-border payments present the foundation for the global financial system, and its functioning is overseen by the IMF.

ESMA: data strategy for the next five years

On 15 June 2023, ESMA published its data strategy for 2023-2028. Over the coming five years, ESMA will work to facilitate the use of new data-related technologies, reduce reporting compliance costs by regulated entities, enable the effective use of data at both EU and national level, and make data more broadly available to the public. ESMA will strive to become an enhanced data hub, it will ensure access to data of public interest, promote data-driven supervision, increase data collaboration, produce efficient data policy output and facilitate systematic data use.

EU: Regulations on crypto-assets published in EU Official Journal

On 9 June 2023, Regulation (EU) 2023/1114 on markets in crypto-assets (MiCA) as well as Regulation (EU) 2023/1113 on information accompanying transfers of funds and certain crypto-assets were published in the EU *Official Journal*. The MiCA Regulation lays down uniform requirements for the offer to the public and admission to trading on a trading platform of crypto-assets other than asset-referenced tokens and e-money tokens, of asset-referenced tokens and of e-money tokens, as well as requirements for crypto-asset service providers. The transfer of funds regulation lays down rules on the information on payers and payees accompanying transfers of funds, in any currency, and on the information on originators and beneficiaries accompanying transfers of crypto-assets, for the purposes of preventing, detecting and investigating money laundering and terrorist financing, where at least one of the payment service providers or crypto-asset service providers involved in the transfer of funds or transfer of crypto-assets is established or has its registered office, as applicable, in the Union, among others. Both Regulations shall apply and be adopted by Member states from 30 December 2024.

OECD: international standards for automatic exchange of Information on tax

On 8 June 2023, the OECD published its *International Standards for Automatic Exchange of Information in Tax Matters*. This publication includes the Crypto-Asset Reporting Framework (CARF) and amendments to the Common Reporting Standard (CRS), along with associated commentaries and exchange of information frameworks, as approved by the Committee on Fiscal Affairs. The CARF provides for the automatic exchange of tax relevant information on crypto-assets and was developed to address the rapid growth of the crypto-asset market and to ensure that recent gains in global tax transparency are not gradually eroded. The CRS was amended to bring certain electronic money products and central bank digital currencies in scope. Changes were made to ensure that indirect investments in crypto-assets through derivatives and investment vehicles are now covered by the CRS, amongst others.

BIS FSI: prudential treatment of crypto-asset exposures

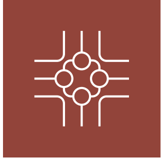
On 31 May 2023, the BIS FSI published its *Executive Summary on the Prudential Treatment of Crypto-Asset Exposures*. The Basel Committee on Banking Supervision (BCBS) finalised its standard on the prudential treatment of crypto-asset exposures in December 2022. The standard outlines minimum regulatory, supervisory review and disclosure requirements of banks' crypto-asset exposures under Pillars I, II and III of the Basel Framework. Internationally active banks in BCBS member jurisdictions are expected to adopt the standard by 1 January 2025.

EU: study on remaining regulatory challenges in digital finance and crypto-assets

On 30 May 2023, the European Parliament published a study on the remaining regulatory challenges in digital finance and crypto-assets after the Markets in Crypto-Assets Regulation (MiCA). This study analyses the need to adopt further EU financial regulation on decentralized finance after the implementation of the Markets in Crypto-Asset Regulation and the revision of the Transfer of Funds Regulation, with a special view on crypto lending, crypto staking, crypto custody, the use of non-formal information, NFTs and sustainability.

IOSCO: consultation report on policy recommendation for crypto and digital asset markets

On 23 May 2023, IOSCO published a consultation report that proposes 18 policy recommendations that IOSCO plans to finalize in early Q4 this year to support greater consistency with respect to regulatory frameworks and oversight in its member jurisdictions, to address concerns related to market integrity and investor protection arising from crypto-asset activities. The proposed recommendations are principles-based and outcomes-focused and are aimed at the activities performed by crypto-asset service providers (CASPs). They apply IOSCO's widely accepted global standards for securities markets regulation to address key issues and risks identified in crypto-asset markets. The proposed recommendations are activities-based and follow a "lifecycle" approach in addressing the key risks identified in this report. They cover the range of activities in crypto-asset markets that involve CASPs from offering, admission to trading, ongoing trading, settlement, market surveillance and custody as well as marketing and distribution (covering advised and non-advised sales) to retail investors. The deadline for comments on the consultation report is 31 July 2023.



