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International Capital Market Association

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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 620 members in 68 jurisdictions worldwide. ICMA brings together members from all segments of the wholesale and retail debt securities markets, through regional and sectoral member committees, and focuses on a comprehensive range of market practice and regulatory issues which impact all aspects of international market functioning. ICMA prioritises three core areas – primary markets, secondary markets, repo and collateral: with two cross-cutting themes of sustainable finance and FinTech.

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Foreword

Increasing focus on NBFI: where next?

by **Carey Evans**

Following the 2008/09 Global Financial Crisis (GFC), public authorities around the world moved decisively to re-wire the regulatory framework for the banking system – limiting the types and overall amount of risk that banks take on relative to their size and capital structure.

These reforms aimed to enhance the resilience of the banking sector: bank capital and liquidity requirements increased; bank resolution frameworks were developed; market infrastructures were bolstered to mitigate counterparty credit risk; and the largest banking institutions were identified and required to have additional capital and supervisory requirements.

To some stakeholders, the perception that capital markets have grown in relation to the banking system since the GFC is evidence that risk has migrated from the banking system to what has been variously called market-based finance, "shadow banking", or the most recent preferred nomenclature, non-bank financial intermediation (NBFI). This perception can sometimes overlook the fact that many parts of the NBFI ecosystem are already also highly regulated, transparent and resilient.

How supervisors and regulators should look at financial stability beyond the banking sector has been an important debate over the last decade or more. In that time, policy makers globally have moved from a starting point of potential "designation" of large non-banks as systemically important (singled out for additional regulatory or supervisory requirements) to an approach which has focused more on regulating specific "products" or "activities" that can give rise to specific risks that can rise to the level of system-wide concern.

This has led the Financial Stability Board (FSB) in recent years to look for ways of enhancing the resilience of money market funds (MMFs) and short-term markets, liquidity management tools in open-ended funds, leverage, and margin preparedness (to name a few). Recently, authorities in Europe have begun to consider the pros and cons of a so-called "macroprudential" toolkit for non-banks, and the Bank of England recently undertook a project to better understand how markets function under stress – the system-wide exploratory exercise (SWES).

How should the conversation move forward in a way that truly enhances the resilience of the financial system? A few thoughts:

1 *The definition of financial stability needs to be appropriate to markets.* The goal of financial stability policy in a banking context is relatively straightforward: avoiding insolvency and institutional failures. In a market context, the objective is not always so clear cut. Sometimes, price volatility is seen as a sign of financial instability. But price volatility is often a sign that markets are working well: changing the price at which risk is transferred and absorbed in real time.

Markets become dislocated when the diversity of buyers or sellers is reduced, and in the extreme, markets can become one-sided. Things like concentration or market structures that rely on a specific type of intermediation can be risk factors here, and policy and regulatory incentives can increase risk too.

2 *We need to improve the overall liquidity capacity, the process of liquidity transformation, and transfer.* Post-crisis regulation has increased the importance of collateralising risk, which requires the movement of cash through the financial system on an intra-day basis. At the same time, Basel reforms have incentivised banks to shrink short-term liabilities, which in turn has reduced their ability and willingness to hold cash for certain market participants or to provide liquidity through repo. While clearing and margining practices have undoubtedly enhanced systemic resilience, this tension means that market volatility can more easily result in liquidity pressures and market stress.

This needs to be considered further by policy makers.

- The ability to store and access cash and liquidity in new ways is critical: in the US, workable sponsored access repo models provide access to liquidity in the clearing system to the broader market; and the Fed's Reverse Repo Program provides MMFs with a cash placement option when banks cannot absorb excess cash on an overnight basis, and in turn underpins their ability to be a highly liquid store of cash for a range of users.

- Equally, exploring ways to increase collateral efficiency and transferability can ease frictions on markets that can arise from the need to generate liquidity for margin purposes.

3 *The importance of data.* Supervisors' ability to understand how and where stresses arise in markets is contingent on sourcing data from the wider market ecosystem. This is at the heart of the Bank of England's SWES process.

Further enhancing reporting obligations for market participants could be a likely outcome of policy efforts in this space. If done properly, it can both help regulators better understand market risks, and also enhance market risk management practices as well.

Financial stability is not just a "public good" – it is firmly in the interest of market participants as well. To advance a policy framework that truly enhances the resilience of the financial system, policy makers will need to look beyond banks, *and* beyond the bank policy toolkit and regulatory paradigms.

Bringing together a variety of market participants in core markets, and with deep expertise in market efficiency and dynamics, ICMA has a unique perspective to offer policy makers as the focus of debate moves towards promoting resilient market ecosystems.

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The debate about EU policy on Capital Markets Union

by **Paul Richards**

Summary

The EU has sought over a long period to achieve Capital Markets Union (CMU). But CMU has proved difficult to achieve, as it involves hard political choices, in particular about the extent to which decisions about CMU need to be made at EU level rather than at national level. This assessment considers: why the debate on CMU has been relaunched recently by the EU official sector; what the reforms proposed by the EU official sector would involve; how the EU decision-making process would need to change in order to implement these reforms; when implementation of the reforms might be feasible; where CMU interacts with the EU's external competitiveness; and whether there are any other related issues to consider.[1] It is not yet clear to what extent EU official sector plans for CMU will be affected by the outcome of the European Parliament elections.

Why has the debate about CMU been relaunched?

1 The immediate reason why the debate about CMU has been relaunched is that the EU official sector has been looking ahead to the new EU mandate following the European Parliament elections in June 2024. As a result, a whole series of reports and other statements have been published by the EU official sector.[2]

2 These EU official sector reports agree that open, well-functioning and integrated European capital markets are a crucial element in promoting the Single Market and the prosperity of the EU.[3] But the reports also draw attention to a number of official concerns which range more widely than financial services, and for which the reports argue that CMU needs to be achieved as a priority:

- There is concern about the lack of growth and investment in the EU in comparison in particular with the US, but also with India and China, over the period since the EU Single Market was conceived nearly 40 years ago. For example, the Eurogroup states: "Today, Europe is at risk of falling further behind globally in terms of competitiveness, growth, and prosperity of its citizens. European capital markets need to be urgently developed into globally competitive markets."[4]

1. See also: ICMA, *Bond Markets to Meet EU Investment Challenges*, March 2024; and ICMA, *The Role of the Eurobond Markets in Pan-European Capital Markets*, October 2020.
2. They include: (i) the Statement by the ECB Governing Council on *Advancing the Capital Markets Union,* 7 March 2024; (ii) the Statement by Finance Ministers in the Eurogroup chaired by Paschal Donohoe on *The Future of CMU*, 11 March 2024; (iii) the Report by Enrico Letta on *The EU Single Market,* April 2024; (iv) the Report of the Committee of Experts in France chaired by Christian Noyer on *Developing European Capital Markets to Finance the Future: Proposals for a Savings and Investments Union,* 25 April 2024; (v) the Report by the AFM and DNB in the Netherlands on *Next Steps for the European Capital Markets Union,* February 2024; and (vi) the Report of the ESMA Taskforce on *Building More Effective and Attractive Capital Markets in the EU,* 22 May 2024. (vii) A report by Mario Draghi on the future of EU competitiveness is due in the summer of 2024. (viii) The European Commission put forward proposals on *CMU: Next Steps* on 5 April, and (ix) the European Council discussed and published high-level conclusions on CMU on 17/18 April and reiterated them at its meeting on 27/28 June.
3. See, for example, the Eurogroup Statement, 11 March 2024.
4. Eurogroup Statement, 11 March 2024.

- There is concern that the EU is falling behind the US on capital market funding,[5] and that the EU relies too much on bank financing and not enough on market-based financing.[6] For example, the Eurogroup states: "The banking sector of the EU carries the bulk of the financing needs for businesses. But to match the substantial financial needs of the future, market-based funding opportunities will have to become more widely and readily available in Europe."[7]
- This is accompanied by concern in the EU about loss of international market share: eg to US competitors. The Noyer Committee states: "European financial actors see their market shares shrinking not only internationally but also within Europe, to the benefit of non-EU players. This trend poses risks to European strategic autonomy."[8]
- And there is concern about the lack of depth in EU capital markets, which is considered not to be sufficient to fund the sustainable finance transition needed in the EU in response to climate change, and to fund the defence spending needed in the EU in response to the Russian invasion of Ukraine. For example, Mario Draghi has stated: "We will need to mobilise private savings on an unprecedented scale, and far beyond what the banking sector can provide. The main way to marshal the necessary funds will be by deepening our markets for risk capital, equities and bonds."[9]

3 The EU official sector reports look ahead to the new EU mandate (2024-2029), following European Parliament elections in June 2024, and are designed to build on measures already implemented since the first CMU Action Plan was presented in 2015, followed by the second Action Plan in 2020. The European Commission notes that, out of a total of 32 legislative proposals directly or indirectly related to CMU in the two plans, "around 25 files have already been adopted or will be adopted in the near future."[10]

4 At its meeting on 27/28 June, the European Council called on the Council and the Commission to accelerate work on all identified measures relating to CMU and reiterated "the sense of urgency and the importance of CMU in mobilising the substantial amount of private investment needed to meet the challenges ahead."[11] Work on related files – eg NBFI, T+1, sustainable finance and digitalisation – is also expected to continue.

What reforms are proposed?

5 There are a number of common elements in the proposals put forward by EU official sector contributors to the CMU debate. They recognise that hard political choices will be needed in order to tackle them. For example, the ECB argues that "the EU needs to move beyond broad statements and a piecemeal approach on CMU to a top-down approach, including concrete actions to foster capital market integration and developments at the European level. True political will, ambition and follow-up will be critical."[12]

6 In the ECB's view, achieving a single market for capital is imperative for the Eurosystem, and CMU should be "rebranded" to focus more on its purpose. The ECB cites five main reasons: first, a savings and sustainable investment union is needed; second, a greater number of innovative European firms need to emerge, which requires deeper and more integrated capital markets; third, progress towards CMU would increase private risk-sharing across the euro area; fourth, an EU-wide capital market would strengthen the international role of the euro; and fifth, integrating capital markets would also help integrate the EU's banking sector, which would make European banks more resilient and help lower the remaining barriers within the Banking Union.[13] The Letta Report also calls for the creation of a Savings and Investments Union, developed from the incomplete Capital Markets Union, which "aims to not only keep European private savings within the EU but also attract additional resources from abroad."[14]

7 There appears to be common ground in the reports from the EU official sector on the need for a number of reforms in principle, though much of the detail has yet to be agreed in practice:

(i) Revival of the EU securitisation market

8 First, the European Council conclusions of 17/18 April call for the European securitisation market to be revived, reflecting the Eurogroup recommendation that the EU market for securitisation should be developed to allow for the efficient and transparent transfer of risks to parties best equipped to sustain those risks. The Eurogroup invites the European Commission to assess all the factors holding back

5. European Commission: "While equity financing is equivalent to 91% of euro area GDP, it is 220% in the US; EU's stock market capitalisation is less than half that of the US, in percentage of GDP." *CMU: Next Steps,* 5 April 2024.
6. European Commission: "Bank loans account for 75% of corporate borrowing in the EU and bond markets for 25% - while the inverse is true in the US.": *CMU: Next Steps,* 5 April 2024.
7. Eurogroup Statement, 11 March 2024.
8. Noyer Committee Report, April 2024.
9. Mario Draghi, *An Industrial Strategy for Europe:* Acceptance speech for the Carlos V European Award, Spain, 14 June 2024.
10. European Commission, *CMU: Next Steps,* 5 April 2024.
11. European Council conclusions, 27 June 2024.
12. ECB Statement, 7 March 2024.
13. ECB Statement, 7 March 2024.
14. Letta Report, April 2024.

the development of the EU securitisation market, including assessing the prudential treatment of securitisation for banks and insurance companies and the reporting and due diligence requirements. The ESMA Taskforce follows a similar approach.[15]

9 The ECB considers that "the EU securitisation market can play a role in transferring risks away from banks to enable them to provide more financing to the real economy, while creating opportunities for capital markets investors";[16] and that this would involve:

- reviewing the prudential treatment of securitisation for banks and insurance companies and the reporting and due diligence requirements, while taking into account international standards; and
- exploring whether public guarantees and further standardisation through pan-EU issuances could support targeted segments of securitisation, such as green securitisation to support the climate transition.

10 The Noyer Committee focuses on the regulatory and prudential framework for securitisation and on the creation of a European platform:

- The investor base would be restored by correcting the prudential framework for insurers and extending eligibility to liquidity buffers for banks under the Liquidity Coverage Ratio. The transparency rules for issuers and investors in ESMA's disclosure templates would be simplified. And the banking prudential framework would be adjusted.
- A European platform for securitisation, created by the EU or by a group of willing Member States, would enhance the efficiency and depth of EU markets by creating a new common safe asset. A guarantee would be provided by the platform, priced in proportion to the risk taken by the guarantor.

11 At the ICMA AGM and Conference in Brussels, the European Commissioner for Financial Services, Financial Stability and CMU, Mairead McGuinness, confirmed on 22 May that the Commission "will launch a public consultation in the autumn to ensure that we can act as soon as possible to scale up the EU securitisation market."[17]

(ii) Promotion of retail savings for investment

12 Second, the European Council conclusions of 17/18 April call for the design and implementation of a simple and effective cross-border investment/savings product for retail investors; and work on pensions and long-term savings products to mobilise investment:

- This reflects the Eurogroup recommendation that the access of citizens to capital markets should be facilitated by creating easier access routes to a larger choice of investment possibilities for their savings and pensions and by providing tools for citizens to improve their financial literacy. The ECB also notes that implementation of the European Single Access Point (ESAP) will give savers and investors easier access to information and thereby improve companies' access to funding.
- The ESMA Taskforce recommends that the European Commission should explore the idea of creating a voluntary "basic" investment product label at EU level and that Member States should consider how domestic tax policy can better incentivise retail investors in capital markets.[18] The Noyer Committee recommends a decentralised approach under which each willing Member State would offer nationally labelled products to their savers. ESMA recognises that "to help citizens navigate different savings options, better financial education is a must."[19]

(iii) Integration of EU settlement systems

13 Third, an additional proposal from the Noyer Committee involves addressing the fragmentation of EU settlement systems, which results from the large number of – mainly national – CSDs in the EU. The Noyer Committee argues that this contributes to high transaction and custody costs and discourages cross-border investment and the attractiveness of EU markets to non-EU investors. It proposes harmonisation of national securities laws and reforms to the TARGET-2 Securities settlement platform to cover more CSD functions and enable settlement on DLT through blockchain.

14 In the area of post-trading, the ECB considers that there is a need to finalise the harmonisation of processing of withholding tax and corporate actions and to overcome remaining integration barriers in post-trade securities services, including collateral management. In particular, the ECB considers that the Eurosystem should:

- support the development and integration of pan-European financial market infrastructures to provide European financial markets with a single pool of euro liquidity in central bank money guaranteeing safety, efficiency and integration at the core, through the use of TARGET Services, and the pooling of financial transactions on payments, securities and collateral;

15. ESMA Taskforce Report, 22 May 2024, Recommendation 10.
16. ECB Statement, 7 March 2024.
17. Commissioner McGuinness: Keynote speech at ICMA AGM & Conference, Brusssels, 22 May 2024.
18. ESMA Taskforce Report, 22 May 2024: Recommendations 1 and 5.
19. Verena Ross, Chair of ESMA: Keynote speech at ICMA AGM & Conference, 23 May 2024.

- continue to catalyse and coordinate market efforts to implement a single pan-European rule book for securities settlement and collateral management as well as to support the harmonisation of debt issuance procedures and the implementation of these harmonised procedures, with the goal of creating a genuine single securities market in Europe; and to support and monitor industry efforts to build up further central clearing capacity within the EU; and
- continue to explore, together with financial market stakeholders, the potential use of new technologies for issuance, trading and settlement, fostering tokenisation and possibly a "European unified ledger".

(iv) Reform of insolvency law and taxation

15 Fourth, it is clear that reform of insolvency law and taxation is critical to achieving CMU:

- *Insolvency law:* The European Council conclusions on 17/18 April call for harmonisation of the national insolvency framework, and the Eurogroup Statement focuses on the ranking of claims and insolvency triggers. The ECB recommends targeted harmonisation of corporate insolvency rules, accounting frameworks and securities law.
- *Taxation:* The European Commission has stated: "Taxation plays a very important role in the development of the CMU. A well-designed tax system can support its deepening by removing barriers to cross-border investment, as well as by helping capital markets operate on a level playing field."[20]

But it has so far proved very difficult for Member States to reach agreement on the reforms required.

How would the EU decision-making process need to change?

16 In the EU, decisions about the EU Single Market are taken by qualified majority voting (QMV); decisions about tax require unanimity; and enhanced cooperation among "coalitions of the willing" can proceed where a minimum of nine Member States agree to integrate or cooperate within the EU in a particular area, when the EU as a whole cannot agree within a reasonable period.[21] Within this decision-making process, the Letta Report makes a number of recommendations, including:

- prioritising the use of Regulations, which apply directly in Member States, rather than Directives, which have to be transposed into the law of Member States, giving individual Member States the right to vary them. Based on the original Single Market method of "maximum harmonisation coupled with mutual recognition", the Letta Report recommends that "EU institutions should unequivocally prioritise the use of Regulations in the formulation of Single Market binding rules;"[22]
- recommending that a European Code of Business Law should provide businesses with a 28th regime to operate within the Single Market. This "would directly address and overcome the current patchwork of national regulations";[23] and
- noting that "the importance of consistent enforcement of Single Market rules cannot be overstated."

17 In addition, the Eurogroup recognises that the regulatory burden should be reduced and the ESMA Taskforce recommends a better balance between EU legislation at Level 1, which should be principles-based and strategic, and Level 2, which should provide technical detail. The ESMA Chair, Verena Ross, said at the ICMA AGM & Conference in Brussels on 23 May: "we need to look at how legislation is formed in the EU, at the legislative process, so that co-legislators do not get bogged down in lengthy, detailed discussions – but instead trust in the regulators to take forward their strategic visions in the technical details."[24] And the ESMA Taskforce also notes that, "when ESMA was established in 2011, there were six legal acts under its remit – today, there are 30;" and recommends that "it is now important to evaluate the regulatory landscape as it stands today, with an eye on the overall regulatory burden."[25]

18 The major area of debate about EU decision-making on CMU relates to the potential role and powers of ESMA and the other European Supervisory Authorities (ESAs). There are varying levels of ambition in the different EU official sector reports:

- The Eurogroup invites the European Commission to assess ways to improve supervision in the EU through further developing the common rule book as well as examining a broad range of options to enhance supervisory convergence through a more efficient and effective use of the existing powers of the ESAs and a possible targeted strengthening of their role and governance arrangements; and it encourages Member States to share best practice at national level.[26]

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20. European Commission, *CMU: Next Steps,* 5 April 2024.
21. Article 20 of the EU Treaty and Title III of the Treaty on the Functioning of the EU.
22. Letta Report, April 2024.
23. Letta Report, April 2024. And in his speech in Brussels on 16 April 2024, Mario Draghi argued that "enhanced cooperation in the form of a 28th regime could be a way forward for the CMU to mobilise investments."
24. Verena Ross, Chair of ESMA: Keynote speech at ICMA AGM & Conference, Brussels, 23 May 2024; and ESMA Taskforce, 22 May 2024: Recommendation 15.
25. ESMA Taskforce Report, 22 May 2024: Recommendation 16.
26. The Eurogroup also invites the Commission to explore ways to enhance the efficiency of supervisory data collection and storage in the EU.