ECB: working paper on CBDC and business cycle dynamics in a New Monetarist New Keynesian model

On 8 May 2023, the ECB published a working paper that studies the implications of an interest-bearing CBDC on the economy, by integrating a New Monetarist-type decentralised market that explicitly accounts for the means-of-exchange function of bank deposits and CBDC into a New Keynesian model with financial frictions. The paper suggests that the central bank can influence the store-of-value function of money through a conventional Taylor rule while it can affect the means-of-exchange function of money through CBDC operations. Peak responses to monetary policy shocks remained similar in the presence of an interest-bearing CBDC, implying that monetary transmission was not impaired. At the same time, however, the provision of CBDC helped smooth responses to macroeconomic shocks. By supplying CBDC, the central bank can contribute to stabilising the liquidity premium, thereby affecting bank funding conditions and the opportunity costs of money, which dampens and smoothens the reaction of investment and consumption to macroeconomic shocks.

BIS: working paper on CBDC policies in open economies

On 3 April 2023, the BIS published its working paper on *CBDC Policies in Open Economies*. Much attention so far has focused on the microeconomic benefits of CBDC, while the implications for macroeconomic and financial stability remain less well understood. The paper studies the macroeconomic and monetary policy implications of CBDC issuance in a rich quantitative framework. The paper finds that transitioning to a CBDC economy brings about substantial welfare gains, worth over two percent of steady state consumption in the long run. By counteracting financial shocks, CBDC policy would also help stabilise aggregate demand and inflation. For example, the optimised CBDC interest rule that responds systematically to the credit gap improves welfare by over one percent of steady-state consumption. Finally, when countries adopt optimal CBDC policies, they reduce volatilities of cross-border banking exposures and exchange rates by about a third.

Contact: Dimitrios Kletsas
dimitrios.kletsas@icmagroup.org

Pearl bond issuance overview and prospects

by **The Industrial and Commercial Bank of China (Asia)**

A Pearl bonds are rapidly becoming an important financing tool for diversifying offshore Chinese yuan (CNY) products and promoting the internationalization of CNY. But what are they and what are they being used for? This article provides an introduction to this growing source of issuance.

Introduction

Pearl bonds, also known as "FTZ Offshore bonds", refer to fixed income securities issued for the purposes of raising offshore funds in the China (Shanghai) Pilot Free Trade Zone (FTZ) and other offshore areas in China; or in other overseas markets where the China Central Depository & Clearing Co. Ltd. (CDCC) is responsible for fixed income securities.

What features of a Pearl bond make it better than normal offshore issuance?

Take Shanghai as an example: the FTZ will first accelerate the core of renminbi (RMB) product innovation, trading, pricing and clearing. It will also produce changes such as gradually promoting the opening of the RMB capital account, gradually realizing the free convertibility of RMB, gradually abolishing foreign exchange controls, and granting enterprises "limited offshore" status.

Secondly, banks can provide offshore financial services, supply chain financing services, international trade financing products, cross-border RMB financing, offshore and onshore linked products, insurance and comprehensive financial services.

As the center of China's opening up to the outside world, the FTZ is an example of China's economic upgrading. A series of financial reforms and innovations have been launched to serve the reform of the FTZ.

For example, in order to meet the requirements of business trade facilitation as well as upgrading, there are big moves in foreign exchange management systems, and enterprise financial services will be more convenient as a result. Innovations in the field of financial services can help enterprises to better optimize the management of their own industrial chain and promote the improvement of core competitiveness.

The structure of Pearl bond issuance rules is aligned with international standards. Compared to other investment channels into China fixed income, Pearl bonds have more flexible issuance structures, with fewer regulatory restrictions and unrestricted investment limits.

Hong Kong is a gateway for Chinese financial institutions to operate internationally. It has the world's largest offshore CNY pool, which can facilitate Pearl bond issuance and is the most active trading area for offshore bonds in the FTZ. Currently, Pearl bond issuance is conducted with mainly Hong Kong institutions as coordinators. As of 28 February 2023, the total outstanding number of Pearl bonds was 97, and the size of issuance reached RMB 64.6 billion (USD9.4 billion as at 21 March 2023).

During 2022 the Pearl bond market developed at a rapid pace. There was growth in the scale of issuance and the introduction of more varied product categories.

In the short to medium term, China's relative interest rate advantage, continued improvements in offshore CNY liquidity, and the expansion of the "interconnection" mechanism are expected to support further growth. In the long term, China's economic growth and policy support are a foundation for further development of the Pearl bond market.