- The ECB argues that integrated supervision of EU capital markets involves ensuring that the ESAs have a European and independent governance, sufficient resources and comprehensive oversight powers, and that they should directly supervise the most systemic cross-border capital market actors in cooperation with their national supervisors.[27]
- The Noyer Committee proposes integrated supervision for capital market activities on the basis that "a true Single Market cannot tolerate fragmented supervision";[28] that ESMA has limited powers in comparison with the US SEC or the Single Supervisory Mechanism in the EU banking sector; and that ESMA's governance and functioning should be reformed so that it can evolve from being a supervisor of national supervisors to become a direct EU supervisor with a single EU rule book.
- Reflecting the views of the ESMA Taskforce, the ESMA Chair, Verena Ross, said at the ICMA AGM & Conference in Brussels on 23 May: "For most areas of financial markets, it makes sense for supervision to remain at national level, but where large entities operate with a pan-European model, and their services are orientated to a number of different Member States, I believe there is merit in considering European level supervision, on a case-by-case basis."[29] Where supervision remains at national level, she said that ESMA should work at improving supervisory convergence and strengthening cooperation in cases involving large cross-border firms, coordinating supervisory teams and centralising data collection and processing. ESMA should also have regulatory forbearance powers to suspend the application of provisions in EU law temporarily in exceptional circumstances, as in the US and UK.[30]

19 There is not yet agreement among EU Member States on entrusting centralised supervision to the ESAs at this stage. For example, in a joint letter on 28 May, the Finance Ministers of Slovenia, Croatia and Austria wrote: "The debate on whether we need to centralise supervision should come at a later stage, after examining a broad range of options to enhance supervisory convergence through a more efficient and effective use of the existing powers of the ESAs."[31] Aside from the principle of centralised supervision, the EU would also need to agree in practice on how to pay for the increase in centralised resources that would be required, and in particular avoid smaller EU Member States having to pay proportionately more than larger Member States.

20 If agreement cannot be reached among all EU Member States on resolving outstanding issues on CMU, some Member States may decide to go ahead on their own. For example, the AFM/DNB Report states: "Member States could consider enhanced cooperation procedures for the EU Commission's proposals in the fields of taxation, insolvency or corporate law if unanimous agreements cannot be reached."[32] Achieving a single market for capital is likely to be more important for the euro area, where there is a single currency, than for the rest of the EU.

When might these reforms be implemented?

21 Implementation of these reforms will take time. Before any fundamental decisions can be taken, a new European Commission needs to be appointed and reach agreement on priorities and next steps.

22 Some of the reforms proposed are likely to take longer than others: eg pensions reform and an improvement in financial literacy, which are a national rather than an EU responsibility. To be effective, reforms of this kind require better quality regulation rather than just adding to its quantity. And they do not depend only on regulation. They require a change in investment culture across the EU, which will inevitably take time to evolve.

23 The European Commissioner for Financial Services, Financial Stability and CMU, Mairead McGuinness, wrote to Mario Draghi on 3 April 2024: "The experience of the last decade has shown how difficult it is to make progress. This raises the question whether the Commission should come with one initiative covering the key areas that would make a significant step forward for the CMU."[33]

Where do CMU and external competitiveness interact?

24 The President of France and Chancellor of Germany have written that "strengthening our global competitiveness and enhancing our resilience while making the Green Deal and the digital transition a success" are at the heart of responding to the challenges over the last five years. They argue that "we need to unblock the full potential of our capital markets. To mobilise the needed investments, we have to get serious about a truly integrated European financial market with the Banking and Capital Markets Union at its core, addressing

27. ECB Statement, 7 March 2024.
28. Noyer Committee Report, April 2024.
29. Verena Ross, Chair of ESMA: Keynote speech at ICMA AGM & Conference, Brussels, 23 May 2024; and ESMA Taskforce Report: Recommendation 19.
30. ESMA Taskforce Report, 22 May 2024: Recommendation 17.
31. Joint Letter on *The Way Forward for the CMU* to Commissioner McGuinness, Graz, 28 May 2024.
32. The AFM/DNB Report, February 2024.
33. Commissioner Mairead McGuinness to Mario Draghi, 3 April 2024.

fragmentation and ensuring global competitiveness of the European financial sector."[34]

25 The future of EU competitiveness is the remit given by the President of the European Commission to Mario Draghi. In his speech on 16 April 2024 on *Radical Change – Is What Is Needed,* Mario Draghi explained how EU competitiveness and CMU are linked: "The public sector has an important role to play, and I have spoken before about how we can better use the joint borrowing capacity of the EU, especially in areas – like defence – where fragmented spending reduces our overall effectiveness. But most of the investment gap will need to be covered by private investment. The EU has very high private savings, but they are mostly funnelled into bank deposits and do not end up financing growth as much as they could in a larger capital market. This is why advancing CMU is an indispensable part of the overall competitiveness strategy."[35]

Whether there are any other related issues to consider

26 CMU should not be considered in isolation. It needs to be considered in relation to a number of other related issues, including in particular:

- *Banking Union:* Within the EU, Banking Union and Capital Markets Union are closely related projects which both still represent work in progress. Banking Union remains incomplete, as the EU banking sector is still segmented along national lines. The ECB has recommended that the introduction of a European deposit insurance scheme should be a priority for the new legislative term.[36]
- *A euro safe asset:* There is also a question about whether CMU can be completed without the creation of a central euro safe asset: the equivalent in the EU of US Treasuries. The EU is already an issuer in capital markets in its own right. EU issuance would increase further if, for example, the EU is authorised to issue defence bonds, either directly in its own name or indirectly via the EIB. But interest rate spreads remain between the debts of national governments in the euro area reflecting their respective credit standing. While Mario Draghi, when the former President of the ECB, said in response to the sovereign debt crisis in the euro area in 2012 that the ECB would do "whatever it takes" to preserve the euro, national governments in the euro area do not stand behind each other's debts.[37] The current President of the ECB, Christine Lagarde, has said that "this should not stop us from working on the many other areas that are necessary for CMU to become a reality".[38]
- *EU/UK relations:* Progress towards CMU has also been affected by the UK's decision to leave the EU, given that London is a global financial centre, and that the UK has left the EU Single Market. In the case of relations between the EU and the UK as a third country, the EU/UK MOU on regulatory cooperation provides a way of sharing regulatory information.[39] It does not necessarily imply that grants of regulatory equivalence for the UK from the EU will be forthcoming in future. Even so, both the EU and the UK are committed to continuing to comply with high international standards (set through the FSB, BCBS and IOSCO). Decisions relating to the regulation of financial services at global level need to be implemented by member jurisdictions at both EU and UK level, and in a broadly consistent way.

Conclusion

27 There are many similarities between the various EU official sector reports on CMU, but also some important differences that remain to be resolved:

- *Why has the debate about CMU been relaunched?* As the EU official sector looks ahead to the new EU mandate, there is a common concern that the EU is falling behind globally in terms of competitiveness, growth and investment, and that achieving CMU is a priority in order to address this.
- *What reforms are proposed?* The EU official sector reports all agree in principle on the need to revive the EU securitisation market, promote retail savings for investment and integrate the EU's fragmented settlement systems, though they have yet to agree in practice on the best way of implementing these reforms, and long-standing differences between Member States on insolvency reform and taxation remain to be resolved.
- *How would the EU decision-making process need to change?* The key debate is over the extent to which supervision of cross-border capital market activities should be centralised in ESMA and the other ESAs. It is not yet clear how differences between Member States on this issue will be resolved, and whether some Member States would if necessary be willing to go ahead on their own.

34. Emmanuel Macron and Olaf Scholz, *We Must Strengthen European Sovereignty",* FT, 28 May 2024.
35. Mario Draghi, *Radical Change – Is What Is Needed,* Brussels, 16 April 2024. See also his Carlos V European Award speech: *An Industrial Strategy for Europe,* 14 June 2024.
36. Luis de Guindos, Vice-President of the ECB, Keynote speech at Joint Conference of the European Commission and the ECB on *European Financial Integration,* Frankfurt, 18 June 2024.
37. Maastricht Treaty on European Economic and Monetary Union.
38. Christine Lagarde, President of the ECB: *A Kantian Shift for the Capital Markets Union:* European Banking Congress, Frankfurt, 17 November 2023.
39. The most recent EU/UK MOU meeting on regulatory cooperation was on 22 May 2024.

- *When might these reforms be implemented?* It is clear that implementation of the reforms proposed will take time and that some reforms (eg education to improve financial literacy) do not depend only on financial regulation.
- *Where do CMU and external competitiveness interact?* Advancing CMU is seen as an indispensable part of the EU's overall competitiveness strategy.
- *Whether there are any other related issues to consider:* CMU should not be considered in isolation. Other related issues to consider include Banking Union, the development of a euro safe asset and relations between the EU and third countries, including the UK.

28 The ECB has concluded that, while CMU remains a long-term project, urgent and decisive action is now needed to make real progress in the integration and development of EU capital markets. "There are no more low-hanging fruits to pick in this area, and the EU must now address the most important and structural challenges."[40] It is clear that this will involve hard political choices. It is not yet clear whether the outcome of the European Parliament elections will complicate the task of making them.·

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40. ECB Statement, 7 March 2024.

ICMA's role and priorities in ever-changing markets

Extracts from the Chief Executive's speech at the ICMA AGM in Brussels, 23 May 2024

by **Bryan Pascoe**

It is highly appropriate and timely that we meet in Brussels this year, the home of the European Commission, the European Parliament, and many other influential official institutions and stakeholders which shape the regulation and market direction that informs much of our work and are central to the reinvigoration of Capital Markets Union initiatives, as we look forward post summer to the next political cycle and Commission mandate here in the EU.

It may be an overused phrase, but we certainly live in very interesting times in the capital markets. With the rates environment having largely normalised at higher levels and the trend now seeming to be heading in a downward direction, bonds as an asset class have again become very attractive in most jurisdictions, spurring well-supported primary issuance and strong secondary markets. Inflation hasn't gone away, but the economic outlook is generally positive and supportive despite some of the geopolitical tensions and conflict that remain high on our collective radars. Markets are unquestionably currently in good shape, but arguably, risks of fragmentation and market vulnerabilities related to resilience and liquidity are higher than ever, whether due to market structure changes, such as the increasing importance of new entrants driving activity, or regulatory positioning, such as the upcoming implementation of the latest round of Basel reforms or the on-going and potentially negative implications in many areas of divergence between the EU and UK within the context of broader European market efficiency. With this in mind, it is very encouraging to see that the second EU-UK forum on closer cooperation has just taken place here in Brussels.

Against this backdrop, as an Association we are striving to become increasingly strategic and proactive in our work, and many of our current initiatives span multiple areas of our organisation. This requires further integration of our respective skills and knowledge, and the application of cross-industry and cross-regional engagement as we continue to drive our core mission of promoting efficient and well-functioning international cross-border debt markets. I talked last year of the need for ICMA to become more agile and proactive, which we are now delivering on, and at the centre of all of this lies the engagement with you, our members, and your critical involvement in our work.

In this context I'd like to break down my report into a few themes that underpin our focus across all areas of activity: firstly, *building resilience and depth*; secondly, our central role in *promoting market standards and consistency;* and then thirdly, touching on our priorities in *supporting market capacity and development;* and I'll also provide a brief forward look at what's on our short- to medium-term horizon.

Building resilience and depth

As a key step in our efforts to promote more robust global markets, ICMA's Bond Market Liquidity Taskforce, led jointly by our Secondary Market and AMIC practices, embarked on an analytical deep-dive into the microstructures of core European sovereign bond markets, culminating in a Report with recommendations aimed at enhancing market resilience published earlier this year. The Report noted that, although liquidity in the core European bond markets is generally good, liquidity has become much more sensitive to both episodes of unexpected volatility and regulatory reporting dates.

There was a clear recommendation from market participants, both sell-side and buy-side, that to make sovereign bond markets more resilient, policy makers and regulators should review the design and calibration of prudential regulation as it applies to primary dealers. And also, an acknowledgement that on the basis of the current market evolution, central bank interventions or policies to address stress were much more likely to become a necessary norm. We are in the process of evolving this work to delve more into the impacts of market structure change as well as looking in more detail at the credit space as a natural extension of the sovereign bond markets. The continuation of the BMLT's work into other sectors and global markets will remain a central element of our strategy to foster market stability and resilience and to help inform our regulatory engagement.

As always, our work hasn't just centred on discussions and papers. Critically, ICMA has continued to be actively involved in shaping the regulatory landscape, particularly in the on-going EU MiFIR and MiFID II Review, focusing on aspects crucial to market transparency and efficiency, such as the bond consolidated tape and the deferral regime. Similarly, our large-scale involvement in the discussions on shortening settlement cycles, especially with the impending shift to T+1 in the US and its impact in both EMEA and Asia Pacific, highlights our commitment to improving market practices across borders. In this space, as many of you will know, we continue to advocate actively for a cautious risk-reward assessment and close coordination across European jurisdictions before final decisions on process and timing are taken. You can expect a lot more from us on this in the course of the year as the market takes stock of the transition in North America, and assesses lessons learned.

High on the agenda for ICMA's European Repo and Collateral Committee, in addition to celebrating its 25th anniversary at an exceptional dinner in London in April, has been the focus on improving settlement efficiency – a critical issue in boosting resilience considering global movements towards shorter settlement cycles which could in principle create specific challenges for the effective functioning of the repo market. In prudential regulation we have been active in highlighting and advocating against the shortcomings of certain regulation impacting the balance sheet efficiency of open reverse repo as a product, and the potential detrimental treatment of doing business with non-bank counterparties, underscoring our commitment to ensure a balanced regulatory approach that supports market stability. As the central cog in the financial system for liquidity, funding and cash management, it is particularly important that we bring our expertise to bear to maximise the resilience of the repo markets.

Beyond Europe, the Global Repo and Collateral Forum (GRCF) has brought together international members across developed and developing markets to discuss regional and global repo market developments, the extensive legal work that we undertake around the GMRA, as well as common concerns, such as the move to T+1. The GRCF today plays an important role in highlighting market challenges and priorities as well as identifying best practice on a pan-jurisdictional basis. An important focus is on emerging markets, where a new dedicated working group will be launched.

Further in repo, in China ICMA has been proactively advocating to the key onshore regulators for the opening up of the domestic repo market to international participants, particularly via the explicit recognition of the eligibility of the GMRA and the enforceability of close-out netting. Good progress is being made on this and it would represent a significant leap not only in promoting domestic market development but also providing important confidence and assurance to international market players looking to participate onshore.

Additionally, our continued commitment to promoting market development is evidenced by our extensive series of reports on domestic repo markets across the Asia-Pacific region, which detail the main features of each market, including infrastructure, types of repo and collateral, market participants, post-trade operations, and their legal and regulatory frameworks.

More broadly in the region, ICMA released the fourth edition of the authoritative *Asian International Bond Markets: Development and Trends*, which covers both the primary and secondary bond markets, and will soon be publishing work we have undertaken jointly with Bloomberg to boost the depth of the Korean Treasury bond market, work that we could in due course replicate in other regional markets.

I strongly believe all of these initiatives are instrumental in building greater resilience in the markets.

Promoting standards and consistency

Promoting, and delivering, effective market standards and consistency has long been at the heart of ICMA's purpose – as evidenced by core documents underpinning industry practice, such as the Primary Market Handbook, Secondary Market Rules and Recommendations and the Global Master Repo Agreement. Constructively, this has evolved as an even more consistent theme in recent times, bringing together many areas of our activity even more closely.

Several of our standardisation initiatives supporting the transition of capital markets to a more digital-first future have been led by our FinTech and Digitalisation team but involve close and continuous engagement with other teams on a cross-regional basis. The on-going adoption of the Common Domain Model (CDM) enhancing post-trade automation and supporting new reporting regimes and tokenisation in the repo space as well as the Bond Data Taxonomy (BDT) are excellent examples of this. Specifically on the BDT we are especially encouraged and proud that in February this year the Hong Kong Monetary Authority issued digital green bonds in a multi-currency landmark transaction, aligned with the BDT. This marks not only the first practical adoption of the BDT by an SSA issuer, but also pioneers its use for a green bond– a significant achievement reflecting the collaborative efforts of our members and the wider ICMA team from multiple areas. We are also now working on the applicability of digitalised securities in repo transactions through their incorporation in GMRA standard documentation.

The Principles and our Sustainable Finance work have undoubtedly been the most visible manifestation of the high-quality standards we provide to the market for some time now. It is impressive that around 97% of bonds placed internationally and labelled as sustainable align with the Principles, a great tribute to their relevance 10 years after their creation.

The breadth and influence of our work in reinforcing messages of market integrity, around greenwashing and critical themes such as transition finance, continue to proliferate. The launch of the updated Climate Transition Finance Handbook and the integration of sovereign issuance considerations into the Sustainability-Linked Bond Principles underscore our ongoing efforts to refine and enhance guidance for sustainable practices across the financial spectrum. Reflecting our impact, the Handbook has been highly influential in shaping Japan's official sector standards for transition finance.

The reach of ICMA's initiatives in sustainable finance was further exemplified by our leadership in managing the industry-led Code of Conduct for ESG Ratings and Data Products Providers initiated by the UK FCA last year, and more recently providing the secretariat for the Code of Conduct of Hong Kong, sponsored by the Securities and Futures Commission, and in addition we host the Singapore Code of Conduct on our website. Taking ownership in this space underlines our commitment to standardising and improving ESG practices across the industry. Similarly, our collaborative efforts to develop guidance for green sukuk, in partnership with the Islamic Development Bank and the London Stock Exchange Group, illustrate our dedication to expanding sustainable finance into new markets and formats, and broadening the reach of effective standards to boost market accessibility and integrity.

ICMA's engagement on regulatory matters has also continued to shape the sustainable finance landscape. The publication of the EU Green Bond Standard in the *EU Official Journal* as a voluntary standard is a testament to our persistent advocacy and detailed position papers.

Further, particularly within the European context we have advocated consistently for the avoidance of duplication of sustainability reporting and disclosure requirements in the Prospectus Regulation, as well as reinforcing the message from our primary practice overall, that wholesale primary debt markets function generally well and the current documentation frameworks and processes should be maintained, while encouraging ways to integrate more retail involvement using existing wholesale architecture.

Supporting market capacity and developmental initiatives

Core to our service proposition are our Education and Training and Networking and Events programmes, supporting industry knowledge-building and professional development, and bringing people together to build connections and enjoy important discussions and debate on broad-ranging topics of relevance.

In both areas the content and quality of what we produce has continued to impress. Recognising the high standards and relevance of our training programmes I am proud to announce that ICMA has been approved as training provider by the UK FCA, in addition to the accreditation by both the Hong Kong SFC and the European Qualifications Framework, further solidifying our commitment to excellence in financial education.

In Education and Training, both the number of programmes and their reach continue on an upward trajectory, with four new courses added and more in the pipeline, and our delegate uptake increasing by around 10% in 2023, as it had done in the previous year. The market is tight though as dictated by learning and development budgets across the industry and we need to evolve new marketing channels and offerings as well as potentially new partnerships to maintain the positive momentum of recent years.

Our Women's Network (IWN) and Future Leaders (IFL) networks are at the forefront of our networking initiatives, and further steps have been taken to empower both forums over the course of the last year, including working more closely together. Between them our IWN and IFL have put on 12 networking events across the regions over the last year, with a strong pipeline also in place through to the end of 2024. Our work through these channels is an essential part of our broader ongoing commitment to promoting and standing for best practice in diversity, equity and inclusion across the industry.

More broadly within the context of our very wide and impactful events programme, and supporting ICMA's growing influence in China, we hosted our inaugural ICMA China Bond Market Forum this March in Beijing, which provided valuable insights into current and on-going reforms and the future trajectory of China's bond market, financial innovation and sustainable finance, attracting over 400 delegates. The Forum greatly bolstered our profile and impact on the ground and also underscores our commitment to facilitating meaningful dialogue and exchange in a vast market that has great potential to integrate further with international activities as we look ahead.

On the horizon

Our forward-looking agenda will obviously incorporate all the aforementioned items, although recent regulatory announcements, actions from the various recent and upcoming CMU papers and of course market developments will require us to adjust our focus.

We know for sure following the agenda set by the FSB and IOSCO that work programmes focusing on the buy side will sharpen significantly on leverage, concentration, liquidity management, interconnectedness and reporting, and by what means and how a macroprudential framework should be applied. Much of this will be a natural continuation of the detailed work already carried out by ICMA's AMIC team and our buy-side constituency on European fund regulation. It is very important to remember what an extremely diverse group of organisations fall under the broad NBFI umbrella term and how different their impact on the market and business models actually are. We will be paying close attention to working with our members – and with other trade associations, where appropriate – to ensure that the landscape is understood as well as possible and these points are very clearly considered when regulatory scrutiny is being applied.

Referring back to my earlier points, T+1 will similarly be a core theme that needs careful attention and unpicking with close industry coordination. I would also highlight short-term markets and commercial paper which remain sub-scale and highly fragmented across European jurisdictions, and where providing the impetus to develop depth and efficiency is likely to receive additional and overdue focus both from regulators and market practitioners alike.

While maintaining a clear focus on our core bond and repo markets, we will also explore new areas where we can add value as markets evolve. Sustainable Finance is one such area, as is FinTech and Digitalisation. The intersection between these two areas in the context of capital market development and relevant innovation is something that our teams are working closely on together.

We will also be looking to contribute more broadly to providing insight and guidance to underdeveloped and emerging markets in putting the building blocks in place for efficient local capital markets across primary, secondary, repo and collateral and short-term markets – work we began last year with many of the members of IOSCO's Growth and Emerging Markets Committee. Given the need to improve capital flows and provide the channels to meet the vast transition needs going forward, this kind of knowledge-sharing and transfer is essential, and we are keen to work with the relevant stakeholders to embed best practices and frameworks where we can be instrumental in supporting impactful developmental initiatives.

@ **Bryan Pascoe, Chief Executive, ICMA**
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Summary of practical initiatives by ICMA

The purpose of this section of the ICMA Quarterly Report is to summarise recent and current practical initiatives by ICMA with – and on behalf of – members, and to provide relevant points of contact at ICMA. In that context, on 14 May 2024, ICMA announced a new co-head structure for its Market Practice and Regulatory Policy team.

Regulatory policy

1 *ICMA RPC:* ICMA's Regulatory Policy Committee (RPC) met the FCA in London for a discussion on market practice and regulatory policy issues on 25 April and met the Trésor and the AMF in Paris for a discussion on 27 June. Julia Rodkiewicz acts as Secretary of RPC.

2 *EU Capital Markets Union:* ICMA's paper on *Bond Markets to Meet EU Investment Challenges* was published before Easter as a contribution on the role of the bond markets to the debate about making progress towards Capital Markets Union during the new European Commission mandate following the European Parliament elections in June.

3 *HM Treasury's Smarter Regulatory Framework:* ICMA has continued to engage in HM Treasury's Industry Engagement Group on the UK's Smarter Regulatory Framework outside the EU Single Market. It is not yet clear whether the programme of reforms proposed to the regulation of UK financial services will be affected by the outcome of the General Election in the UK on 4 July.

Primary markets

4 *ICMA's Issuer Forums:* ICMA's Public Sector Issuer Forum (PSIF) met at ICMA in London on 17 June to discuss the potential role of artificial intelligence, among other subjects. Katie Kelly acts as the Secretary of the PSIF, and also ICMA's two other issuer forums, for corporate and for financial issuers.

5 *ICMA PMPC, LDC and related groups:* ICMA's Primary Market Practices Committee (PMPC) met on 19 April and 27 June, with Ruari Ewing as Secretary. He also acts as Secretary of ICMA's Asia Pacific Bond Syndicate Forum (ABSF), which met on 13 June, and Asia Pacific Legal & Documentation Forum (ALDF), which met on 21 June. ICMA's Legal & Documentation Committee (LDC) met on 15 May and 3 July, with Miriam Patterson as Secretary. She also acts as Secretary of ICMA's Securitisation Discussion Forum.

6 *Finalised guidance on FCA anti-greenwashing rule*: On 23 April, the UK FCA published finalised guidance (FG24/3) on its anti-greenwashing rule. The finalised guidance, and further discussion between ICMA and the FCA following the guidance, effectively addressed the substantive concerns which ICMA had earlier outlined in its response to the FCA's consultation (GC23/3).

7 *EU and UK regulatory reviews:* ICMA continues to engage with policy makers on proposals to reform the EU and UK prospectus regimes, the EU Retail Investment Strategy (notably covering the PRIIPs, MiFID product governance and MiFID inducement regimes) and the UK regime on Consumer Composite Investments (CCIs) replacing PRIIPs.

8 *Commercial paper*: On 4 April, ICMA delivered a training session on commercial paper to Tilman Lueder, Head of Securities Markets at DG FISMA in the European Commission, and his team at his request. The ICMA team was led by Katie Kelly and supported by three members of the ICMA Commercial Paper and Certificates of Deposit Committee (CPC). Katie Kelly also delivered a training session on commercial paper to members of ICMA's West Africa region.

Secondary markets

9 *T+1:* On 29 April, ICMA held a webinar on *T+1: State of Play and Bond Market Implications.* On 5 June, ICMA's T+1 Taskforce met to discuss the US move to T+1 on 28 May, and developments in the EU and UK. ICMA is involved in the EU T+1 Cross Industry Taskforce, and in the Technical Group Steering Committee of the UK Taskforce on Accelerated Settlement launched by HM Treasury. ICMA's work on T+1 is led by Alexander Westphal and Nina Suhaib-Wolf.

10 *ICMA BMLT:* Following publication on 5 March of the Report by ICMA's Bond Market Liquidity Taskforce (BMLT), led by Andy Hill, on *Liquidity and Resilience in the Core European Sovereign Bond Markets*, ICMA has been engaging with the authorities on the issues arising. The Report is intended to be the first in a series, which will look at other key bond markets.

11 *Bond market transparency:* In the UK, ICMA responded on 6 March to the FCA consultation on improving bond market transparency. The FCA is expected to publish a policy statement in the second half of 2024. In the EU, ESMA has launched a MiFIR/D review consultation on bond market transparency and a MiFIR review consultation package on consolidated tape providers and data reporting services, to both of which ICMA intends to respond by the deadline of 28 August via its MiFID Working Group.

12 *CSDR cash penalties:* ICMA continues to engage with EU regulators on the industry's concerns about the ESMA proposals to revise the CSDR penalty framework for late settlement. The ESMA proposals, which are not backed by any data or analysis, propose increasing the penalties for settlement fails from current levels by many multiples, as well as experimenting with progressive penalties which increase in respect of each day of the fail.

13 *ICMA SMPC:* Andy Hill acts as Secretary of ICMA's Secondary Market Practices Committee (SMPC) and is supported by Nina Suhaib-Wolf, who also acts as Secretary of the Electronic Trading Working Group. The SMPC met in London on 30 May.

Repo and collateral markets

14 *ICMA ERCC:* ICMA celebrated the 25th anniversary of the European Repo and Collateral Council (ERCC) at a sponsored gala dinner for over 200 members in London on 25 April. This followed an ERCC Committee meeting on the same day. A further ERCC Committee meeting was held on 18 June. Alexander Westphal acts as the Secretary of the ERCC and Committee, supported by Zhan Chen.

15 *ICMA GRCF:* The Global Repo and Collateral Forum (GRCF) held its latest quarterly meeting virtually on 4 July, covering regional developments in Europe, Asia, MENA and Africa, as well as global developments relating to the GMRA and T+1. Alexander Westphal also acts as the Secretary of the GRCF, supported by Zhan Chen.

16 *ICMA GMRA:* On 11 April, ICMA published the 2024 legal opinion updates for the Global Master Repurchase Agreement (GMRA), which provide ICMA members with exclusive access to a substantial body of legal know-how on the enforceability of the GMRA, including in particular the GMRA netting provisions, in almost 70 jurisdictions.

17 *LCR:* On 3 May, the European Banking Authority revised guidance on the Liquidity Coverage Ratio (LCR) treatment of open reverse repos. The new Q&A outlines conditions whereby open reverse repos can be treated as inflows. ICMA, through the ERCC and its Prudential Working Group, has advocated for this revision since January 2022.

18 *NSFR:* On 7 May, the ERCC published a briefing note highlighting concerns related to the recalibration of the NSFR required stable funding (RSF) factors for short-term securities financing transactions that is due to be applied in the EU in June 2025. The note attempts to quantify the impacts for EU banks, both in terms of the aggregate annual cost to support reverse repo activity as well as the proportion of fixed income market making that would be affected. It also points to other jurisdictions that are not implementing a similar recalibration, thereby putting EU banks at a competitive disadvantage.

19 *ERCC PRMCMC 2024:* On 11-12 July, the ERCC is holding the Professional Repo Market and Collateral Management Course (PRMCMC), its annual flagship educational event. Held over two days, the course is delivered by ICMA experts and market practitioners and is designed for junior repo market professionals. The event is hosted by UBS in London.

Asset management

20 *NBFI:* On 22 May, the European Commission launched a consultation on the macroprudential framework for non-bank financial intermediation (NBFI). The ICMA Asset Management and Investors Council (AMIC) Committee is engaging with the official sector to explain the role that asset managers perform and the differences between the role of asset managers and other NBFIs. ICMA is also planning to undertake mapping work on NBFI.

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

22 *ICMA AMIC Committee:* On 19 June, the AMIC Committee met in Paris for a discussion with the Head of Asset Management at ESMA. The AMIC Secretariat consists of Nicolette Moser and Irene Rey.

Sustainable finance

23 *Sustainable Sukuk Guidance:* On 29 April, ICMA, the Islamic Development Bank and the London Stock Exchange Group published new guidance on the issuance of green, social and sustainability sukuk (together, "sustainable sukuk").

24 *Consultation on Hong Kong Code of Conduct for ESG Ratings and Data Products Providers:* On 17 May, the Voluntary Code of Conduct Working Group, with Secretariat provided by the ICMA and with the support and sponsorship of the Hong Kong Securities and Futures Commission, launched a consultation to develop a voluntary Code of Conduct for ESG Ratings and Data Products Providers.

25 *External reviewers of EUGBs:* On 11 June, ICMA published a response to the technical standards proposed by ESMA for the external reviewers of EuGBs.

26 *The 2024 releases of the Principles:* On 25 June, the Principles published guidance for green enabling projects and guidelines for sustainability-linked loan financing bonds (SLLB). In addition, the Principles released several updates to its existing set of guidance, notably the Sustainability-Linked Bond Principles, SLB KPI Registry and the Impact Reporting Handbook.

FinTech and digitalisation

27 *FinTech Advisory Committee (FinAC):* Justin Chan (BlackRock) and Emma Lovett (JPMorgan) have been appointed Co-Chairs of FinAC. Gabriel Callsen is the Secretary of FinAC.

28 *DLT bonds:* ICMA held a series of roundtables with investors, custodians, issuers, banks, law firms and market infrastructures to develop a framework for digital (DLT-based) securities. The DLT Bonds Working Group held its quarterly meeting on 19 June.

29 *Bond Data Taxonomy (BDT):* On 26 June, HKMA and ICMA held a webinar on digital green bonds and the adoption of the BDT. The BDT Working Group held its quarterly meeting also on 26 June.

30 *Common Domain Model (CDM):* ICMA's CDM Implementation Working Group held meetings on 15 May and 27 June 2024, focusing on pair-offs (bilateral netting), amongst other items.

31 *Post-trade harmonisation:* ICMA attended meetings of the ECB's AMI-SeCo Securities Group (SEG) on 16 May and 6 June. The focus of the meetings was on the AMI-SeCo survey results on remaining barriers to post-trade integration, amongst other items.

32 *Data and market practice harmonisation:* ICMA attended workshops organised by SWIFT UK and JPMorgan on 8 May and 11 June, which focused on securities, payments and trade finance.

33 *Wholesale CBDC:* ICMA attended meetings of the Eurosystem's New Technologies for Wholesale Settlement Contact Group (NTW-CG) on 10 April and 18 June.

34 *MAS Project Guardian:* ICMA has joined the fixed income workstream of Project Guardian, which seeks to promote fixed income industry standards and specifications to scale asset tokenisation, amongst others.

35 *UK Digital Securities Sandbox:* On 29 May, ICMA submitted its response to the Bank of England's and FCA's joint consultation on proposals to implement and operate the Digital Securities Sandbox.

36 *Data collection and reporting:* ICMA participated in various meetings of the UK's Industry Data Standards Committee (IDSC, formerly DSC) in May and June.

37 *Events:* This year's edition of ICMA's FinTech and Digitalisation Forum will be held on 18 September 2024 in London.

LIBOR transition in the bond market

38 ICMA has continued to chair the RFR Bond Market Sub-Group (BMSG) at the request of the FCA and Bank of England and with their support. The BMSG has been preparing for the completion of LIBOR transition in the bond market. The cessation of synthetic sterling LIBOR took place on 28 March, as planned, and the cessation of synthetic US dollar LIBOR is expected on 30 September 2024.

Summary of recommendations from *Bond Markets to Meet EU Investment Challenges*

by **Julia Rodkiewicz**

On 22 March 2024, ICMA published a Report which is entitled *Bond Markets to Meet EU Investment Challenges* and which contains regulatory policy recommendations for the next EU political cycle. In particular, the recommendations, summarised below, aim to support the development of an efficient, effective, and internationally competitive EU bond market, enabling the bond market to serve EU policy objectives.

Institutional

Primary markets

Institutional bond markets in the EU function reasonably efficiently under the existing regulatory and legal framework and it is vital that this is preserved, eg:

- *Listing Act:* Take into account the existing and upcoming requirements under *CSRD* when considering whether technical implementing rules under *the Prospectus Regulation* need to be prescriptively detailed.
- *Retail Investment Strategy:* Carefully calibrate retail investor protection requirements under *MiFID* in order to avoid disrupting *institutional* bond markets.

Implementation of *ESAP* must deliver efficient search and download functionality for investors without imposing significant additional burdens on issuers.

Securitisation

- A new perspective on *prudential calibration (eg under the CRR III/CRD VI)* is particularly relevant to underpinning and developing securitisation.

Secondary markets

- The *MiFIR and MiFID II* reviews that have been undertaken should help to deliver the much-supported consolidated tape for bonds.
- In preparation for implementing rules from the review of *MiFIR,* a vital consideration will be the calibration of deferrals with respect to when certain transaction details are made publicly available.
- There is also a need to consider the role of market makers, and the value they bring in the form of bond market liquidity and resilience, when calibrating prudential regulation. *CRR III and CRD VI,* along with the introduction of the *FRTB,* may result in even smaller dealer capacity, at a time when authorities are considering how to grow the EU's capital markets.

Repo

ICMA would welcome:

- a fuller review of the current regulatory framework around repo, in particular *CRR III and CRD VI.*
- a review of existing constraints for the buy side in relation to repo under the *MMFR* and *UCITS Directive.* Removing barriers to facilitate non-bank access to central clearing for repo should be part of this consideration.
- the anticipated review of the *SFTR,* in order to address outstanding issues with the reporting rules, enhance data quality and consequently enhance the overall market transparency.

Short-term markets

- ICMA supports carrying out the *FSB analysis of* the functioning of *the short-term markets* first (focus towards strengthening the efficiency and resilience), before any dedicated EU MMFR review is undertaken.
- As to the potential *review of MMFR*, ICMA has already highlighted the potentially negative unintended consequences of changes to the composition of certain MMF structures.

Retail

Primary markets

- ICMA believes that further unlocking the potential of bond markets for a broader base of retail investor participation requires both careful recalibration of existing rules (under *PRIIPs, Prospectus Regulation and MiFID*) and fresh thinking around how to create new opportunities for access (eg under the *Prospectus Regulation*).

Funds

- ICMA recommends that EU institutions focus on the successful implementation of the revised legal frameworks of the AIFMD, UCITS and ELTIF regimes.
- ICMA is planning to contribute to the EC's macroprudential workstream debate via the recently published a consultation paper on macroprudential policies for NBFIs and will highlight how the regulated sector of NBFIs must be distinguished from unregulated entities and products as regulated products are already subject to a comprehensive set of rules.

Financial inclusion and literacy

- ICMA welcomes financial literacy initiatives, for instance *IOSCO's World Investor Week,* the joint *EC and OECD financial competence frameworks* and *Belgian FSMA's* interactive financial education centre *Wikifin Lab.*
- *ICMA offers industry-leading education and training programmes in capital markets* and would be very pleased to work with the appropriate authorities to devise suitable and relevant training programmes to boost the broad-based understanding of bond markets.

Sustainable finance

- Under *SFDR*, there is the need for disclosure requirements and templates to be shortened, clarified, and refocused on most material issues. Our members supported an EU official categorisation system for sustainable funds.
- The *EU Taxonomy* faces important usability issues that need to be pragmatically resolved.
- On *greenwashing risks*, the priority should be given to the implementation and optimisation of existing regulation with a focus on usability and international interoperability. Potential new initiatives to create exhaustive regulatory definitions of greenwashing could create more issues than they solve.
- ICMA calls for the early adoption of *transition plans* by issuers before such may potentially be required by law and highlights the need for international consistency of transition plans including under the *ESRS* E1 (climate change). Under *SFDR*, all fund products could disclose their exposures to investees who implement "credible" transition plans.

Post-trade

- ICMA welcomes a renewed focus on the remaining barriers in the post-trade space (recent *ECB President comments and the ECB's AMI-SeCO survey),* following *Giovannini reports* and the *European Post-Trade Forum (EPTF)* in the past.
- In relation to *CSDR Refit* implementation, ICMA urges for caution in relation to MBIs and against a major recalibration of the penalty regime. However, ESMA's mandate under CSDR Refit to explore solutions such as partial settlement and other settlement efficiency tools is a great opportunity to achieve some tangible improvements.
- A move to a *T+1 settlement cycle* comes with major risks and could cause large-scale disruption if attempted prematurely, harming EU competitiveness, not least with respect to less liquid asset classes such as corporate bonds.
- ICMA supports improved efficiency initiatives in *clearing*. Acknowledging some of the important benefits which central clearing can bring while at the same time identifying issues around cost, market access and potential concentration risk, ICMA highlights the need for proportionately and well-calibrated clearing frameworks to support maximum market efficiency and is keen to play an active role in the debate.

Digital bonds and the digital wholesale euro

- At an international level, it is important to acknowledge that DLT and blockchain in capital markets are fundamentally different to crypto-assets such as Bitcoin. Regulation on a global level, notably the *BCBS's standard for the prudential treatment of banks' exposure to crypto-assets*, does not distinguish these characteristics sufficiently.
- On the *EU DLT Pilot Regime Regulation,* more flexible limits, especially on duration of the regime, and permanent changes in law (eg *CSDR*) would provide greater certainty for firms.
- At the same time, the *legal frameworks for digital bonds in EU Member States* remain fragmented. For example, a security is not defined in EU legislation, but in national laws.
- To unlock the benefits of digital bonds at scale, a *wholesale digital euro* or *CBDC* is required.
- Promote market standardisation through the implementation of initiatives such as the *CDM* and *ICMA's BDT.*

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Primary Markets



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

FCA anti-greenwashing rule: finalised guidance

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On 23 April, the UK FCA published finalised guidance (FG24/3) on its anti-greenwashing rule (AGR). This followed November 2023 adoption of the AGR in the FCA Handbook's ESG 4.3.1 (discussed in policy statement PS23/16), and the FCA's subsequent guidance consultation (GC23/3) and related ICMA response reported in the Second Quarter 2024 edition of this Quarterly Report (at page 28).

Following FG24/3, together with a very helpful discussion with FCA staff that ICMA relayed to members, it is now understood that the AGR is not intended to change or override *when* "fair, clear and not misleading" (FC&NM) requirements apply in the context of ESG claims regarding products and services (cf FG24/3 #2.4). The AGR and accompanying guidance is intended to complement and be consistent with existing rules and expectations.

More specifically, following FG24/3 and that discussion, ICMA's understanding is that underwriters are not subject to the FC&NM requirements in the AGR with regard to financial promotions and other communications, including third party prospectuses (on the basis that the existing exemptions in the FCA's Handbook continue to apply, so including notably those in the Handbook's COBS 4.2 – cf FG24/3 #1.14/2.10/2.11). It is also understood that: (i) communications can refer to information in a prospectus without duplicating the content of the prospectus in the communication or specific sign-posting to sections of the prospectus (again cf FG24/3 #1.14/2.10/2.11 – bearing in mind existing requirements regarding the sufficiency of prospectus content); (ii) less information may be appropriate for professional investors than retail investors (cf FG24/3 #2.23 – bearing in mind that firms should consider what is appropriate for the audience and that many bond issues are not intended for retail investors); and (iii) evidence for a claim only needs to be reviewed whilst the claim is being communicated and a financial promotion is live (cf FG24/3 #2.20/2.31 – bearing in mind that new bond offerings generally occur over short timelines).

Whilst the FCA has not specifically referenced the ICMA Principles or other frameworks in FG24/3, the FCA has added a good practice example (example 7) that "market standards for best practice" and/or a framework can be referenced. The FCA has also acknowledged that the ICMA Principles are widely used ESG industry guidance.