Pearl bond market overview

Pearl bonds contribute to the internationalization of RMB, serving the following functions:

- Broadening offshore financing channels for commercial enterprise and enhancing their international influence.
- Enriching offshore RMB investment tools and promoting RMB cross-border, two-way flows that are compatible with other multi-currencies.
- Increasing demand for RMB foreign exchange transactions and helping the RMB to play a greater role as an international currency.

Currency: CNY is the main currency. Among the outstanding 97 bonds (as of 28 February 2023), 93 issued in CNY, 3 issued in USD and 1 issued in EUR respectively. The percentage of overseas orders in CNY reached 48% and 84% in euro.

Tenor: The majority of issuers choose a 3-year tenor.

Among the outstanding 97 bonds:

Tenor	Number outstanding
1-year bond	1
2.5-year bond	1
3-year bonds	91
5-year bonds	1
10-year bonds	3

Listing location: When listing securities, the majority of Pearl bond issuers choose the Chongwa (Macao) Financial Asset Exchange Co., Ltd (MOX), with some preferring the Singapore Exchange Ltd (SGX) or a combination of them both.

Securities exchange listing	Percentage
MOX	72%
SGX	11%
MOX & SGX – simultaneously	4%
Unlisted	14%

Regulation: According to Administrative Measures for the Examination and Registration of Medium- and Long-term Foreign Debt of Enterprises (Circular No. 56), debt instruments of one year or more, denominated in local or foreign currency and with agreed principal and interest repayments, which are raised abroad by domestic enterprises and their controlled overseas enterprise or branches, are subject to review and registration by China's National Development and Reform Commission (NDRC). The issuance of FTZ bonds requires prior application to the NDRC for examination and registration and submission of issuance information to the NDRC within 10 working days after the end of each issue.

Key features of Pearl bonds

- *The structure of the issuance rules is aligned with international standards, and the listing options on international exchanges are diversified.* The issuance structure can adopt direct issuance, standby letter of credit (SBLC), Keep Well Deed, and cross-border guarantee. The book-entry pricing is flexible and the issuer can choose to list on international exchanges.
- *Compatible with CNY and multiple currencies.* This will meet the local and foreign currency financing needs of issuers, and help to manage exchange rate risks; meantime, it will provide CNY-denominated assets for investors in the FTZ and outside China.
- *Central Clearing Company to provide full life-cycle services.* The issuance of Pearl bonds follows the current foreign debt policy and provides integrated services such as bond issuance, registration, custody, clearing, settlement, interest payment and redemption, information disclosure and valuation through the CDCC.
- *Global custodian arrangement to serve international investors.* In order to facilitate the participation of international investors in the subscription process, Pearl bonds are in the process of integrating global custodians to enhance service and customer resources.

The rapid development of the market (2022-present)

2022 was a year of rapid development for Pearl bonds as implementation rules were improved and the issuer and geographical scope expanded. At the market year end in 2022, the Federal Reserve continued to raise interest rates sharply and the interest rate differential between China and the United States was inverted. However, due largely to the financing cost advantage of Pearl bonds, compared with USD issuance, the issuance amount exceeded 37.7 billion, more than 3.3 times the previous year. Notably, in October 2022, ICBC Asia, as joint book runner, assisted Shanghai Lingang to successfully price the world's first dual currency Green Pearl bond. This bond is the first dual-currency green FTA offshore bond in the country.

On the financing side, calculations by relevant institutions show that the cost of issuing bonds and then converting them into USD through cross-currency swaps or USD/RMB swaps is 70-100 basis points lower than issuing USD directly, an additional boost to issuance.

On the investment side, Pearl bonds provide a good channel to allocate RMB assets, and investors can enjoy higher returns from RMB assets, while being subject to fewer regulatory restrictions and unrestricted investment limits.

Entering the first two months of 2023, the market for Pearl bonds has become even more active, with 29 issuers successfully issuing 33 Pearl bonds. This is a 15-fold increase over the same period compared to 2022. The issue size was close to RMB19.3 billion. The issuers were mainly municipal issuers and the issue structure was more preferred with Standby Letters of Credit (SBLC) enhancement.

Prospects

Looking ahead, Chinese interest rate levels are expected to remain stable, supporting the relative cost advantage of RMB financing.

Also, at present, while the total size of China's bond market is US$21 trillion, the proportion of overseas investors is only about 3%, leaving significant room for growth. Pearl bonds are traded in the offshore market, which is attractive for international investors who are willing to allocate to CNY bond assets.