This effectively addressed the substantive concerns ICMA had outlined in its consultation response and the AGR came into effect on 31 May.

Related EU and Hong Kong developments

Distinctly on 4 June, ESMA published its *Final Report on Greenwashing* (alongside parallel reports by the other two ESAs). The Report focuses mainly on how misrepresentation is addressed under existing regulatory regimes.

Both the FCA and ESMA are broadly aligned in focusing on making existing tools work. There seems to be a consensus that enforcement falls within the scope of existing legislation – a misrepresentation in relation to sustainability is not different from any other form of misrepresentation.

ICMA is also considering if any material implications arise from a Hong Kong Monetary Authority November 2023 letter on the sale and distribution of green and sustainable investment products.

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ICSDs' new electronic signature and electronic global note initiatives

Clearstream and Euroclear (the ICSDs) have recently announced changes to documentation to allow the use of e-signatures and the issuance of certain New Safekeeping Structure (NSS) global notes in electronic form (e-GNs). ICMA staff have worked with the ICSDs to explain information about these changes clearly to relevant ICMA community members.

The effective date for both changes was 3 June 2024. For more information, see *Clearstream: New Global Note: New Safekeeping Structure*, *Euroclear: New Safekeeping Structure* and *Euroclear: New Global Note*, and the ICSDs' joint publication on the changes (*Clearstream|Euroclear Joint Announcement*).

In summary:

- The ICSDs have published new template documents which must be used *for all new issuances (stand-alone and new programmes)* from 3 June 2024. (See *NGN and NSS Templates: Clearstream* and *New Global Note: Euroclear*.)
- *For programmes established before 3 June 2024,* issuers who wish to execute global notes and certain other issuance documents by *e-signature* must update their relevant documents to the new template forms, including the Issuer-ICSD Agreement, which must be re-executed.
- *For programmes established before 3 June 2024*, issuers who are in scope for *electronic global note* issuances and wish to issue an electronic global note must update to the new template Issuer-ICSD Agreement and other documents included in the new NSS electronic global note legal pack.

Issuances that meet all of the following requirements are in scope for electronic global note issuance:

- Registered NSS global note.
- Securities governed by English law.
- Issued by non-governmental issuers (ie corporates and financial institutions) located in England and Wales or issued by supranationals located anywhere.

Although the use of the e-GN option is voluntary, eligible issuers are encouraged to use the e-GN option as, among other reasons, this helps to modernise this aspect of the capital markets and is the greener alternative.

The following table sets out when use of the new template Issuer-ICSD Agreement is expected by the ICSDs as of 3 June 2024:

Type of issuance	If use of New Template Issuer-ICSD Agreement is required
e-GN	
New issue of a standalone e-GN	New template of Issuer-ICSD Agreement
New issue of an e-GN under a new programme	New template of Issuer-ICSD Agreement
New issue of an e-GN under an existing programme	Re-execute the Issuer-ICSD Agreement using the new template
*Non-electronic (physical) New Global Note (NGN)/NSS where the issuer still opts for **physical wet ink** signature*	
New issue of a standalone bond	New template of Issuer-ICSD Agreement
New issue of global note (GN) under a new programme	New template of Issuer-ICSD Agreement
New issue of GN under an existing programme	No need to re-execute the existing Issuer-ICSA Agreement
*Non-electronic (physical) NGN/NSS where the issuer opts for **electronic** signature*	
New issue of a standalone bond	New template of Issuer-ICSD Agreement
New issue of GN under a new programme	New template of Issuer-ICSD Agreement
New issue of GN under an existing programme	Re-execute the Issuer-ICSD Agreement using new template

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FSB Report on the functioning and resilience of CP and CDs

The FSB recently released a Report on *Enhancing the Functioning and Resilience of Commercial Paper and Negotiable Certificates of Deposit Markets* (the FSB Report), which analyses the functioning and vulnerabilities of commercial paper (CP) and certificates of deposit (CD) markets and assesses the relative merits of potential market reforms to address them.

The Report forms part of the FSB's work programme on enhancing the resilience of non-bank financial intermediation (NBFI), and follows up on a 2021 FSB Report which identified some structural vulnerabilities in short-term funding markets, as well as a lack of granular data in parts of those markets.

The FSB Report states that, since the March 2020 COVID-induced market turmoil which required significant central bank intervention, much work has been carried out by authorities in several jurisdictions to improve the resilience in CP markets and the overall functioning and resilience of short-term funding markets. But it echoes the importance of effective measures to build liquidity resilience in non-banks (such as money market funds (MMFs)) being implemented across jurisdictions. While these measures may support the functioning and resilience of CP markets, the market's susceptibility to illiquidity in times of severe stress remains.

Main causes of vulnerability in CP market

Illiquidity: Given its short-term nature, CP is generally considered to be a buy-to-hold instrument, often matching investors' short-term liquidity horizons. But this characteristic can also make it susceptible to illiquidity in times of stress because there is very little secondary market activity. Dealers can provide secondary market liquidity by bidding paper back from clients, but in times of stress, constrained risk and balance sheet capacity may lead to dealers being unwilling, or unable, to provide a price. The relatively small number of dealers and investors in this market may also result in limited liquidity.

Transparency: Transparency in the CP market is fragmented, with no single public or private holistic overview of the market. So dealers become an important source of information to issuers, providing information to market participants on price discovery, demand and supply. This could potentially result in over-reliance on dealers and may exacerbate illiquidity due to information asymmetry amongst market participants.

Fragmentation: Vulnerability also stems from the fact that CP markets can be highly fragmented, with sometimes little standardisation in terms of legal and regulatory frameworks, documentation, issuer eligibility, maturity and denomination profiles, and settlement cycles. Additionally, dealer workflow processes including ISIN creation can be inefficient.

Measures to enhance liquidity and resilience

The FSB Report identifies certain measures which could potentially be considered to enhance the liquidity and resilience of CP markets. These involve:

- Enhancing regulatory reporting for completed transactions, potentially including secondary market transactions, which would enable national authorities to better monitor the size of CP markets, as well as any trends, such as issuance and investor concentration in particular sectors, ratings, issuers etc, which over time may help in the monitoring of vulnerabilities.

- Improving publicly available databases in certain jurisdictions by publishing outstanding amounts broken down by types of issuers and investors, yields, maturity distribution, and other characteristics on a frequent basis, which may reduce information asymmetry amongst market participants and may result in greater participation and increased dealer disintermediation.

  But while increased transparency might be helpful for market functioning in normal times, the FSB Report also says it is less clear that it could mitigate the vulnerabilities in these markets during periods of stress. It also sets out important considerations around increased public disclosure of investor profile and post-trade transparency, including pricing, such as that issuers fearing misinterpretation of their data may forgo using the CP markets in favour of private placements (as was the conclusion of an ICMA survey reported on in the Q2 2023 edition of this Quarterly Report).

- Encouraging market microstructure adjustments such as standardisation and digitisation of documentation and encouraging further development of platforms to facilitate more efficient primary and secondary market activity and shorter settlement conventions in certain jurisdictions (eg enabling T+0 settlement more widely), and operational processes, where significant impact would likely arise from increased automation of post-trade/downstream processes (eg obtaining an ISIN).

The FSB Report also explores ways to enhance liquidity through private repo markets, as to which it suggests that more efficient trade processing might improve transparency and support expansion of private repo markets. However, it also highlights that developing a private repo market for CP collateral should be carefully weighed against the existing limitations, potential risk management challenges, and feasibility considerations.

Conclusion

The FSB Report concludes that these potential market reforms may have a positive impact on CP market functioning in normal times – particularly if used in combination and appropriately tailored to each jurisdiction – but they would likely not, on their own, significantly enhance the resilience of these markets. Accordingly, authorities are encouraged to explore the usefulness of these reforms for their own markets, as the relative merits and operational considerations will vary significantly across jurisdictions. The potential market reforms would also need time to be designed and implemented, which may require cooperation between public authorities and market participants.

For now, the ICMA Commercial Paper & Certificates of Deposit Committee (CPC) has noted the contents of the FSB Report. After having tracked relevant proposals from the FCA and other regulators, including how they intend to ensure consistency with each other, the CPC will convene to discuss any ensuing developments.

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The expected cessation of synthetic US dollar LIBOR

The FCA has been clear that synthetic US dollar LIBOR is a temporary bridge to risk-free rates, and has said: "Market participants need to ensure they are prepared for the final synthetic US dollar LIBOR settings to cease at end-September 2024."[1]

On 30 June 2023, panel bank US dollar LIBOR ceased publication entirely. In the case of *US law-governed US dollar LIBOR transactions*, the Adjustable Interest Rate (LIBOR) Act replaced references to US dollar LIBOR within legacy contracts with a SOFR-based benchmark replacement.

For *English law-governed US dollar LIBOR transactions*, the FCA consulted in June 2022 on the size and nature of remaining exposures to US dollar LIBOR, and on any challenges or issues that might result from the publication of any US dollar LIBOR settings on a *synthetic basis*.

Feedback from that consultation concluded that a short additional period of publication of one, three and six-month US dollar LIBOR on a synthetic basis might help market participants to remove the dependency of a small but material population of legacy contracts referencing US dollar LIBOR, and that a further 15 months (ie until 30 September 2024) should allow the majority of the population of non-US law governed legacy contracts to transition away or reach maturity, and therefore secure an orderly transition.

The FCA further consulted in November 2022 on its proposed approach for synthetic US dollar LIBOR, which required LIBOR's administrator, ICE Benchmark Administration Limited (IBA), to continue the publication of the one, three and six-month US dollar LIBOR settings until 30 September 2024, using an unrepresentative synthetic methodology.

So the most commonly-used US dollar LIBOR settings (the one, three and six-month settings) were transitioned to a new "synthetic" methodology (CME Term SOFR plus the ISDA fixed adjustment spread), permitted for use in all legacy contracts except cleared derivatives[2], to help ensure an orderly wind-down of LIBOR.

Although its intention is that one, three and six-month synthetic US dollar LIBOR settings will cease on 30 September 2024, the FCA has said that it will review its decision, in line with the requirements of the UK Benchmarks Regulation. However, unless unforeseen and material events happen, the FCA expects to follow this direction and timeline, and has given no indication to the contrary.

Further, in March 2024, the Financial Policy Committee of the Bank of England[3] welcomed a further reduction in the stock of legacy US dollar LIBOR exposures, and consequently judged that the financial stability risk in the UK associated with US dollar LIBOR had effectively been mitigated.

On 1 July 2024, the FCA published a reminder to market participants with outstanding US dollar LIBOR exposures that they must make sure they are prepared for the remaining LIBOR settings to cease by the expected deadline. The FCA said: "The cessation of these remaining settings will be the last milestone in the transition away from LIBOR marking the end of LIBOR overall." IOSCO also published a reminder on 2 July.

Those market participants who still have contracts referencing US dollar LIBOR should ensure that they are prepared for publication to cease permanently on 30 September 2024.

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1 Jon Relleen, Director of Infrastructure & Exchanges – Supervision, Policy & Competition Division – Markets, FCA: ICMA Quarterly Report, Second Quarter 2024.
2 Article 23C Benchmarks Regulation: Draft notice of permitted legacy use by supervised entities (fca.org.uk)
3 Record of the Financial Policy Committee meeting, 13 March 2024 (bankofengland.co.uk)

Other ICMA primary market activities

Other ICMA primary market activities are set out below:

1 *EU Retail Investment Strategy* (RIS): ICMA staff have continued to monitor and report to members on European Council deliberations leading up to its RIS Regulation position (notably regarding PRIIPs product scope) and RIS Directive position (notably regarding the MiFID regimes on product governance for non-PRIIPs and on inducements, costs and charges and marketing materials), ahead of pending trilogue negotiations with the European Commission and the European Parliament.

2 *EU Listing Act:* ICMA staff have been looking to gather member views on the outcome of the Level 1 trilogue negotiations between the European Council, Parliament and Commission (notably on the MAR market soundings regime alleviations and on ESG aspects in the context of pending Prospectus Regulation Level 2 measures).

3 *UK PRIIPs/CCIs regime:* ICMA staff continue to watch for further HM Treasury and FCA proposals regarding the planned new regime.

4 *UK prospectus regime:* ICMA staff continue to watch for further detailed FCA proposals regarding the planned new regime (with a consultation expected over the summer).

5 *ICMA Hong Kong SFC code templates:* ICMA staff have been updating various ICMA templates relating to the Hong Kong SFC bookbuilding and placing code of conduct.

6 *ICMA Primary Handbook/Singapore stays:* ICMA staff will be updating the ICMA Primary Market Handbook regarding Singapore's provision on contractual recognition of stays.

7 On 11 June 2024, at a seminar organised by Tradeweb, China Construction Bank and CICC on the latest opportunities in the China Interbank Market, ICMA staff moderated a panel on new opportunities in panda bond issuance. The panel included representatives from NAFMII, New Development Bank, CICC, ICBC Standard and the London Stock Exchange. The panel focused on a wide range of issues, including the reasons for the recent growth in the panda bond market, green panda bonds, and how the panda bond market may develop in the future.

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Secondary Markets

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




T+1: recent developments across the international bond markets

US move to T+1

The US moved to T+1 on 28 May 2024, the same weekend as Canada, Mexico and a few other jurisdictions across the Americas. According to the main headlines and DTCC's daily metrics, it looks as if the move has been going very smoothly so far, with only minor teething problems on day one in both the US and Canada, which were well within the expectations given the scale of the transition and which did not seem to have affected settlement rates. In fact, in terms of settlement efficiency, the set goal of DTCC to achieve affirmation rates of over 90% by 9 pm on trade date (T+0) has so far been consistently surpassed, with affirmation rates averaging 95% over the first days following the go-live. As DTCC highlighted in its press release, the smooth transition can certainly be attributed to a large degree to around three years of intense preparatory work and consistent communication with the industry. Although it is probably also true that extra efforts have been undertaken over the transition period, eg through additional staffing, which means that it will be interesting to see how things develop over the next weeks as business gets back to usual. Over the next weeks, we will hopefully also obtain more clarity on more specific impacts in areas such as repo, stock lending and liquidity provision of certain instruments (corporate bonds, high yield) to see whether there are any changes in market participants' behaviour as result of the shorter settlement time. From a European perspective, it will be essential to keep a close eye on the process over the next weeks and months in order to learn the lessons from the US experience. ICMA is planning to host a webinar on this topic later this summer.

The UK's Accelerated Settlement Taskforce

Triggered by the US initiative, late in 2022 HM Treasury established its own Accelerated Settlement Taskforce (AST), an industry expert group led by Charlie Geffen, as independent Chair and a mandate to look into implications for a potential UK move to T+1. In March 2024, the AST Chair released his interim Report which was subsequently endorsed by HM Treasury and puts forward a number of recommendations, most importantly a clear message that the UK should move to T+1 no later than December 2027. Another recommendation of the Report has been to establish a Technical Group (TG) under a new Chair, Andrew Douglas, to work out further implications and recommendations for a UK move to T+1, with the aim of delivering a final Report by the end of 2024, as per the AST's original mandate. The TG consists of a steering group, as well as various sub-groups and workstreams across all different market areas. ICMA has been part of the AST from the beginning and is now also engaged in the TG's Steering Committee and a number of its sub-groups and workstreams, which also enjoy a broad participation from market participants across all industry areas, which is encouraging.

EU discussion on T+1

In the EU, ESMA has been mandated under CSDR Refit to look into the implications of a potential shortening of the settlement cycle in the EU, including from a cost-benefit perspective, and has been conducting a call for evidence (CfE) consultation at the end of 2023 to which ICMA responded, alongside a large number of other trade associations and other market participants. As was highlighted in ICMA's response, T+1 would be a much more complex undertaking in the EU compared to the US and UK for a number of reasons, including: (i) the fragmentation of EU markets, with its numerous market infrastructures, as well as a lack of harmonisation in areas such as corporate insolvency, tax laws and related areas; (ii) a larger scope of a potential move to T+1, given that EU Government bonds are still settling on a T+2 basis, whereas UK Gilts and US Treasuries already settle on T+1; and (iii) existing challenges in terms of settlement efficiency, which led to the CSDR settlement discipline regime, including cash penalties for settlement fails, which add further complexity and cost, especially if the current ESMA proposals to increase penalties are adopted. In terms of next steps, following the CfE consultation, ESMA issued an initial feedback statement in April and is holding a public hearing on this topic on 10 July. The final Report is currently expected in January 2025 at the latest. Aside from ESMA's work, the European Commission held a T+1 roundtable in January 2024, at which the Commissioner sent a clear message in emphasising that it is not a question of "if", but "when" and "how" the EU will move to T+1. Taking all of the above factors into consideration, the EU cross-industry taskforce (EUT1-ITF), an industry initiative launched in 2023 by 15 trade associations, including ICMA, aims to explore implications of a move to T+1 in the EU and is meeting regularly to coordinate views and conduct further work to start developing a possible pathway to T+1 in the EU. The objective of the current work is to finalise further input for ESMA and the European Commission over the summer to inform the ongoing discussion. ICMA is a member of the Steering Group and chairs sub-groups on "Trading" and "Securities Financing".

In summary, ICMA remains engaged on all sides with respect to this important topic, through the various initiatives mentioned above as well as through ICMA's own T+1 Taskforce, which was put in place in 2023. Interested members who would like to join the discussion, please reach out.

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EU and UK bond market transparency and the tape: a comparison

Introduction

Both the EU and UK are currently in the process of reviewing and amending their respective regimes for bond market transparency as well as introducing over the next years the so-called consolidated tape – a single "golden" source of data for market participants. This is with a view to enhancing transparency in the bond markets, which should lead to increased participation and ultimately help to boost each jurisdiction's competitiveness with respect to international capital markets.

In the EU, the revised MIFIR Level 1 legislation entered into force on 28 March 2024, leaving ESMA with the mandate to develop the respective regulatory technical standards (RTS) on bond market transparency and the consolidated tape within nine months, by the end of December 2024. In this regard, ESMA has recently released two larger MIFIR review consultation packages with respect to the RTS: (i) on bond market transparency and (ii) on Consolidated Tape Providers, each with deadlines of 28 August 2024, to which ICMA intends to respond via its MiFID Working Group. ESMA will furthermore be coordinating this important work with an expert stakeholder group on market data, to be appointed by the European Commission as per the end of June this year.

In the UK, and following the UK's Wholesale Market Review conducted in 2021, the FCA has already completed the consultation process on both the UK Consolidated Tape Framework via its consultation papers CP 23/15 and CP 23/33, and a new transparency regime for bond markets under CP23/32. The FCA has since issued a policy statement on the UK Consolidated Tape Framework, with the respective rules having entered into force in April 2024 under the revised Data Reporting Services Regulations. With regard to bond market transparency and a new deferral regime for bond markets, the FCA is expected to release a policy statement in H2 2024.

The following article takes a snapshot of both regimes as they are currently presented in the respective EU and UK proposals, seeking to describe some key highlights and differences with respect to expected timelines, proposed deferral regimes and the construction of the bond consolidated tapes.