On the financing side, along with the financial reform, the demand for capital market financing will continue to rise compared to credit financing, and cross-border bond financing could be not only to enjoy comparative advantages in cost, but also reach more investors. More local governments and industrial and commercial enterprises are expected to choose to raise funds in the Pearl bond market with policy support.

Further information

Shanghai "FTZ Bond" System Design and Experience Learning https://www.thepaper.cn/newsDetail_forward_16265264

Analysis of Supply and Demand Characteristics and Development Suggestions for the Bond Market in the Free Trade Zone https://xueqiu.com/9000736206/237948225

Recent developments in China's property market

by **China Chengxin International Credit Rating Co., LTD. (CCXI)** and **China Chengxin (Asia Pacific) Credit Ratings Company Limited (CCXAP)**

A China's property market has experienced dramatic fluctuations over the past few years, with ongoing industry risks attracting global attention. This article reviews the current situation of China's housing market, relevant recent industry policies, and the recent performance of Chinese property developers' onshore and offshore bond markets.

A quick glance at the Chinese property market

Monthly sales of China's commercial housing market recorded the longest decline for 17 consecutive months since July 2021, when the market reached a record high of RMB18.2 trillion (USD2.5 trillion). In March 2023, the year-on-year growth rate of commercial housing sales turned positive for the first time since mid-2021. Land supply also decreased dramatically since the second half of 2021.

We believe that the Chinese property market rebound in the first quarter might be related to the concentrated release of some previously suppressed demand, and that the market has not yet reached a real turning point. Due to the shrinking of land supply, the overall housing supply will probably continue to weaken in the short term. The continued rebound in housing sales in the future still depends on the sustained recovery of investment and consumer confidence. The expected recovery is likely to be led by state-owned enterprises (SOEs) among core cities, while privately owned enterprises (POEs) and low-level cities are less likely to return to their historic highs.

Since Q4 2021, in order to prevent the further expansion of property market risks, regulatory authorities provided support for project construction and delivery through special loans from policy banks and unified supervision of pre-sale funds. They also maintained market stability by cutting interest rates and reserve requirements multiple times within a year. Additionally, regulatory authorities supported the debt and equity financing of high-quality property developers, encouraging financial institutions to reasonably allocate credit to property developers and support reasonable extensions. Many local governments also adopted measures such as lowering down payments, reducing mortgage rates, relaxing mortgage conditions, offering home purchase subsidies and adjusting housing provident fund policies.

Onshore and offshore credit bonds

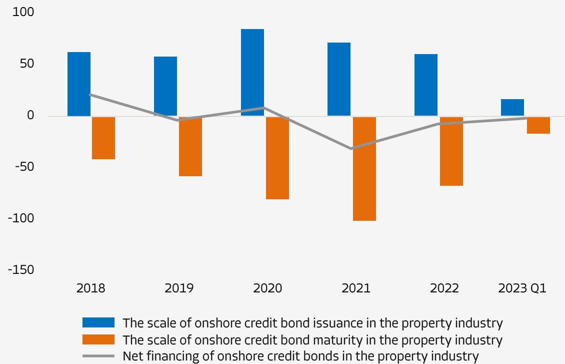
In addition to traditional bank loans, public bond market financing is one of the most important external liquidity sources for Chinese property developers, accounting for about 30% of the total financing of the top 100 property developers on average. After the relaxation of onshore financing regulations in 2015, onshore bond issuance volume from property developers grew rapidly from RMB116.4 billion (USD16.4 billion) in 2014 to RMB623.7 billion (USD87.8 billion) in 2020.

However, since the second half of 2020, the net financing of onshore bonds[1] by property developers has shown a net outflow trend. In 2021 and 2022, the net financing outflows of onshore bonds by property developers were RMB216.6 billion (USD30.5 billion) and RMB52.6 billion (USD7.4 billion) respectively, with POEs having net outflows of RMB243.0 billion (USD34.2 billion) and RMB164.8 billion (USD23.2 billion) respectively. Due to tightening external financing environments and declining sales, property developers have faced frequent credit risk events. In 2022, 69 property development bond issuers experienced credit risk events in either onshore or offshore bond markets.

As of end-2022, the onshore and offshore credit bonds of property developers involved in liquidity distress accounted for about 43% of the total credit bonds of all property developers, and the vast majority of the property developers who experienced liquidity crisis were POEs. The outstanding amount of credit bonds of POEs involved in liquidity distress accounted for 67% of the total credit bond balance of all privately-owned property developers.

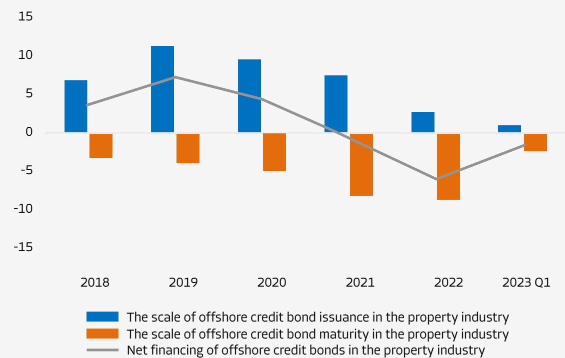
1. Including mid/short-term notes, principal-protected notes (PPN), corporate bonds, company bonds, asset-backed securities, convertible bonds, and exchangeable bonds issued by property developers; Property developers are those classified as first-level industry category of real estate according to the CCXI Industry Classification Standard.

Figure 1: Net financing of onshore credit bonds in the property industry (USD billion eq.)



Source: Wind, CCXI Research

Figure 2: Net financing scale of offshore credit bonds in the property industry (USD billion eq.)



Source: DM, CCXI Research

Since the industry risk was exposed in mid-2021, state-owned property developers have become the main issuers of credit bonds in the onshore bond market. At the same time, major regulatory authorities have supported POEs in resuming bond financing by setting up credit enhancement methods since Q2 2022, including credit default swaps (CDS) and credit risk mitigation warrants (CRMW).

However, we believe that, due to the limited proportion of credit-enhanced bond issuance compared to the total bond market size in the onshore market, it only has a limited effect on the restoration of bond valuation. In Q1 2023, the scale of onshore credit bond issuances by property developers increased both year-on-year and quarter-on-quarter, but SOEs still accounted for over 95% of the total issuance scale. The onshore credit bond financing channel for the property developers has yet to be restored.

To maintain their credibility in the public market, property developers look at both the onshore and offshore bond markets among other financing channels. Compared to onshore public market financing, offshore credit bonds have the advantages of lower issuance thresholds, flexible use of proceeds, and greater marketability towards international investors. However, they are more severely affected during the downward cycle. As of end-2020, bonds issued offshore by property developers were as high as RMB122.3 billion (USD17.2 billion). In 2021, affected by policies to cool speculation and continued credit risk events, offshore bond financing for property developers reduced significantly. In 2022, as the maturity profile of offshore USD bonds from property developers increased significantly, and the issuance volume also shrunk considerably, with a net outflow of USD44.7 billion.

According to public information, 43 property developers defaulted on their offshore bond principal and interest payments in 2022, amounting to USD37.0 billion. The entire offshore bond market for Chinese property developers has recorded a net outflow for eight consecutive quarters since Q2 2021, with recent offshore issuance rates being much higher than those of the onshore market.

Debt restructuring

In the early stage of risk resolution, financially distressed developers communicated with bondholders to adjust repayment plans on a case-by-case basis. However, most of them have not been able to recover after temporary extensions (usually within one year). Some property developers trapped in financial distress began comprehensive debt restructuring in the public market since Q2 2022. Due to differences in the applicable legal and regulatory systems and the composition of investors, onshore and offshore debt restructurings have been carried out individually. The most distressed property developers have chosen to prioritize the onshore market over the offshore market, since the difficulty and complexity of offshore restructuring is greater than that onshore. Obviously, the number of property developers that have completed restructuring in the onshore and offshore bond markets is still minimal.

Considering that the scale of property developers' onshore and offshore bond maturities are further increasing in 2023 (at around USD140 billion), and the peak of debt maturities concentrated in the second half of the year, it is expected that more property developers will launch debt restructuring plans in the short term to avoid cross-default.

Although China's property market started to recover in the first quarter, it is still facing pressures such as weak growth expectations for residence incomes, low investor confidence, and shrinking market supply. Therefore, the passage to recovery for property developers with liquidity risk is undoubtedly fraught with challenges.