EU and UK bond market transparency and the tape: a comparison

Current expected timeline

EU

- Until end 2024: ESMA to finalise RTS and selection criteria for bond CTP
- Until end 2024: ESMA to develop RTS on bond market transparency
- Q1-Q3 2025: selection of bond CTP
- Q4 2025: authorisation of bond CTP
- Q4/2025/likely Q1/2026: Bond CTP to start operations

UK

- Until end 2024: FCA to publish policy statement and amend bond market transparency regime
- H2 2024/Q1 2025: FCA to conduct tender and appoint bond CTP
- During 2025: Changes to bond market transparency regime to apply
- H1 2025: authorisation of bond CTP
- H2 2025: bond CTP to start operations

Transparency regime

EU

Grouping of Bonds

Sovereign bonds / Corporate, convertible and other bonds / Covered bonds

Deferral Tables

Category	Issuance Size	Size	Price Deferral	Volume deferral
N/A	Any	< 5 Mn	Real time	
1	>= 1 Bn	[5Mn – 15Mn[	15 minutes	
2	< 1 Bn	[5Mn – 15Mn[	End of trading day	
3	>= 1 Bn	[15Mn – 50Mn[	End of trading day	One Week
4	< 1 Bn	[15Mn – 50Mn[	End of trading day	Two weeks
5	Any	>= 50Mn	Four Weeks	

Source: ESMA CP – Table 10: Deferral regime for sovereign & other public bonds

Category	Issuance Size	Size	Price Deferral	Volume deferral
N/A	Any	< 1 Mn	Real time	
1	>= 500 Mn	[1Mn - 5Mn[	15 minutes	
2	< 500 Mn	[1Mn - 5Mn[	End of trading day	
3	>= 500 Mn	[5Mn – 15Mn[	End of trading day	One Week
4	< 500 Mn	[5Mn – 15Mn[	End of trading day	Two weeks
5	Any	>= 15 Mln	Four Weeks	

Source: ESMA CP - Table 11: Deferral regime for corporate, convertible and other bonds

Category	Issuance Size	Size	Price Deferral	Volume deferral
N/A	Any	< 5 Mn	Real time	
1	>= 250 Mn	[5Mn – 15Mn[	15 minutes	
2	< 250 Mn	[5Mn – 15Mn[	End of trading day	
3	>= 250 Mn	[15Mn – 50Mn[	End of trading day	One Week
4	< 250 Mn	[15Mn – 50Mn[	End of trading day	Two weeks
5	Any	>= 50Mn	Four Weeks	

Source: ESMA CP -Table 12: Deferral regime for covered bonds

- *Supplementary volume deferrals for sovereign bonds of an additional six months in all categories*

UK

Grouping of Bonds

Sovereign and other public bonds / Corporate, covered, convertible and other bonds

Sovereign and Other public bonds

Issuer	Issue size	Maturity	Price & size in real time	Price: 15 mins Size: T+3	Price & size 4 weeks
UK, France, Germany, Italy and USA	>£1bn	<5yr	<£15m	£15m≤·<£50m	≥£50m
		5-15yr	<£10m	£10m≤·<£25m	≥£25m
		>15yr	<£5m	£5m≤·<£10m	≥£10m
Other instruments			<£2m	£2m≤·<£4m	≥£4m

Corporate, Covered, Convertible & Other bonds

Currency	Issuer Rating	Issue size	Price & size in real time	Price: 15 mins Size: T+3	Price & size 4 weeks
GBP, EUR & USD	IG	>£500m	<£1m	£1m≤·<£10m	≥£10m
All other instruments			<£500k	£500k≤·<£5m	≥£5m

Source: FCA CP23/32 - Table 10: Model 1: Proposed size thresholds and deferrals

Sovereign and Other public bonds

Issuer	Issue size	Maturity	Price & size in real time	Price: EOD Size: EOD
UK, France, Germany, Italy and USA	>£1bn	<5yr	<£15m	≥ £15m (cap at £50m)
		5-15yr	<£10m	≥ £10m (cap at £25m)
		>15yr	<£5m	≥ £5m (cap at £10m)

Sovereign and Other public bonds

All other instruments			<£2m	≥ £2m (cap at £4m)

Corporate, Covered, Convertible & Other bonds

Currency	Issuer Rating	Issue Size	Price & size in real time	Price: EOD Size: EOD
GBP, EUR & USD	IG	>£500m	<£1m	≥ £1m (cap at £10m)
All other instruments			<£500k	≥ £500k (cap at £5m)

Source: FCA CP23/32 - Table 12: Model 2: Proposed size thresholds and deferrals

- *Not available*

CTP framework and tender

EU

CTP Tender design

- 1-Stage Process including qualitative and quantitative criteria (in form of exclusion criteria, selection criteria, award criteria) as proposed by ESMA CP
- Criteria include Resilience, Organisational Requirements, Ability to Process Data, Governance Structure, Dissemination speed, Data quality, Expenditure and Costs, Fees and RCB, Revenue redistribution for bonds, Modern interface and connectivity, Record keeping, business continuity and cyber risk

Connection to CTP

- CTP to connect to data providers individually

Value-added services

- Currently to be further determined at Level 2/ESMA

Cost/Bond Revenue sharing

- No cost sharing foreseen
- Revenue sharing part of the selection criteria as per ESMA CP proposal, ESMA to assess intent

UK

CTP Tender design

- 2-Stage Process with qualitative criteria in Stage 1 and price bidding process in Stage 2
- Tender to include a programme of operations including organisational structure and compliance policies, list of outsourced functions, procedures around selection, evaluation, removal and other policies around senior management and members of management body in Stage 1; Price in Stage 2

Connection to CTP

- Data providers to connect to CT

Value-added services

- CTP to offer core services (including real-time data and historical data)
- Value-added services to be offered only via separate entity

Cost/Bond Revenue sharing

- Connectivity cost sharing proposal as per CP23/33, TBC further
- No revenue sharing foreseen (as per CP23/15), TBC further

Sources: FCA CP23/15 FCA CP23/32 FCA CP23/33 ESMA CP on Consolidated Tape Providers ESMA CP on Bond Market Transparency MIFIR amended regulation

Timing

The above timelines, as they currently stand, demonstrate that the UK could reach the finish line slightly earlier than the EU, with plans for the UK CTP to start its operation in the second half of 2025, compared to the EU CTP which is expected to be ready to go live at the end of 2025 or early 2026. Both the EU and UK are planning to finalise their respective bond market transparency and deferral regimes over the next months, and before the bond CTPs go live.

Different regimes?

With respect to the proposed deferral regimes, and as outlined in each respective consultation paper, it is worth noting that, whilst both the EU and UK seek to dramatically enhance the current levels of transparency in Europe, the proposals differ on various levels, such as the groupings of bonds, the actual deferral table and also the proposed issuance sizes and traded volume thresholds.

Groupings of bonds

Where ESMA, as per its proposal, is looking to categorise bonds into three groupings, (i) sovereign bonds, (ii) corporate/convertible/other bonds and (iii) covered bonds, assembling a high number of very different types of bonds under the same "roof", specifically in the case of sovereign bonds, the FCA, in a first step, also distinguishes between (i) sovereign and other public bonds and (ii) corporate, covered, convertible and other bonds, but then splits these two categories into two further sub-groups. It does so by applying the three criteria of "country of issuance" (US, UK, Germany, France and Italy), "Issue size" (>£1 billion) and "Maturity" (5-15 years) to sovereign and other public bonds, to separate the issuers with the highest liquidity profiles from the rest of the spectrum. On the corporate bond side, the FCA follows the same methodology but applies slightly different criteria, which are "currency of issuance" (USD/EUR/GBP), "issue size" (>£500 million) and "issuer rating" (investment grade) to draw the line between the credits with the highest liquidity profile from all remaining ones. This methodology provides room to run calibrations for each sub-group separately and for the regulator to then apply different thresholds within the same broader grouping.

Compared to the FCA, ESMA's proposal foresees a division into the three groupings, (i) sovereign bonds, (ii) corporate/convertible/other bonds and (iii) covered bonds, but does not propose any further sub-division. Furthermore, and as set already as per MIFIR Level 1 legislation, the liquidity definition will be determined purely by issuance size. As a result, the ESMA proposal offers less differentiation and will include a much wider range of different types of issuers in the "liquid" buckets of the deferral table, for both the sovereign and corporate issuer universe.

Deferral tables

With respect to the deferral of publication of certain instruments, the EU, as pre-determined in the Level 1 MIFR legislation, offers five different buckets with deferrals ranging from 15 minutes to four weeks, which bears certain similarities to the FCA's proposed Model 1, with the FCA Model presenting a simpler version containing only two different deferral times. The FCA, in addition, presents an alternative via its Model 2, which foresees that all trades shall be published by end of trade day, while allowing the largest and most sensitive transactions to be masked by an infinite volume cap. As per its proposals, the FCA intends that "both models deliver an identical high level of real-time post-trade transparency for between 75% and 92% of the trades and between 4% and 20% of volume". In the EU, ESMA seeks as per the current consultation to capture around 90% of all trades (as per number of trades) real-time, as outlined in paragraph 99 of the proposal for sovereign bonds, and paragraph 104 for corporate bonds, and seeks to calibrate the respective thresholds on traded volumes accordingly.

As mentioned above, both regulators aim for a huge shift towards higher levels of transparency, with the EU's initial ambitions perhaps even higher, as per the aforementioned proposals. At the same time, it is worth highlighting that the EU will ultimately leave more room to the deferral of sovereign bonds, by retaining the supplementary deferral regime for sovereign bonds that existed under the old MIFIR Regulation, albeit in an overhauled version whereby, going forward, at the discretion of NCAs, extended deferrals for sovereign debt instruments issued by its Member State will be allowed for up to six months only (versus indefinitely before). This type of supplementary regime has been discontinued by the FCA in its consultation proposal under CP23/32, by which all sovereign bonds traded in the UK would now be either subject to a maximum deferral of four weeks, if included in the last bucket under proposed Model 1, or, alternatively as per proposed Model 2, subject to a price publication by end of day at the latest, paired with an indefinite volume cap.

Consolidated tape design

Finally, the EU and UK present different approaches in regard to the construction of the Consolidated Tape Framework and CTP tender process. In the EU, the MIFIR Level 1 Regulation under Article 27da and 27h includes a very detailed description of organisational requirements, which in turn will form part of the selection criteria, for the CTP candidates to fulfil. This is being further developed through ESMA's current consultation on the RTS on Consolidated Tape Providers which, based on the Level 1 text, aims to assess the CTP candidates in the selection procedure via three sets of criteria, namely exclusion criteria, selection criteria and award criteria, which will feed into the selection of the CTP through one single stage process.

In contrast, the FCA in the UK aims to conduct the tender via a two-stage process whereby in Stage 1 there will be a number of qualitative criteria taken into account, as defined per the UK Data Reporting Services Regulation Article 6 and FCA Handbook MAR9.2A. It is worth noting that in the UK the rules in regard to the organisational requirements and selection criteria are far less prescriptive, leaving more room for interpretation. Furthermore, once successful candidates have passed the first level, Stage 2 will thereafter solely focus on a bidding competition around the pricing of the CTP licences. ICMA's response to CP23/15 highlights concerns about a risk of a "race to the bottom", whereby in Stage 2 the bidder with the lowest price might win the race, but perhaps to the detriment of the standard and quality initially presented in Stage 1. It is worth noting that, following the initial proposals and policy statement, the FCA is currently still in the process of designing such tender, with the assistance of Dot.Econ, which in 2023 published a Report on *Procuring a Consolidated Tape Provider.*

Value-added services

When it comes to the offering of value-added services, there is a clear distinction intended between core services and value-added services by the FCA, as expressed in the policy statement under CP23/33, whereby the CTP will have to offer core services under its regulated entity, and may furthermore offer value-added services only under a legally separate entity. It is worth highlighting that the FCA counts the offering of a historical data service (hereby including the raw data only) as part of the core CTP function. In the EU, the treatment of value-added services may be further determined at Level 2.

Cost and revenue sharing on the bond tape?

With respect to cost or revenue sharing, and looking solely at the bond CTP, ESMA proposes in its consultation paper paragraphs 272-274 that revenue sharing should form part of the selection criteria, in connection to "duly recognising the role that small trading venues play in facilitating undertakings' access to debt issuance for financing purposes", and that "ESMA will only assess whether the applicants for the consolidated tape for bonds intend to put in place arrangements for revenue redistribution but will not assess the details of the specific arrangements". Moreover, no cost sharing is considered in the EU.

In the UK, revenue sharing has so far not been considered in the bond CTP, however the consultation paper CP23/33 considered ways of sharing the connectivity cost between the CTP and data providers, looking mainly at options for a one-off payment, to which ICMA provided its response in February 2024. It is important to highlight that, as per the respective proposals, in the UK, each data provider will have to connect to the CTP by a chosen protocol by the CTP, whereas in the EU, as per Level 1 legislation, and to be further developed in the RTS, the CTP will have to connect to each data provider individually.

Outlook

This article has tried to provide an overview and draw an early comparison between the planned transparency frameworks in the EU and UK, with both regimes still work in progress for the time being, and further information still to follow throughout this year. Going forward, it will be of interest to see how market participants will be affected by the difference in regimes, which of course presents challenges, but also perhaps opportunities, and how the markets will react. ICMA has been highly engaged in the transparency and consolidated tape work of both jurisdictions through its MiFID Working Group and intends to remain involved as the journey towards greater transparency in Europe continues.

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Calibration of EU bond market deferral regime

Working with members of its MiFID Working Group (MWG), ICMA is currently in the process of constructing its response to the ESMA consultation paper on its proposed revisions to RTS 2 of MiFIR. An important part of this is ICMA's assessment of ESMA's proposal for a new EU bond transparency framework (see previous article), as well as developing a potential ICMA counterproposal.

The ESMA proposal

The starting point for ICMA's analysis is to assess what is the likely impact of the ESMA proposed deferral calibrations with respect to the quantum of secondary bond market activity that would be subject to "real-time" or near "real-time" transparency, and that which would benefit from deferred publication. To do this we retrofitted the proposed ESMA deferral framework for the three groupings of bond types using 2023 MiFIR data.[1] The results are illustrated in the following matrices.

1. Sourced and aggregated using Propellant.digital software

Deferral regime for sovereign and other public bonds

Category	Issuance size	Size	ISIN Count	Transaction Count	Notional Amount EUR
Real Time	Any	<5mn	10,186	5,808,367	5,353,834,838,480
15mins	≥1bn	5mn<15mn	3,848	779,694	5,951,408,416,346
End of day	<1bn	5mn<15mn	1,714	6,620	50,460,936,235
EoD P / 1w V	≥1bn	15mn<50mn	2,911	288,535	7,713,917,666,151
EoD P / 2w V	<1bn	15mn<50mn	697	1,625	38,757,500,192
4 weeks	Any	≥50mn	1,878	67,976	5,413,805,677,961
Category	**Issuance size**	**Size**	**ISIN Count**	**Transaction Count**	**Notional Amount EUR**
Real Time	Any	<5mn	48%	84%	22%
15mins	≥1bn	5mn<15mn	18%	11%	24%
End of day	<1bn	5mn<15mn	8%	0.1%	0.2%
EoD P / 1w V	≥1bn	15mn<50mn	14%	4%	31%
EoD P / 2w V	<1bn	15mn<50mn	3%	0.02%	0.2%
4 weeks	Any	≥50mn	9%	1%	22%

Deferral regime for corporate, convertible and other bonds

Category	Issuance size	Size	ISIN Count	Transaction Count	Notional Amount Eur
Real Time	any	<1mn	42,020	2,669,931	522,844,934,130
15mins	≥500mn	1mn<5mn	14,653	385,736	740,842,946,369
End of day	<500mn	1mn<5mn	9,792	59,402	116,618,682,326
EoD P / 1w V	≥500mn	5mn<15mn	8,877	67,655	487,306,142,144
EoD P / 2w V	<500mn	5mn<15mn	3,386	7,823	59,224,904,501
4 weeks	any	≥15mn	4,139	12,589	457,782,687,724
Category	**Issuance size**	**Size**	**ISIN Count**	**Transaction Count**	**Notional Amount Eur**
Real Time	any	<1mn	51%	83%	22%
15mins	≥500mn	1mn<5mn	18%	12%	31%
End of day	<500mn	1mn<5mn	12%	2%	5%
EoD P / 1w V	≥500mn	5mn<15mn	11%	2%	20%
EoD P / 2w V	<500mn	5mn<15mn	4%	0.2%	2%
4 weeks	any	≥15mn	5%	0.4%	19%

Deferral regime for covered bonds

Category	Issuance size	Size	ISIN Count	Transaction Count	Notional Amount Eur
Real Time	any	<5mn	1,637	57,453	40,203,632,112
15mins	≥250mn	5mn<15mn	704	5,862	46,985,976,678
End of day	<250mn	5mn<15mn	119	272	2,223,306,210
EoD P / 1w V	≥250mn	15mn<50mn	382	3,548	102,791,381,898
EoD P / 2w V	<250mn	15mn<50mn	50	102	2,422,758,570
4 weeks	any	≥50mn	152	526	67,680,393,000
Category	**Issuance size**	**Size**	**ISIN Count**	**Transaction Count**	**Notional Amount Eur**
Real Time	any	<5mn	54%	85%	15%
15mins	≥250mn	5mn<15mn	23%	9%	18%
End of day	<250mn	5mn<15mn	4%	0.4%	1%
EoD P / 1w V	≥250mn	15mn<50mn	13%	5%	39%
EoD P / 2w V	<250mn	15mn<50mn	2%	0.2%	1%
4 weeks	any	≥50mn	5%	1%	26%

Given that, with respect to bonds, "real time" and 15 minutes equates to the same thing, the ESMA proposal will significantly increase the immediacy of transparency in the EU. As can be seen from the above, this will result in around 95% of trades in sovereign and other public bonds, 95% of trades in corporate, convertible, and other bonds, and 94% of trades in covered bonds being subject to near real time reporting.

Analysing the calibration of the ESMA proposal

To determine whether this could have potentially unintended consequences for the provision of market liquidity as a result of excessive information leakage, requires looking more closely at how different bond types are grouped together, the accuracy of the determination as to whether bonds within the groupings are "liquid" or "illiquid", the veracity of the static trade size ranges used to assign transactions within the bond groupings as "medium", "large", or "very large", as well as the appropriateness of the deferrals themselves.

In undertaking this analysis, we are using 2023 MiFIR bond market trade data to look at the average daily volume (ADV) across different bond types, as well as sub-classes within bond types, along with historical trade size distributions. This allows us to make informed assessments as to what constitutes a larger than average transaction, by bond type and sub-class, as well as estimating the time that is required for a liquidity provider to trade out of a position of a particular size for such bonds.

Bond groupings

How different bond types are grouped together for the purposes of calibrating transparency deferrals is critical in influencing the optimisation of deferral calibrations. Lumping together bonds with very different liquidity profiles will make any such calibration less accurate, and the more heterogenous the grouping, the less meaningful the aggregated data related to that grouping becomes. For example, putting the on-the-run ten-year German Bund, an EBRD zloty issuance, and a Colombian TES in the same grouping for the purposes of determining a common deferral calibration is unlikely to result in a good outcome.

However, there is a clear intention to move away from the current ISIN-level deferral determination and to create something relatively simpler and more standardised. Hence groupings based on the MiFID defined bond types, of which there are six classes: (i) sovereign bonds; (ii) other public bonds; (iii) corporate bonds; (iv) convertible bonds; (v) covered bonds; and (vi) other bonds. Even if we assume that bonds are assigned the correct categorisation in the ESMA Financial Instruments Transparency System (FITRS)[2], there is still the issue of sub-classes within bond types also having quite diverse liquidity profiles. For example, even within the sovereign bond category, this requires grouping together the on-the-run ten-year OAT with an Italian "linker", a Swedish krona bond, and a Singaporean two-year note.

Groupings, therefore, only make sense if the deferral regime is calibrated to the least liquid sub-class within each group.

Liquidity determination

Whether a bond is considered "liquid" or "illiquid" remains a key element of determining the appropriate deferral. In a further bid to simplify and standardise the revised transparency regime, ESMA looks to determine whether a bond is classified "liquid" based on endogenous characteristics related to the relevant bond grouping. In fact, just one endogenous feature: issuance size (ie the notional value of the outstanding issuance of the bond).

There are a number of features of a bond that might be considered to have an impact on its relative liquidity. These could include time since issuance, time to maturity, issuance size, credit rating, currency denomination, and benchmark status. Regression modelling previously undertaken by ICMA suggests that after time since issuance, the next most relevant feature affecting the liquidity of a bond (as defined by relative ADV) is issuance size. With respect to determining the issuance size threshold for what constitutes "liquid", one possible method could be to plot issuance size against ADV for a particular bond type or sub-class and to identify an inflection point in the curve (ie the point at which the gradient of the curve steepens). However, this assumes a quadratic relationship, and ICMA analysis to date instead suggests a linear relationship. This makes identifying the sweet spot in issuance size for a given set of bonds difficult and even arbitrary.

ESMA proposes that the threshold for the category of sovereign and other public bonds is €1 billion equivalent notional value, €500 million for corporate, convertible, and other bonds, and €250 million for covered bonds. We have yet to determine how appropriate these proposed thresholds are. However, in theory, these should be calibrated based on the most liquid sub-class of bonds in a given grouping.