ICMA Capital Market Research

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: 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

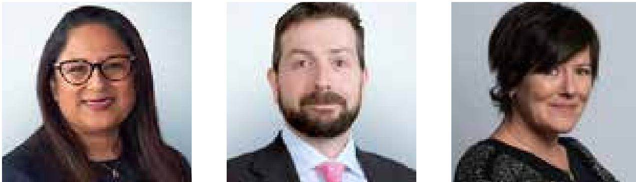
The Asian International Bond Markets: Development and Trends (Second edition)
Published: 24 March 2022
Authors: Andy Hill, Mushtaq Kapasi, and Yanqing Jia, ICMA, with support from the Hong Kong Monetary Authority

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

Disability inclusion at Freshfields



Reena Parmar, Freshfields
and **Peter Allen,** Freshfields
interviewed by **Katie Kelly**

*For this edition of the ICMA Quarterly Report, **Katie Kelly** had the pleasure of speaking to **Reena Parmar,** Counsel, and **Peter Allen,** Partner, both in Global Transactions, Debt Capital Markets, Freshfields Bruckhaus Deringer LLP (Freshfields). Reena is also Chair of the Law Society of England & Wales Disabled Solicitors Network, and a founding member and former Co-Chair of Freshfields Enabled, the Freshfields UK employee disability network, for which Peter is the senior sponsoring partner.*

Starting with you, Reena, welcome, and thanks for speaking to me. What motivated you to share your disability story in the first place - did you consider it a risk to your career?

At the start of my disability journey, I did not talk openly about my health conditions at work as I was worried about the impact on my career and other people's assumptions. I was able to hide my challenges because my disabilities are non-visible. But I eventually became physically and mentally exhausted with maintaining the pretence that everything was fine, and I realised that I could no longer perform at my best if I was keeping parts of myself hidden in the workplace.

My personal journey with disability led me to become a founding member and Co-Chair of Freshfields Enabled, the Freshfields UK employee disability network. I went on to share my disability story within Freshfields in order to kickstart an open dialogue about disability at work. I wasn't sure whether sharing my story would help or harm my career prospects in the long term, but the overwhelmingly positive reaction from others within the firm was heartening! Since then, my career has gone from strength to strength.

How has your own personal journey with disability, neurodiversity and mental health shaped your career journey and catalysed measures elsewhere?

I am a parent of two neurodivergent teenagers and a carer for a parent with disabilities. I also have my own non-visible disabilities, which developed during my working career. These cause chronic pain and fatigue, which can impact my working life in different ways.

During my journey, I have reflected on what I can do to create a more inclusive culture within the legal profession and the finance industry, rather than focusing on what I can't do. That change in mindset has been transformative for me and instrumental to my career success.

While I was Co-Chair of Freshfields Enabled, I actively sought to build disability and neuro-inclusion confidence and awareness within the firm through a variety of initiatives. I also wanted to drive broader impact within the legal profession. So in October 2021 I became a committee member of the Law Society of England & Wales Disabled Solicitors Network (DSN), and in November 2022 I was appointed its Chair. In May 2023 I was honoured to feature on the Enable Role Model List by INvolve (supported by HSBC).

There is a misconception that disability and career success are incompatible, but I hope my story highlights that it is possible to be disabled, drive positive impact and have a flourishing career!

How has connecting with people globally influenced your thinking on disability inclusion, and do you think there are significant regional differences in approach?

I am mindful that different countries and regions may be at different stages when it comes to disability inclusion and accessibility. There can be regional differences in people's willingness to engage in open dialogue, due to stigma and negative perceptions that exist around disability. We need to be mindful of these cultural and local differences, particularly in the context of global business.

Connecting with people in other countries has demonstrated the need to meet people wherever they are from a disability or neuro-inclusion perspective, without judgment. It has also shown the importance of bringing people together as a community based on shared experiences, regardless of international borders.

Other than you, is there a lack of obvious role models championing disability inclusion? And what more can be done to promote disability inclusion at work in order to appeal to more new entrants?

There are 19 other impressive role models within the disability, mental health and neurodiversity spaces that are featured on INvolve's Enable Role Model List.

But we need more role models across all levels of seniority to talk openly about disability, neurodivergence and other intersecting identities, to attract talent and break down some of the negative perceptions. People need to see others they identify with, in order to have confidence that they can be themselves, progress and thrive.

Some other areas for organisations to consider are disability confidence training for senior leadership and line managers, to empower them to have supportive conversations; a workplace adjustments process that is straightforward to navigate; and disability and neuro-inclusive recruitment practices.

What myths or misconceptions about disability do you want to see debunked?

I would like to debunk the myth that all disabilities are visible. People may experience barriers due to non-visible disabilities, neurodivergence or mental health challenges. When disabilities are not obvious, others can easily forget about them; and having to bring this up time and time again can leave a disabled person feeling frustrated and isolated. We should be mindful that disability can present in many different forms, and that sometimes we need to look beneath the surface and be more curious about the lived experience of others and the barriers they are facing, even where these are not obvious.

What key practical advice would you give, firstly to those entering the workforce who are living with a hidden disability, and secondly to business leaders and allies to drive disability inclusion at work?