Trade size thresholds

Perhaps the most important piece of analysis will relate to the calibration of the trade size thresholds which will determine whether a transaction is eligible for a deferral, and for how long. This is particularly pertinent given the relatively limited room to regroup bonds or to model the liquidity determination. Furthermore, the sixth deferral category, which affords the longest deferral (four weeks for both price and volume), and therefore the most protection for liquidity

2. A lack of consistency in how bonds are classified in FITRS presents another challenge to creating a transparency framework based on bond types

providers, is based purely on a single trade size threshold with respect to each grouping. Under ESMA's proposal this is greater than or equal to €50 million notional equivalent for sovereign and other public bonds, as well as for covered bonds, and €15 million for corporate, convertible, and other bonds.

In determining the appropriate trade size thresholds, it will be necessary to look at trade size distributions, as well as ADV (to estimate the time required to trade out of a position of a given size), with a focus on the least liquid sub-classes within each category.

Deferrals

With respect to calibrating the time for which the publication of market sensitive trades can be deferred, ESMA is relatively limited in scope. This is due to a very prescriptive deferral framework, including a maximum deferral period of four weeks, unhelpfully being baked into the Level 1 Regulation.

However, the deferrals for the fourth and fifth categories (large trades in liquid bonds and large trades in illiquid bonds respectively) do have a degree of flexibility and may warrant further scrutiny. Currently the proposal suggests that in the case of the former, publication of the price is deferred until the end of day, with the volume deferred for one week, and in the case of the latter, the price also deferred until end of day, with the volume deferred for two weeks. When it comes to less liquid bonds and information leakage, a lot can be inferred from price alone. By comparing this with where the market was quoted at the time of trading it is relatively easy to ascertain whether the trade was a risk trade (ie whether a liquidity provider took the other side of the trade), whether the risk taker bought or sold, as well as clues about the relative size of the trade. When it comes to such trades, it may therefore be important to align the publication of price with the longer deferral for volume.

One exception to the four-week maximum deferral, however, is for EU sovereign issuers. Here relevant national competent authorities have the option to apply an additional six-month deferral to the publication of trade volumes or to publish trades in aggregation (with disaggregation applying six months later). This amends the existing option for indefinite deferrals or aggregation, which is widely applied by some sovereign issuers.

Next steps

Working with its MiFID Working Group, ICMA hopes to finalise its assessment of the ESMA proposal for the revised bond transparency framework, along with any counterproposals intended to improve the design and calibration, in the coming weeks, and well ahead of the consultation deadline of 28 August 2024. The MWG is made up of member firms representing sell sides, buy sides, as well as trading venues and data providers active in the EU bond markets. ICMA encourages all member firms affected by the calibration of bond transparency in the EU to engage actively in this work.

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The ICMA Bond Market Liquidity Taskforce

Background: In November 2022, ICMA's Committee of Regional Representatives (CRR) suggested that ICMA should leverage its various initiatives related to fixed income to identify potential risks and vulnerabilities within the markets. In response, ICMA mobilised a Bond Market Liquidity Taskforce. The Taskforce is made up of interested ICMA members, representing sovereign, corporate, short-term and repo markets, including sell-side and buy-side and relevant financial market infrastructures.

*Phase 1***:** In its first phase, following inputs from the Taskforce, the Secretariat undertook an in-depth analysis into the core European sovereign bond markets. These were identified to be those of Germany, France, Italy, Spain and the UK. In March 2024 ICMA published *Liquidity and Resilience in the Core European Sovereign Bond Markets.* The analysis is based on both quantitative analysis and qualitative interviews. In addition to providing an overview of the markets, the paper provides suggestions for policy makers to enhance market resilience.

Phase 2: After successfully delivering Phase 1, the Secretariat is coordinating and mobilising Phase 2 for the second half of 2024. This will take the form of an in-depth exploration of the European investment grade corporate bond market. Similar to Phase 1, an initial quantitative analysis will be undertaken, followed by qualitative interviews from ICMA members, which will be synthesised and anonymised and used to confirm the findings of the quantitative analysis. Phase 2 aims to answer the following questions:

- How is the market evolving, what are the dynamics driving this, the implications for investors and issuers, and how is this impacting liquidity?
- What market initiatives and policy measures would help to improve market efficiency, liquidity and growth?
- Other key themes include trends in e-trading, automation, the trend towards smaller trade sizes, the effects of transparency, central bank quantitative easing/tightening and the role of the credit default swap (CDS) and fixed income exchange-traded fund (ETF) markets.

*Taskforce members***:** ICMA is continuing 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 ICMA Secondary Market Practices Committee, or Nicolette Moser, Secretary to the ICMA Asset Management and Investors Council.

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CSDR cash penalties

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

On 11 March, ICMA further published a *Briefing Note* on the ESMA proposals, largely based on the consultation response, identifying a number of weaknesses, and serving as a platform for engagement with the Commission, ESMA, NCAs, and other key regulatory authorities.

The identified weaknesses can be summarised as follows:

- In its proposal, it is not clear what is the issue with EU settlement efficiency, what problem the revised penalty framework is intended to address, or what is the intended desirable outcome.
- None of the proposed reforms are backed up by data or analysis.
- There is no quantification, or even recognition, of the marked improvement in EU settlement efficiency rates since February 2022.
- No distinction is made between behavioural settlement fails and structural fails. This is significant since penalties will only be effective in addressing the former.
- There is no acknowledgement of the very clear positive correlation between settlement efficiency rates and short-term interest rates. In other words, no recognition of the "natural" cost of failing, which in itself is an incentive to improve settlement efficiency thereby making penalties less relevant in higher interest rate environments.
- There is no economic basis for the proposed progressive penalty mechanism. Either a penalty is appropriately calibrated or it is not. Furthermore, changing the rate based on the length of the fail would be difficult to implement in practice, and could inadvertently disadvantage parties that are not the cause of a settlement fail, while the suggestion of increasing then decreasing penalty rates over time based on a liquidity assessment of the underlying security appears confused.
- Not only do the rates proposed not take into account the natural cost of failing, some of the rates are disproportionate, particularly when compared with reference points such as money market rates, repo or borrowing rates, or even the economics of the underlying trade.
- There is no recognition that very high penalty rates could incentivise adverse behaviour, particularly as being failed to becomes economically lucrative. For example, there would be less incentive for purchasing parties to instruct in a timely fashion, agreeing to splitting trades into smaller ticket sizes, or accepting partial deliveries.
- There is no assessment of how higher penalty rates could impact pricing and liquidity provision in certain securities or market segments, both from the perspective of market making and securities lending.

In its outreach, ICMA points to the US Treasury Markets Practices Group (TMPG) penalty framework as an example of a penalty mechanism that is appropriately designed and proportionately calibrated to achieve its intended purpose – that of disincentivising poor settlement behaviour in low interest rate environments. With this in mind, ICMA advocates making no immediate changes to the current calibration of the penalty mechanism, but for ESMA to observe settlement efficiency rates over time, particularly in response to changes in interest rates. This should allow ESMA to make informed adjustments to the penalty rates in response to any deterioration in settlement rates or, conversely, to continued improvements.

In addition to the points listed above, a further consideration when it comes to hiking penalty rates for settlement fails is the timing and likely impact of a possible shortening of standard settlement cycles in the EU, currently being explored by ESMA. If a move to T+1 is a serious proposition, and one expected to be executed in the next few years, perhaps there is even less justification for debating the relatively limited usefulness of higher penalties and instead a more compelling need to focus on driving structural enhancements and practices that ensure its success.

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Repo and Collateral Markets

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



ICMA's European Repo and Collateral Council

25 years of the ERCC: In 1999, the European Repo and Collateral Council (ERCC) was formally established by a group of dedicated market professionals who wanted to give the relatively nascent repo market a voice. Today, 25 years later, the ERCC is firmly established as the main representative body for the cross-border repo and collateral market in Europe and beyond. To celebrate the ERCC's success story and the numerous individuals who have been involved over the years and contributed to its success, on 25 April 2024 ICMA hosted a gala dinner at Plaisterer's Hall in London. The event was attended by over 200 invited participants and was a great opportunity to bring together the repo community from all over Europe and across generations for a memorable evening among colleagues and friends. ICMA Chief Executive Bryan Pascoe opened the evening with his thoughts on the ERCC, followed by Gareth Allen, current ERCC Chair, and Godfried De Vidts who chaired the ERCC for almost 20 years and now supports the group as a Senior Adviser. A highlight of the evening was the keynote address delivered by Grigorios Markouizos, Citi, who shared his insights from a long and impressive career as a repo market practitioner and former member of the ERCC Committee, reflecting on the significance of the repo market for the wider financial system. Our thanks go out to all participants and especially to the sponsors who made this event possible.

46th European Repo Market Survey: On 14 May 2024, ICMA released the 46th edition of its European Repo Market Survey. The results are based on responses received from 60 participating banks, representing the key players in the European repo market. As of the survey date (6 December 2023), the total value of repo contracts outstanding on the books of contributing firms hit a new record high of EUR10,899 billion, up from EUR10,794 billion in the June 2023 survey. The unadjusted growth in the headline number was +1.0% since June and +5.1% year-on-year. A more detailed summary of the key findings can be found here.

The reference date for the next (47th) survey was 12 June 2024. Firms who are not yet contributing to the survey and would like to participate can find further details here.

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ICMA's Global Repo and Collateral Forum

ICMA's Global Repo and Collateral Forum (GRCF) continues to meet on a quarterly basis. The latest meeting took place on 4 July, covering as usual a broad range of topics, from regional repo market developments, with a specific focus on the Chinese repo market, to broader global themes, such as the debate on shortening of the settlement cycle, following the recent US move to T+1 settlement, the discussion about repo clearing as well as ICMA's latest work in relation to repo and sustainability. The GRCF is open to all ICMA members with an interest in global cross-border repo markets. If you would like to join the GRCF, please send an email to grcf@icmagroup.org.

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EBA Q&A on LCR on open reverse repos

On 3 May 2024, the EBA updated its Q&A relating to the LCR treatment of open maturity reverse repos which can be terminated at any point in time. The revised Q&A states the following:

"As indicated in the Q&A 6163, inflows cannot be recognised from open reverse repos if the option to call them within the following 30 days has not been exercised. This does not prevent the reporting institution from recognising the relevant inflow if it can demonstrate to the supervisor that the open reverse repo would be called and effectively mature under certain circumstances, within the following 30 days. In such a case the reporting institution may recognise inflows by applying the rates envisaged in Article 32(3)(b) of Commission Delegated Regulation (EU) 2015/61 and report them under C74 accordingly under item 1.2 "Inflows from secured lending and capital market-driven transactions" in the relevant row depending on the type of collateral."

This revises previous guidance, originally published in October 2022, which opined that open reverse repos terminating within the following 30 days were to be treated as contingent inflows, and so could not be recognised for LCR purposes.

The ERCC had originally written to the ECB and EBA as early as January 2022 expressing industry concerns and highlighting potential adverse impacts in anticipation of such an interpretation. The ERCC, through its Prudential Working Group, remained in close contact with the EBA following the publication of the Q&A in October 2022, joining several constructive calls, as well as articulating additional considerations in a letter sent in September 2023.

The revisions to the Q&A are very much welcomed by the ERCC, and the EU repo market more broadly, particularly as this now aligns more closely with the LCR treatment of open reverse repos in other major jurisdictions.

The EBA has further stated that it will consider providing additional guidance to support the evaluation of the demonstration by banks of the maturity of the open reverse repos in the context of its next monitoring report for the implementation of the LCR and NSFR.

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EU NSFR and SFTs

On 7 May 2024, the ERCC published a *Briefing Note* highlighting concerns related to the recalibration of the Required Stable Funding (RSF) factors under NSFR for short-term securities financing transactions that is due to be applied in the EU in June 2025. The note, drafted with the support of the ERCC Prudential Working Group, attempts to quantify the impacts for EU headquartered banks, both in terms of the aggregate annual cost to support reverse repo activity as well as the proportion of fixed income market making that would be affected. It also points to other jurisdictions that are not implementing a similar recalibration, thereby putting EU banks at a competitive disadvantage. The concerns are not new and have been highlighted before, eg in a detailed 2016 *ERCC Briefing Note* on the potential NSFR impacts on repo.

As currently written in CRR II, from the end of June 2025 the RSF factors for reverse repos are set to revert to the BCBS levels of 10% and 15% for transactions with a term of less than six months that are secured by Level 1 HQLA and non-Level 1 HQLA collateral respectively (rather than the current levels of 0% and 5%).

Should the European Commission be inclined, ICMA understands that there is scope to amend the Regulation to maintain the current RSF factors via a targeted "quick fix" process. However, there could be growing urgency for the Commission to make a decision in the very near future given the potential for distortive market impacts. As we get closer to the June 2025 date, the more necessary it will be to price the potential impact of the new RSF factors into term funding rates. Equally, this could also prompt some EU headquartered banks to make funding decisions to offset any anticipated increase in their RSF requirements. While uncertainty remains about whether the EU NSFR will be revised to align with other jurisdictions, this creates the potential for additional volatility in the money market curve: something that ICMA is keen to flag to the Commission, among others.

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Repo transaction reporting

US data collection for bilateral repo: On 6 May 2024, the Office of Financial Research (OFR) published its final rules regarding data collection for non-centrally cleared bilateral repos in the US. The rules define the two categories of financial companies required to report, establish a timeline for data submission and specify the data elements that need to be reported. The final rule will take effect 60 days after publication in the Federal Register.

ESMA's Report on quality and use of data 2023: On 11 April, ESMA published its annual Report on the quality and use of data, marking the fourth edition of the series. The Report aims to provide transparency on how the data collected under various regulations (including SFTR) is used systematically by the EU authorities. It clarifies the actions taken to ensure data quality as well as the alignment with ESMA's broader data strategy. Additionally, it includes a number of other areas of focus including pairing and matching details, updates on observed anomalies, as well as timely valuations.

ESMA's Report on EU SFTR 2024: On 9 April, ESMA published a Report on the EU SFT markets, offering a first market-level overview of the EU repo market based on the (non-public) EU SFTR data from January 2021 to September 2023. The Report reveals that the total outstanding exposure of SFTs reported was EUR9.8 trillion in September 2023, with repos accounting for EUR6.7 trillion, or 68%, of the total. The Report also covers other findings such as repo market participants, cross-border linkages, clearing and settlement as well as collateral use. The ERCC's latest European Repo Market Survey (see Appendix E) provides a more detailed assessment of the ESMA Report, including a comparison with the findings of the ICMA survey.

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Repo market best practice

Pair-offs: As part of the ERCC's ongoing efforts to support post-trade efficiency and help minimise settlement fails, the ERCC has been developing guidance in relation to bilateral netting or "pair-offs". The objective is to help standardise the pair-off process to improve the efficiency of manual pair-offs and to facilitate automation. The proposed recommendations were published on 20 May 2024 for wider market consultation. To ensure that the guidance accurately reflects existing processes and represents market consensus, feedback from all relevant stakeholders, including service providers, is welcome. Please send any comments to ercc@icmagroup.org.

Error trades: Following initial bilateral discussions with trading platforms, the ERCC developed a set of best practice recommendations regarding the cancellation of trades executed in error by Automatic Trading Systems (ATS). These recommendations outline high-level guiding principles which aim to ensure consistency of error cancellation policies across various platforms. Following approval by the ERCC Committee, the draft guidance was published on 20 May for wider market consultation. Feedback from all stakeholders is welcome. Please submit any comments to ercc@icmagroup.org.

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S Repo and sustainability

On 4 June 2024, the ICMA Repo and Sustainability Taskforce convened to discuss the outcome of the latest member survey on the topic, which was launched in February. The survey received a total of 20 responses, predominantly from sell-side firms, with additional input from market infrastructures, rating agencies, and public sector issuers. Preliminary findings, including firms' current sustainability arrangements, current market practices across the different transaction types as well as legal and accounting considerations, were shared with the group, followed by a more detailed summary report. The report also includes preliminary recommendations, where appropriate, to address some of the identified issues. The summary report will be published in due course, following the Taskforce's review and approval.

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Sustainable Finance

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



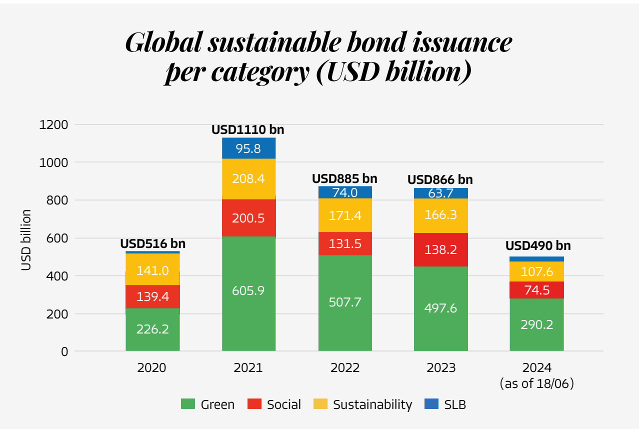


Summary

Following an update on the strong issuance numbers for the sustainable bond market mid-2024, we summarise important new guidance released by the Principles at their 2024 Annual Conference on 25 June in Amsterdam for green enabling projects and for Sustainability-Linked Loan financing Bonds (SLLB) alongside other important updates. We highlight separately a joint ICMA publication relating to Green, Social and Sustainability Sukuk. We review important developments in the EU relating to sustainable fund regulation and SFDR and summarise significant regulatory developments internationally as well as ICMA's feedback and responses.

Sustainable bond market update

As of 18 June 2024, sustainable bond issuance reached USD490 billion, representing a 10% increase year-on-year and accounting for 12% of the overall bond market. Europe continues to lead the sustainable bond market in 2024, constituting 52% of the total issuance, followed by Supranational Institutions at 18%, Asia at 17%, and North America at 10%.



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

Green bond issuance surpassed USD290 billion, a 12% increase year-on-year, and accounted for 59% of sustainable bond issuance year-to-date. New entrants to the green bond market include Australia selling an AUD7 billion (USD4.7 billion) 10-year bond and Qatar completing a dual-tranche transaction, issuing USD1 billion 5-year and USD1.5 billion 10-year bonds. In addition, Bank of Cyprus issued its inaugural green bond, EUR300 million 5-year, and National Bank of Kuwait became the country's first sustainable bond issuer by selling a USD500 million 6-year bond. Moreover, Saint-Gobain completed its first green bond sale, issuing two EUR1 billion bonds with 6-year and 10-year maturities.

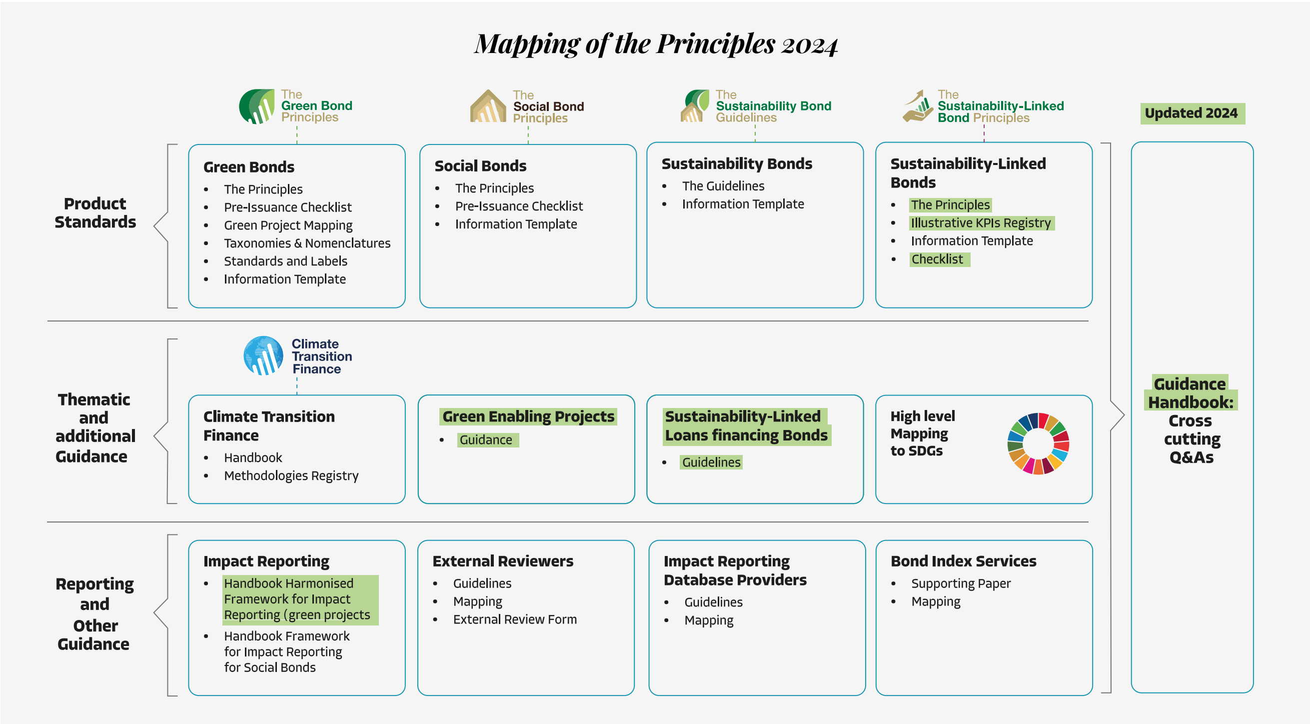
Social bond issuance topped USD75 billion and accounted for 15% of the sustainable bond issuance so far. Notable transactions include Equitable Bank's social bond debut, EUR500 million 4-year bond and BFF Bank issuing a EUR300 million 5-year social bond.

Sustainability bond issuance exceeded USD107 billion, a 21% increase year-on-year. Following its green bond issuance in 2021, Serbia sold its first sustainability bond, USD1.5 billion 10-year. Q2 also saw new entrants to the sustainable sukuk market, specifically Al Rajhi Bank issuing a USD1 billion perpetual bond and Emirates Islamic completing a USD750 million 5-year transaction. The sustainable sukuk issuance year-to-date reached USD6.8 billion and is on track to surpass the 2023 issuance of USD11.9 billion by the end of the year. Other issuers selling their inaugural sustainability bonds include Turk Telecom and LG Electronics issuing USD500 million 5-year and USD300 million 5-year respectively.

Sustainability-linked bond (SLB) issuance reached USD18 billion, accounting for 4% of the sustainable bond market year-to-date, its smallest share since 2020. In Q2, new issuers entering the SLB space included PostNL, which raised EUR 300 million from its inaugural SLB issuance.

New Guidance from the Principles

During its Annual Conference held in Amsterdam on 25 June 2024, the Green, Social, Sustainability and Sustainability-Linked Bond Principles (the "Principles") announced guidance for green enabling projects and guidelines for Sustainability-Linked Loan financing Bonds (SLLB) alongside other important updates as illustrated in the infographic below.



Guidance for Green Enabling Projects

A great number of green enabling projects, vital to the value chain of green projects, are not themselves explicitly considered green but remain critical to these green projects. The Guidance for Green Enabling Projects addresses the eligibility of green enabling projects, encompassing both the induced and avoided emissions dimensions, as well as the management of related environmental and social risks. This includes identifying the role that green enabling projects play in catalysing and scaling the transition to a low-carbon economy in line with the goals of the Paris Agreement while recognising the complexities of value chains and challenges of multiple end-uses.

The eligibility of green enabling projects is based on specific criteria and transparency on end-use, as well as additional guidance including alignment with the Green Bond Principles, indicative sectors and avoidance of double counting. The specific criteria for the eligibility of green enabling projects are summarised in the table on the right.

Specific criteria for eligible Green Enabling Projects	
Necessary for an enabled Green Project's value chain	✔ a necessary component of an enabled Green Project's value chain, but not necessarily a conveyor of a direct positive environmental impact on its own ✔ clearly identified and/or contextualised ✔ a necessary component of enabled Green Projects in net-zero scenarios and medium to long-term transition plans
No carbon lock-in	✔ should not lead to locking-in high GHG emitting activities relative to other technologically feasible and/or commercially viable solutions ✔ transition to net-zero scenarios, and in particular transitioning away from fossil fuels should be considered in light of national, regional and/or sectoral transition plans
Clear, quantifiable and attributable environmental benefit	✔ either based on actual impacts or estimates of the potential outcome of enabled Green Project(s) ✔ assessed on the basis of a life cycle analysis type approach clearly outlining assumptions of the enabled Green Project(s) compared to a non-green alternative or baseline scenario ✔ transparency is of particular value in communicating the expected and/or achieved impact of projects ✔ quantitative performance indicators such as avoided emissions, are recommended with disclosure of the key underlying assumptions, including the attribution factors
Mitigated adverse social or environmental impacts	✔ issuers should ensure that there are no material adverse social impacts as a result of the Green Enabling Projects themselves and that Green Enabling Projects are not significantly detrimental to other environmental objectives ✔ the material impacts related to the underlying Green Enabling Projects should be transparently outlined and compared with taxonomies, best available techniques and technologies, comparable peers ✔ this will allow investors to make an informed decision on the overall merits of the activity

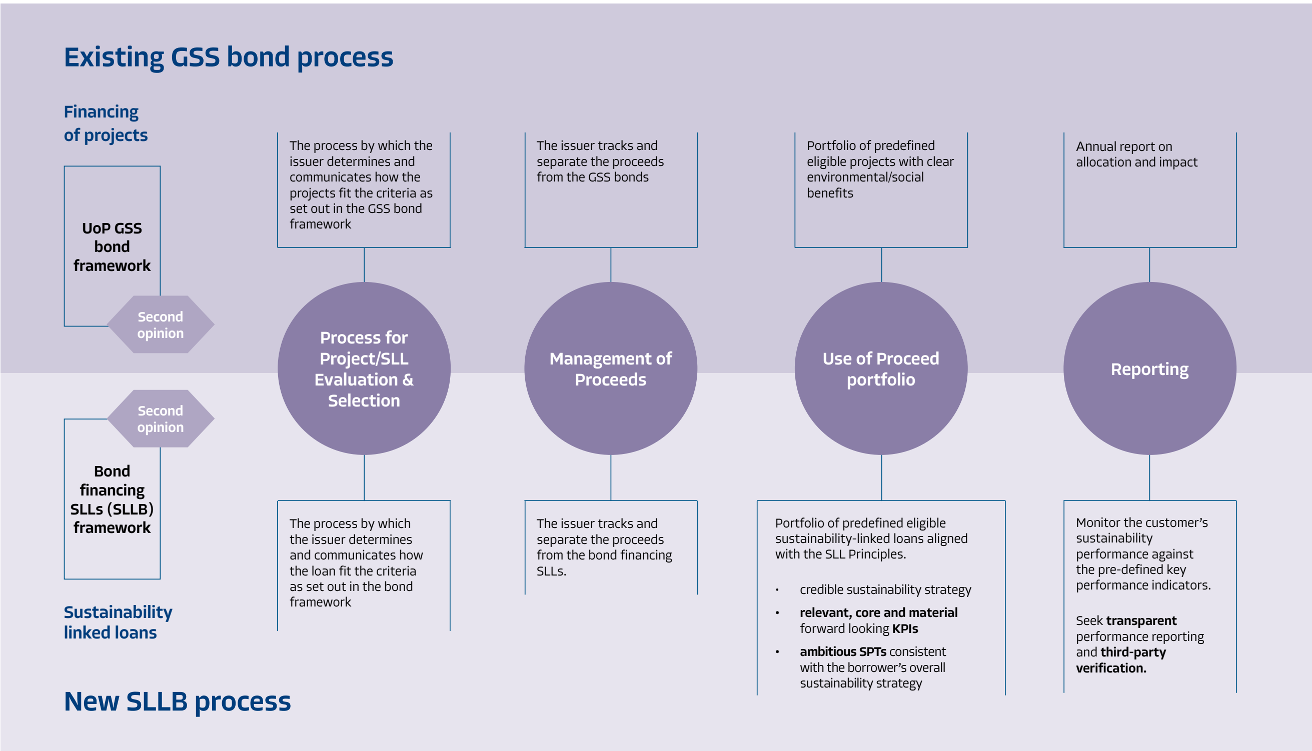
The Guidance specifies that the environmental benefits of an *enabled* green project from an *enabling* green project should also be demonstrated regardless of the level of the traceability to an intended specific end-user. This demonstration can be based either on how the green enabling project is currently used or how it can lead to a ramp up in developing enabled green projects over time with clear reference to timelines. The following scenarios can be considered:

- Where the end-user is known and largely traceable, then the share of the activity servicing the enabled green project end-use should be disclosed.
- Where the end-user is not known, robust and quantifiable external assumptions (including proxies) can be utilised to demonstrate its role in the development of enabled green projects or their market segment. During the life of the bond, such external assumptions should also be monitored and adjusted for integrity and robustness and this information should continue to be updated and reported.

Guidelines for Sustainability-Linked Loan financing Bonds (SLLBs)

The Guidelines for Sustainability-Linked Loan financing Bonds (SLLBs), developed jointly with the Loan Market Association (LMA), define a dedicated bond instrument designed for issuers wishing to finance or re-finance a portfolio of eligible sustainability-linked loans (SLLs) aligned with the LMA's Sustainability-Linked Loan Principles (SLLP). SLLBs may serve as an incentive to enhance the robustness of sustainability-linked loan structures in the market over the longer term.

SLLBs consist of the financing of a portfolio of sustainability-linked loans aligned with the SLLP, adopting the use-of-proceeds project financing structuring usual to green, social and sustainability bonds. It is important to note, however, that SLLBs should be considered as a separate category. But, as illustrated below, there are similarities, in that the financing of a portfolio of SLLs is analogous to the use-of-proceeds financing of green, social and sustainability bonds.



Other releases

The Principles have also released further guidance, specifically:

- An update of the Sustainability-Linked Bond Principles with clarifications to support KPI selection and a new SLB disclosure data checklist.
- An expansion of the SLB KPIs Registry related to environmental themes (biodiversity, circular economy/ raw materials and water) as well as additional KPIs for sovereign issuers.
- A new annex of the Impact Reporting Handbook covering potential environmental and/or social risks associated with eligible project categories for green bonds.

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 T. Rowe Price as a new member in 2024 with other seats remaining with the incumbents.

10-year anniversary and Annual Conference of the Principles

The 2024 Annual Conference of the Principles took place in Amsterdam on 25 June with approximately 350 in-person participants, as well as an online audience. After an opening speech by Bryan Pascoe, ICMA's CEO, Emmanuel Faber, Chair of the International Sustainability Standards Board (ISSB) highlighted in his keynote address the ISSB's recent efforts to develop sustainability standards in collaboration with global sustainable finance market participants and organizations like the International Organization of Securities Commissions.

A panel featuring current and past chairs of the Executive Committee celebrated the 10-year anniversary of the GBP. Isabelle Laurent, Deputy Treasurer at EBRD and Chair of the Executive Committee of the Principles, moderated the discussion with Lars Eibeholm (SEB), Eila Kreivi (EIB), and Denise Odaro (PAI Partners). They reflected notably on the widening of the scope of the Principles from green to social and from use-of-proceeds to sustainability-linked products, while underlining the growth of the sustainable bond market.

Moderated by Majoke Hegen, ESG Treasury Officer at NWB, the panel on Dutch leadership in sustainable finance featured Dutch finance leaders discussing the Netherlands' progress in sustainable finance and aspirations for the medium term. Panellists were Hans Biemans (ING), Isobel Edwards (Goldman Sachs AM), Olivier Labe (BNG Bank N.V.), Margriet Rouhof (TenneT), and Tabor Smeets (Dutch Authority for the Financial Markets).

In his keynote, Ulf Erlandsson CEO, Anthropocene Fixed Income Institute, emphasized the need for ambitious, science-based transition plans and resilience to electoral changes. He argued that investment products targeting long-term transitions should be insensitive to electoral cycles to achieve intended outcomes for investors.

Moderated by Paul O'Connor, Head of EMEA ESG DCM at J.P. Morgan Securities, the panel on enabling the transition with the sustainable bond market discussed maintaining and accelerating sustainable bond issuance. Key points included the importance of clear sustainable strategies, pre-issuance disclosure, and leveraging existing guidance. Panellists were Nicole Della Vedova (Snam SpA), Rahul Ghosh (Moody's Ratings), Izuru Kobayashi (METI), and Samuel Mary (PIMCO).

Nicholas Pfaff, ICMA Deputy Chief Executive and Head of Sustainable Finance, led a panel with Ulf Erlandsson (Anthropocene Fixed Income Institute), Sean Kidney (Climate Bonds Initiative), and Helena Vines Fiestas (Spanish Financial Markets Authority). They discussed among others the role of regulation in market growth, the need for further regulatory tuning, and the potential future benefits of sectoral strategies.

Mushtaq Kapasi, Managing Director and Head of ICMA Asia Pacific, discussed sustainable finance regulation in Asia with Wei Kong (Zhong Lun Law Firm and Secretary General of Shanghai Green Finance Committee) and Christine Kung (Securities and Futures Commission). The conversation covered efforts to harmonize standards between Europe and Asia, new guidelines for green finance, and measures to combat greenwashing.

In her keynote address, Christa Clapp, Global Head of Sustainable Finance Market Analytics, S&P Global Ratings, highlighted the growth of green bonds from 0.02% of bond issuance 10 years ago to 12% now, with corporates now issuing approximately 50%. She emphasized the importance of the Green Bond Principles and the current challenge of transition finance, advocating for inclusive markets that involve heavy emitters.

Moderated by Romina Reversi, Managing Director and Head of Sustainable Investment Banking Americas at Crédit Agricole CIB, the last panel discussed recent positive impacts, such as the 50% year-on-year growth in sustainable sukuk. They also stressed the need for greater transparency, international collaboration, and better access to sustainable data.

Green, Social and Sustainability Sukuk Guidance

On 29 April 2024, ICMA published Guidance on Green, Social and Sustainability Sukuk. This followed ICMA having signed a collaboration agreement with the Islamic Development Bank (IsDB) and the London Stock Exchange Group (LSEG) at COP28 in December 2023, to develop this Guidance.

The final document aims to facilitate the growth of the sustainable sukuk market by: providing issuers and key market participants with information on how sukuk may be labelled as green, social or sustainability in line with the ICMA Principles through examples and best practices; increasing investors' awareness of sukuk as an asset class in global fixed income markets; enabling a wider set of bond and sukuk issuers around the world to access sustainable capital and thus help unlock further investment towards the achievement of the UN SDGs; confirming the wide applicability of the Principles across the global sukuk market; and ensuring that the market continues to develop with high standards and integrity.

The Guidance was officially launched during the IsDB's 50-year anniversary in Riyadh on 29 April 2024 by the Chairman of the IsDB H.E. Dr. Muhammad Al Jasser, ICMA's CEO Bryan Pascoe and CEO of the LSE Julia Hoggett. They were joined on stage by the main authors Simone Utermarck (ICMA), Mohsin Sharif (IsDB) and Shrey Kohli (LSEG).

Updates on Codes of Conduct for ESG Ratings and Data Products Providers

In December 2023, ICMA and IRSG published a voluntary Code of Conduct for ESG Ratings and Data Products Providers. Following the launch, providers had been encouraged to sign up to the Code and, after an implementation period, issue an application statement. The implementation period for ESG ratings providers is six months and the implementation period for ESG data products providers is 12 months. At the end of this, the Code should be embedded within the provider's organisation. As of June 2024, 22 providers have signed up to the Code.

ICMA is also hosting the Singapore Code of Conduct. The Code is accompanied by a self-attestation checklist that providers are expected to complete. Furthermore, it differentiates between providers that adopt the Code with and without third party audit conducted. So far, two providers have confirmed adoption of the Code.

S Final ESMA Guidelines on ESG or sustainability-related terms in UCITS and AIF names

On 14 May 2024, ESMA published its final Guidelines, setting out conditions and restrictions for funds' names using ESG or sustainability-related terms. The Guidelines aim to specify the circumstances where the fund names using ESG or sustainability related terms are unfair, unclear or misleading[1]. The table below summarises the key content of these Guidelines:

Name categories	Examples provided by ESMA (non-exhaustive)	Specific ESMA recommendations	ESMA recommendations (which apply to all name categories)
Funds using transition-, social-, governance-related terms	"transition", "improve", "progress", "evolution", "transformation, "net-zero"	· Application of the Climate Transition Benchmarks (CTB) exclusions · **Funds using transition-related terms** should ensure that investments are on a clear and measurable path to social or environmental transition	Minimum 80% of investments used to meet Environmental or Social characteristics or sustainable investment objectives in accordance with binding elements of the investment strategy
Funds using environmental- or impact-related terms	"green", "environmental", "climate", "ESG", "SRI"	· Application of Paris-aligned Benchmarks' exclusions (PAB) · **Funds using impact-related terms** should ensure that investments are made with the objective to generate a positive and measurable impact alongside a financial return	
Funds using sustainability-related terms	"sustainable", "sustainably", "sustainability"	· Application of PAB exclusions · Commitment to **invest meaningfully in sustainable investments** as per SFDR	

For background, both PAB and CTB exclusions are listed under the Commission Delegated Regulation 2020/1818. The CTB exclusions apply to companies involved in activities related to controversial weapons and tobacco cultivation and production, and those in violation of United Nations Global Compact Principles and the OECD Guidelines for Multinational Enterprises. The PAB exclusions are more comprehensive, and they cover, on top of the CTB exclusions, companies with fossil fuel revenues above certain prescribed thresholds[2] and those that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 gCO_2e/kWh, such as utilities.

For new funds, the Guidelines apply three months after the date of the publication of the Guidelines on ESMA's website in all EU official languages, while for existing funds they allow an additional 6-month transitional period on top of that. Also, competent authorities must notify ESMA whether they (i) comply, (ii) do not comply, but intend to comply, or (iii) do not comply and do not intend to comply with the Guidelines.

The impact of the ESMA Guidelines is expected to be significant. In an article called *EU Guidelines on ESG Funds' Names: A Great Reshuffle Ahead*, Morningstar Sustainalytics indicated that ESMA Guidelines may force more than 1,600 funds, which represent around two thirds of funds with ESG or sustainability-related terms, to rebrand or divest up to USD40 billion-worth of stocks. The sectors most affected by the potential divestments include energy, industrials, and basic materials.

1. ICMA previously responded to ESMA's consultation on these Guidelines on behalf of its constituencies, and especially the Asset Management & Investors Council (AMIC).
2. These are companies that derive (i) 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (ii) 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; and (iii) 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels.

ICMA's targeted feedback on the application of PAB exclusions to sustainable bond investments

On 20 June 2024, ICMA published targeted feedback on the application of PAB exclusions to sustainable bond investments under the Guidelines. Given the PAB's entity-level exclusions related to electricity generation above 100 gCO2e/kWh threshold and legacy fossil fuel business, an asset manager who, in the past, included green use-of-proceeds (UoP) bonds from utility and energy sector issuers (caught by the PAB exclusions) would need to divest from such bonds. Alternatively, the name of the fund would need to change either to remove any "green" or environmental, "sustainable" or "ESG" term or include a transition-related term if it can demonstrate that *"the investments are on a clear and measurable path to social or environmental transition"*.

For green bonds, such an outcome would be inconsistent with the approach of various EU regulations that assess the sustainability of such instruments at use-of-proceeds level. It would also cause significant disruption in this market and in sustainable bond funds since utilities are large issuers of green and sustainable bonds. Moreover, various EU regulations such as the Corporate Sustainability Due Diligence Directive and Corporate Sustainability Reporting Directive, as well as the guidance of the Principles, already address issuer-level transition concerns on top of the greenness/sustainability of UoP. *We therefore believe an exception to the application of PAB exclusions at issuer level would be both consistent and appropriate when investing in green bonds.*

Secondly, several of our members have also recommended that ESMA consider providing an exception for sustainability-linked bonds which are fully aligned with the Sustainability-Linked Bond Principles and incorporate ambitious targets[3] and material KPIs, which can be drawn from the Illustrative KPIs Registry. These instruments are complementary to UoP instruments and are designed to incentivise issuers towards sustainability. Investment flexibility in all types of sustainable bonds is essential for advancing environmental objectives and ensuring a comprehensive approach to sustainable finance.

Lastly, for funds with transition-related names, we have sought clarification on the application of the criterion to *"demonstrate that the investments are on a clear and measurable path to social or environmental transition".* ESMA could confirm that this criterion could be pursued and satisfied at the fund-level too, but not uniquely at the level of each underlying investment. Among other things, this would allow investments in already sustainable issuers (eg renewable energy companies) and green instruments in transition funds, and thus ensure wider investment universe as well as support for operational and liquidity requirements.