For those entering the workforce with a non-visible disability: don't be afraid to ask for workplace adjustments from the outset; join a disability network to tap into a community that can support and advocate for you; actively seek mentors, allies and champions.

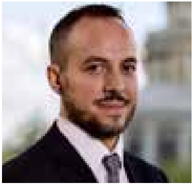
To business leaders: listen to the lived experience of your disabled and neurodivergent employees to find out what is and isn't working for them. Seek their input to inform decision making, strategy and policy. Reverse mentoring is also a powerful tool to understand the barriers your disabled employees face in a safe, less formal way.

To be an effective ally, you do not need to be an expert or have personal experience of disability: positive intent, curiosity, kindness, awareness and respect go a long way!

Peter, what impact has the network had on the firm?

I've been lucky to work with Reena and our other incredible network members and leadership team for the last four years, and it is fair to say that all my expectations have been far exceeded. I've seen first-hand how the network has helped promote disability equality, inclusion and confidence across the firm. When the network was established, it quickly helped increase awareness within Freshfields of the challenges that employees with disabilities faced. The network has developed a series of internal disability confidence webinars to raise awareness; this in turn has driven engagement across the business. The network also has active and frequent engagement with the firm's senior leadership team, ensuring decisions that impact on the firm and its employees are made in the most inclusive way possible.

Journey to equality in LGBTQ+ banking and finance by **Sam Sibilla, Bank of America**



June is Pride month, an opportunity to truly celebrate love in all its forms. It is a time we come together and show support for the LGBTQ+ (lesbian, gay, bisexual, transgender, queer and others) communities, reflecting on how far we have come since the Stonewall Riots over 50 years ago and on the progress made since then. Pride is not just about celebration and acceptance, it's also acknowledging how much there is still to do until all lesbian, gay, bi, trans, queer people are accepted without exception. So, whether it's a celebration, a political statement or a mix of the two, Pride is a personal journey that must be recognized.

It is imperative to talk of the significant progress made in recent years in terms of LGBTQ+ rights, especially in the financial sector. I still remember when I first moved to London almost 20 years ago: the journey from a small Italian town to a big international city was not just a physical one; I felt I had finally arrived in a place where I could be myself without fear of being called names, of being bullied or having to hide my true persona. When I landed a job in banking, I could not believe what a fortunate change my life had taken. I started my career with an already given path of inclusivity: all those fights (LGBTQ+ people could not marry, be out in the military and could be fired for being who they are) won by LGBTQ+ people before me have paved the way to a more inclusive industry. In all cases businesses themselves have understood what an invaluable asset LGBTQ+ people are: if you want to lead a successful business in a global environment you need to mirror the world in which you make it, a world where cultural background, religion, race, ability, gender, sexual orientation and other characteristics come all together in a beautiful mix. I have found that the ability to connect with clients on a number of different levels has increased business value; and understanding the experiences of employees is vital to inclusion and productivity. There is a high correlation between happiness and productivity after all.

I am thankful the industry keeps learning and transforming itself. Today I am very lucky to experience *in primis* the power of inclusivity and its benefits: I get to work with amazing people from many diverse backgrounds, feeling truly comfortable and open to be who I really am.

My authenticity did not begin overnight though. Two factors have contributed to my journey of acceptance and truth: *visibility* and *allyship*. Having visible representation of LGBTQ+ employees in an organisation, including in leadership positions, undeniably inspired me and gave me the belief that regardless of my sexual orientation, I can also achieve my professional goals. In fact, having LGBTQ+ role models around me encouraged me to be open about myself with my peers, without fear of discrimination. The consequence of that is, when I am inspired, I want to do the same for the next generation.

This positive impact is also true when we surround ourselves with allies. I have found that most people fighting for LGBTQ+ rights are LGBTQ+, but one does not have to be a member of a community to fight for a fairer and more equitable society. In fact, I think being an ally means being able to show up when you are needed, listen even if you do not have the answers, fosters diverse thinking and challenge stereotypes, not just in the workplace. And that is exactly what my manager does. I feel incredibly lucky to work with a manager who prioritises inclusivity. Since I came out, I noticed that she started to add the little Pride flag logo on the bottom of her email signature, no matter the audience. Although a small gesture, it had a big impact: she was clearly opening her door and coming out as an ally. Today she still uses the same signature with the rainbow heart.

When organisations like Bank of America strive to create an inclusive environment, encouraging teammates to bring their whole selves to work, everybody wins. Recruiter surveys regularly demonstrate this. According to a recent Monster survey (Monster 2020 State of the Candidate Survey), 83% of the world's youngest job seekers (Gen Z) said that a company's commitment to diversity and inclusion is important when choosing an employer.

The LGBTQ+ community has made huge strides in overcoming legal and even financial discrimination. However, in my opinion there are still more challenges to be addressed to ensure that everyone is treated equally and fairly. I think this includes how we recognise non-binary and/or intersex people, from non-binary gender records to gender neutral pronouns and restrooms.

Discrimination against the LGBTQ+ community continues to exist around the world. It is therefore the responsibility of us all to keep creating and fostering an environment where everyone feels relevant, safe and true to themselves. When you are your authentic self, you inspire others to do the same.

Ultimately, I long for the day when there won't be such a thing as "fighting for equality" because it would be part of our DNA. I do not dream for LGBTQ+ people to be accepted; I dream for all of us to belong.

Sam Sibilla (He/Him) is Vice President, Global Banking and Markets Operations, Bank of America.

ICMA Events and Education

Spring 2023 events spotlight

The highlight for the quarter was the 55th ICMA Annual General Meeting and Conference, which took place in Paris at the Palais Brongniart and the Musée du Quai Branly – Jacques Chirac.

Over the course of three days we welcomed over 1,100 delegates and provided a conference programme featuring over 50 eminent figures and leading market practitioners. We were honoured to have keynote speakers such as Bruno Le Maire, Minister for Economy, Finance, Industry and Digital Security for France; François Villeroy de Galhau, Governor, Banque de France; Carlo Monticelli, Governor, Council of Europe Development Bank; Odile Renaud-Basso, the President of European Bank for Reconstruction and Development; H.E. Dr. Muhammad Al Jasser, Chairman, Islamic Development Bank; Jean-Paul Servais, Chair, IOSCO; Verena Ross, Chair, European Securities and Markets Authority; Dr. Sabine Mauderer, Member of the Executive Board of the Deutsche Bundesbank and Vice-Chair, Network for Greening the Financial System; and Jean-Claude Trichet, former President of the ECB, who closed the conference.

We look forward to welcoming members to Brussels in 2024 for the 56th ICMA Annual General Meeting and Conference, 22-24 May.

If you would like to be part of our next successful event, contact the sponsorship team: events@icmagroup.org.

Events later in 2023

Upcoming ICMA events include the Secondary Market Forum in Amsterdam; European Primary Market Forum in London; AMIC Investors, Wealth & Asset Managers Forum in Zurich; and the ICMA FinTech and Digitalisation Forum in London.

Please find links to further information and registration below.

In addition to our flagship series, we have various regional conferences taking place, supporting ICMA Women's Network and ICMA Future Leaders.

Date	Event
17 November, Amsterdam	ICMA Secondary Market Forum
22 November, London	ICMA European Primary Market Forum
24 November, Zurich	AMIC Investors, Wealth & Asset Managers Forum: *Investing for the Longer-Term through Uncertain Markets*
5 December, London	ICMA FinTech and Digitalisation Forum

More to be announced. Further details available at **www.icmagroup.org/events**

ICMA
International Capital Market Association

SCAN ME

PREPARE YOURSELF TO SUCCEED IN FINANCIAL TECHNOLOGY

INTRODUCTION TO DIGITAL ASSETS

The course provides an overview of digital assets (including cryptocurrencies), distributed ledger technology and the key underpinnings of blockchain technology. In addition, the programme looks at important cash-leg tokens such as CBDCs and stablecoins plus the evolving regulatory space.

FINTECH IN THE CAPITAL MARKETS: SPOTLIGHT ON PRIMARY

The course explores key questions including what is financial technology and why do we need it, how is fintech impacting primary market activities like bookbuilding and communications, how is the legal and regulatory landscape being affected and what comes next.

icmagroup.org/executive-education/debt-capital-market education@icmagroup.org

Glossary

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AI	Artificial intelligence
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
AMI-SeCo	Advisory Group on Market Infrastructure for Securities and Collateral
APA	Approved publication arrangements
APP	ECB Asset Purchase Programme
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BMR	EU Benchmarks Regulation
bp	Basis points
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
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
CSRC	China Securities Regulatory Commission
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
EMDE	Emerging market and developing economies
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
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
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
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
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)
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
QIS	Quantitative impact study
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
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
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

ICMA

International Capital Market Association

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

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

ICMA Paris
T: +33 1 8375 6613
25 rue du Quatre Septembre
75002 Paris

ICMA Brussels
T: +32 2 801 13 88
Avenue des Arts 56
1000 Brussels

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