ESAs' Joint Opinion on the assessment of the SFDR

In another important development, in June 2024, the European Supervisory Authorities (ESAs) published an assessment of the Sustainable Finance Disclosure Regulation (SFDR) which includes recommendations for the future review. As background, in September 2023, the European Commission (EC) had launched a comprehensive consultation on the review of the SFDR with potential Level 1 change implications. In May 2024, EC published a Report summarising the responses (see ICMA response). Notably, the EC summary confirms the strong support for an official voluntary fund labelling scheme at the EU level, but also the clear divisions on how to design it, ie whether by building on and clarifying the current Art.8/9 *de-facto* labels, or new scheme-based investment objectives and intentions similar to the UK FCA's regime. Nonetheless, it seems that some commonly agreed principles and underlying criteria for such a potential categorisation system have emerged from the stakeholders' feedback: retail-investor focus, international applicability, integration of transition finance, and asset-neutral criteria.

In this context, the ESAs' Joint Opinion, launched on their own initiative, makes several recommendations for EC's consideration, among which are the introduction of at least two voluntary fund categories: "sustainable" and "transition". The ESAs also bring up the idea of a grading-based sustainability indicator that could apply either in addition to the proposed voluntary categorisation system, or as an alternative to it, and potentially to all fund products including those without sustainability claims. According to the ESAs, while such a grading system may prove easy to understand for retail investors, it could be complex to design and implement due to the need of aggregating several sustainability topics and potentially disadvantaging transition investments, among others.

3. In June 2022, the Principles released the Methodologies Registry to help issuers, investors, or financial intermediaries identify the relevant resources to guide their transition. This is a non-exhaustive, yet comprehensive list of available tools, methods, scenarios, and initiatives dedicated purely to the validation of specific emission reduction trajectories/pathways, especially in the context of the Element 3 of the ICMA's Climate Transition Finance Handbook which requires transition strategies to be science-based.

Source: ESMA

In the search for clear and objective criteria, the ESAs seem to be placing the EU Taxonomy at the core when it comes to benchmarking environmental sustainability. A certain degree of alignment with the EU Taxonomy could serve as a minimum threshold for the "sustainable" category for environment-focused products. It could also be part of a mix of KPIs under the transition category (alongside transition plans and others), support the proposed sustainability indicator, and help clarify the concept of "sustainable investment", on which the ESAs recommend EC to provide clearer and more prescriptive guidance. The ESAs' other recommendations include the following:

- Naming and marketing rules restricting the use of certain terms to voluntary product categories, and other detailed rules, ensuring that a product's marketing material is in line with the product's sustainability profile to address greenwashing risks.
- Simplification of the disclosure framework and of documentation, especially for retail.
- Uniform disclosures for all products based on key adverse impact indicators.
- Development of a framework to assess the sustainability of government bonds.
- General consumer testing before any future changes to SFDR.
- Consideration of international efforts (eg UK, US, Australia) to ensure interoperability and avoid duplication.
- Other technical issues, including clarification of potential overlap and discrepancies between CSRD and SFDR for entity-level disclosures.

Greenwashing regulation

On 4 June 2024, the ESAs published their separate Final Reports on greenwashing in response to EC's request of May 2022. While the ESAs maintain their broad "greenwashing" understanding initially set in their Progress Reports, ESMA has clarified in its Final Report that greenwashing can already be captured by existing EU rules prohibiting misleading information, and thus the benefit of new legislation is not clear at this stage. On data, ESMA's Report states that actual or potential greenwashing occurrences and enforcement decisions have been limited in number for to a variety of reasons. In this Report, ESMA have also issued a set of recommendations to national authorities for more effective supervision, such as investing in resources, capacity and expertise building.

Otherwise, ESMA is in the process of developing an indicator to qualify greenwashing risk in the investment fund industry and will issue a separate Opinion to the EC on what regulatory improvements can be made to the EU's sustainable finance framework. We highlight that many of these positions are in line with ICMA's recommendations presented in its October 2023 Report, *Market Integrity and Greenwashing Risks in Sustainable Finance* (see page 18).

In April 2024, the UK FCA published its final anti-greenwashing rule (see also the Primary Markets section of this Quarterly Report for further information).

S Other regulatory developments

Asia-Pacific

In May 2024, China's Ministry of Finance launched a public consultation on the draft of its new mandatory sustainability disclosure standards, which aim to align with the International Sustainability Standards Board (ISSB) by 2030, with key standards to be in place by 2027.

In May, the Hong Kong Monetary Authority (HKMA) published its Taxonomy that encompasses 12 economic activities under four sectors, namely power generation, transportation, construction, and water and waste management.

In June, the Australian Government released a Sustainable Finance Roadmap with key priorities focused on mandatory climate-related reporting, establishing a sustainable finance taxonomy, and instituting a labelling regime for sustainable investments, based on a "climate-first, not only approach". In May, ASFI released a public consultation paper on the sustainable finance taxonomy which initially focuses on electricity generation, mining, construction sectors.

UK

In April, the UK Transition Plan Taskforce released its final set of transition plan resources which include: (i) sector-specific transition plan guidance for Asset Owners, Asset Managers, Banks, Electric Utilities & Power Generators, Food & Beverage, Metals & Mining and Oil & Gas; (ii) sector summary guidance for other 30 sectors of the economy; (iii) guidance on transition planning cycle; (iv) a paper on opportunities and challenges of transition plans in EMDEs; and (v) independent advisory pieces on adaptation, nature, just transition and SMEs, exploring how transition planning can extend beyond realising net zero.

ICMA's May 2024 response to the TFMR call for evidence highlights, among other things, that while a credible entity-level transition plan would act as the backbone of any kind of transition finance extended to an entity, whether in labelled or unlabelled form, there are several other tools and guidance which are market-based or from official sectors to ensure transition finance credibility, such as taxonomies, decarbonisation roadmaps and pathways, certification schemes, and other official sector guidance.

ICMA's response on ESMA's draft standards for EuGB external reviewers

In its response of June 2024, ICMA advocated for a proportionate approach for all external reviewers, clarity on the interaction between the Regulation on European Green Bonds and the ESG Ratings Regulation, exemption from the outsourcing rules for intragroup arrangements, and a certain degree of EU Taxonomy and EU GBS knowledge without creating entry barriers.

Corporate sustainability reporting

In June 2024, ISSB published a Feedback Statement on its two-year working plan and also stated that it will assume responsibility for the disclosure-specific materials developed by the UK Transition Plan Taskforce towards further harmonisation of transition plans.

On 31 May, EFRAG published final implementation guidance documents for materiality assessment, value chain, and detailed ESRS datapoints and an accompanying explanatory note. EFRAG is also currently working towards a transition plan implementation guidance in line with ESRS standards.

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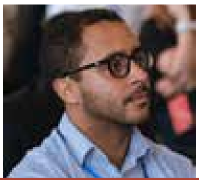
FinTech and Digitalisation

by **Georgina Jarratt, Gabriel Callsen, Emma Thomas** and **Francois Letrot**



ICMA DLT Bonds Working Group

ICMA held a series of roundtables throughout the second quarter of 2024 with individual constituencies of its DLT Bonds Working Group and broader membership, namely investors, custodians, issuers, banks, law firms and market infrastructures. The purpose was to gather feedback for a potential framework for digital (DLT-based) securities, underpinned by guidance as well as standards for data and workflow, building on ICMA's Bond Data Taxonomy.

The Working Group held its quarterly meeting on 19 June, which focused on ICMA's recent regulatory engagement, the framework for digital (DLT-based) bonds as well as early findings of research into the state and evolution of digital bond markets.

Please get in touch if you would like to become involved.

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Bond Data Taxonomy

ICMA and HKMA held a webinar on 26 June 2024 to discuss the multi-currency digital green bond issuance by the Government of the Hong Kong Special Administrative Region of the People's Republic of China on 7 February 2024, and how the Bond Data Taxonomy (BDT) was implemented. The issuance marked the first adoption of the BDT by a government issuer and was a first for a green bond. A recording of the webinar and the presentations are available on ICMA's website.

ICMA's Bond Data Taxonomy Working Group held its quarterly meeting also on 26 June 2024. The agenda included a proposal to integrate the BDT into ISO 20022 to support communication of issuance information between market stakeholders in ISO messages, a proposal to include additional data elements specific to debt issuance in emerging markets, as well as use of the BDT to support digital (DLT-based) securities and implementation approaches.

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

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Common Domain Model for repo and bonds

ICMA's Common Domain Model (CDM) Implementation Working Group held meetings throughout the second quarter of 2024. As a reminder, the Working Group brings together developers and IT specialists and focuses on how to build repo trading and post-trade applications based on the CDM with a view to promoting adoption.

In April, the focus was on pair-offs (bilateral netting), including data requirements and workflow design in the CDM based on the ERCC's latest draft best practices. In May, the Working Group session explored CDM functionalities to model and define general collateral baskets, including eligibility criteria. In June, the focus was on automating settlement processes by using the CDM.

Further working groups on collateral and technology and architecture, amongst others, operate under the FINOS framework, which is hosting the CDM repository. Further resources are available on ICMA's website. If you would like to be involved, please get in touch.

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The token economy and blockchain-based securities

by **Christoph Hock**

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The token economy, which delivers the foundation for blockchain-based securities, can be considered part of the evolution of the internet as we know it from the beginning of the 1990s. Looking back in history, Web 1.0 in its original format focused on the transmission of information with the “read“ function in the spotlight. Well-known companies at this point of time were Altavista, Yahoo and Netscape. The next step in the evolutionary journey of the internet was Web 2.0, also characterised as platform economy. On top of the known “read“ function, the functionality of “write“ was added and is a synonym for this period. Platform companies like Amazon as a multi-trillion dollar company by market capitalisation today and social media like Facebook, which crossed the one trillion dollar barrier most recently, were founded at the end of the 1990s and the beginning of this century and are representative of this era. A characteristic of Web 1.0 and Web 2.0 was its initial slow adoption and acceptance by users. Therefore, there are similarities to Web 3.0, the era of the token economy. What makes this evolutionary period of the internet so attractive for the financial industry is that, on top of writing and reading, the functionalities “own“ and “execute“ are implemented. To sum up: token economy can be considered as the next step in the evolution of the internet and has the potential to reshape parts of the financial industry, acting eventually as a catalyst for change.

Which areas of the financial industry could be affected? Settlement and clearing, in combination with custody, are topics where change will be seen. Processes between the involved market players will be mapped increasingly on the blockchain. There will be a much higher level of automation going forward. Additionally, value will be created by the set-up of new roles in the ecosystem. On the other hand, oligopolies in the existing world of finance will be questioned. Some of the intermediaries might partially lose the importance they have today.

The second area affected by change is the product space with digital assets and data in the spotlight. Tokenisation will be an enabler for more sophisticated electronic wrappers for investable products, for what is known today as securitisation in the form of physical global certificates. Additionally, new products will be made accessible, especially for retail investors. Therefore, tokenisation in combination with the fractionalisation of tokens goes hand-in-hand with a further democratisation and individualisation of investing going forward. Looking at the opportunities in data management, a blockchain as a single source of truth will lead to efficiency gains, greater transparency, easier accessibility and finally also to significantly lower cost.

Looking at a use case for tokenisation of assets in specific, DLT-based bonds is a prominent example. According to Bloomberg, 46 bonds have been issued so far, with the Government of Hong Kong and German state-owned KfW among the flagship issuances which have come to the market in 2024. With its DLT Bonds Working Group established two years ago, ICMA plays a major role in developing the ecosystem around the token economy and DLT-based bonds, bringing together the industry with all of its relevant stakeholders, fostering collaboration and promoting common standards and best practices, looking from an end-to-end perspective – from issuance and trading via settlement and distribution to lifecycle events and redemption. I have the pleasure of chairing ICMA’s DLT Bonds Working Group, which is led by Gabriel Callsen.

Regulatory clarity in the world of the token economy, a clearly defined governance and guardrails for the financial industry, are key elements for its further evolution. Financial stability and the trust of investors are the main characteristics of the industry, as all of us know it nowadays. Entering the evolutionary era of token economy, these elements have to be kept and preserved. In Europe, regulators have established an enabling framework to support the token economy. ESMA and its national regulatory bodies, in combination with the Ministries of Finance of EU Member States, have early on created a regulatory framework for crypto-assets as well as blockchain-based traditional securities. This offers market participants the opportunity to become involved in these products, always with the elements of financial stability and trust in mind.

A key question which comes up when looking at the token economy and blockchain-based securities is: What is in it for the investors? What benefits can the new ecosystem deliver? And for clarification – it is not about technology for the sake of technology. When combining assets and cash on blockchain, innovation and competition will lead to a higher speed, lower costs and a reduction of risk. A higher level of automation will simplify administrative processes. A real-time golden source for data will give a higher level of transparency. Settlement and clearing will be positively affected by higher speed. Smart contracts underpinned by blockchain technology will allow new features. A wallet as an interface to investors will allow easier accessibility to assets and cash.

In summary:

- Blockchain enables the token economy. The token economy can act as a catalyst for change in the financial industry, making processes more efficient in terms of speed, costs and risks and enabling new business models.
- A combination of assets on blockchain and cash on blockchain is key for leveraging all synergy potentials. The focus this year is, among other things, on the launch of DLT-based secondary market trading platforms and the ECB's exploration phase around wholesale central bank money, as well as the Markets in Crypto-Assets Regulation (MiCAR) which entered into force in June 2024.
- Tokenisation of assets will create tradable liquidity in markets through its fungibility, lower barriers to entry for retail investors significantly due to fractionalisation and is a nucleus of a new generation of financial assets.
- Cash on blockchain enables instantaneous clearing and settlement processes, offers more transparency and reduces risks and costs.
- Tokenisation generates a significant amount of data that creates a competitive advantage also in ESG-related topics like measurement of carbon footprint for the financial ecosystem, trading activity and position keeping.

Christoph Hock is Head of Tokenisation and Digital Assets (PM), Union Investment

Eurosystem New Technologies for Wholesale Settlement Contact Group

ICMA attended meetings of the Eurosystem's New Technologies for Wholesale Settlement Contact Group (NTW-CG) in April and June 2024. The agenda and meeting materials can be found on the ECB's website.

On 3 April, the Eurosystem published a list of participants in the first phase of its "exploratory work" to settle wholesale transactions in central bank money. This included ten market participants (entities with access to TARGET), six market DLT operators, as well as five central banks. The use cases mainly explore the securities settlement cycle, such as delivery-versus-payment, secondary market transactions and lifecycle management of securities (eg coupon payments).

A list of participants in the second phase was released on 21 June and includes 48 private firms from the financial sector and three central banks. From July to November 2024, the group will explore specific use cases, joining a first group of participants who have already been testing since 13 May. This second wave will broaden the scope of the exploratory work and will cover: (i) domestic payments within the euro area with mock settlement; (ii) a wide set of securities-related use cases with both real and mock settlement; and (iii) foreign exchange payment-versus-payment (PvP) transactions with other central banks with mock settlement. Meanwhile, nine participants from the first group will add further use cases and interoperability-type solutions.

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UK Digital Securities Sandbox

On 29 May 2024, ICMA submitted its response to the Bank of England's and FCA's proposals to implement and operate the Digital Securities Sandbox.

By way of summary, ICMA members welcome the opportunity to provide feedback on the Sandbox and support innovation in capital markets. Whilst ICMA members are in principle supportive of the draft Guidance on the operation of the Digital Securities Sandbox, ICMA recommends: (i) adopting a more flexible approach to applying limits for live transactions on a firm-by-firm basis; (ii) enabling Sandbox participants to scale on a continuous basis; and (iii) expanding the scope of securities to non-sterling currencies within the Sandbox. This is considered key to ensure commercial viability for Sandbox entrants.

A more tailored approach for Sandbox entrants that are regulated would be beneficial, allowing firms to bypass requirements provided that they are already met outside the Sandbox. Final, or "end-state", rules should be reviewed and adjusted dependent on learnings from the Sandbox. Should an alternative framework for non-systemically relevant CSDs be established, ICMA members recommend calibrating Sandbox rules accordingly for systemically relevant and non-systemically relevant participants.

Activity inside the Sandbox should not preclude same or similar activity from taking place outside the Sandbox, subject to different structuring choices. ICMA encourages close coordination between regulators with regard to permanent legislative changes made by HM Treasury and firms graduating out of the Sandbox in order to avoid undue delays or cliff-edge risks. Notwithstanding legal and regulatory aspects, common standards such as ICMA's Bond Data Taxonomy play a critical role in avoiding market fragmentation and fostering interoperability.

ICMA's detailed response can be found here.

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New ICMA Artificial Intelligence Working Group

In June 2024, the ICMA FinTech and Digitalisation team launched a new Artificial Intelligence (AI) Working Group. AI developments have been moving at a rapid pace, and its transformational impact on the capital markets industry is already being felt. The new working group will look to address some of the knowledge gaps, opportunities and concerns in this field in line with ICMA's mission statement to promote resilient and well-functioning international debt capital markets. As part of ICMA's governance, the new working group will operate under the remit of ICMA's FinTech Advisory Committee. Over 78 participants have already registered across 41 ICMA members, including investors, banks, issuers, market infrastructures, law firms and more. If you are interested in joining the group, please let Georgina Jarratt or Emma Thomas know.

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Artificial intelligence regulatory developments

European Commission: Consultation on AI in financial services

On 18 June 2024, the European Commission introduced a consultation on artificial intelligence in the financial sector. The consultation is intended to inform the Commission services on the concrete application and impact of AI in financial services, considering the developments in the different financial services use cases. The views from stakeholders will support the Commission services in their assessment of market developments and risks related to AI and in the implementation of the AI Act in the financial sector. The consultation is focused on the objectives of the financial sector *acquis* and the AI Act and is not intended to focus on other policy objectives such as competition policy. It is intended to improve the effective implementation of these legal frameworks and will include questions with multiple choice and open answers. The deadline for responses is 13 September 2024.

ESMA: Statement on AI in investment services

On 30 May, ESMA issued a statement providing initial guidance to firms using AI technology when they provide investment services to retail clients. When using AI, ESMA expects firms to comply with relevant MiFID II requirements, particularly when it comes to organisational aspects, conduct of business, and their regulatory obligation to act in the best interest of the clients.

EU Council: Approval of EU AI Act

On 21 May, the European Council approved the AI Act. This flagship legislation follows a "risk-based" approach, which means the higher the risk of causing harm to society, the stricter the rules. It is the first of its kind in the world and can set a global standard for AI regulation. The new law categorises different types of AI according to risk. AI systems presenting only limited risk would be subject to very light transparency obligations, while high-risk AI systems would be authorised, but subject to a set of requirements and obligations to gain access to the EU market. The AI Act also addresses the use of general-purpose AI (GPAI) models. To ensure proper enforcement, an AI office has been set up within the Commission to enforce the common rules across the EU. The AI Act will be fully applicable 24 months after entry into force, but some parts will be applicable sooner. The ban on AI systems posing unacceptable risks will apply six months after the entry into force, codes of practice will apply nine months after entry into force and rules on general-purpose AI systems that need to comply with transparency requirements will apply 12 months after the entry into force.

ECB: The rise of AI: benefits and risks for financial stability

On 16 May, the ECB published a report on the benefits and risks for financial stability from the rise of AI as part of its Financial Stability Review May 2024. The report provides a preliminary view based on the latest trends, concepts and debates in publications, industry reports and ECB market intelligence reports. This includes how AI may improve the efficiency of financial institutions' operational processes, but operational risk and third-party dependence may increase, and how the systemic implications of AI will depend on the levels of technological penetration and supplier concentration, which are difficult to predict.

BIS: Project Raven on AI solutions to the financial system's cyber security

On 30 April, the BIS Innovation Hub Nordic Centre launched Project Raven, which aims to create a new solution to help authorities comprehensively to assess the cyber security and resilience maturity readiness of their countries' financial systems. With Project Raven's solution, central banks and regulatory authorities will be able to use AI to enable fast and easy access to a range of complex information, standards and guidelines, and analyse cyber security and resilience data to obtain a holistic view of the maturity and readiness of the financial sector.

Bank of England, PRA, and FCA: Response to the UK Government's pro-innovation approach to AI regulation

On 22 April, the Bank of England and the Prudential Regulation Authority (PRA) published their response to the Government's publication of its pro-innovation strategy on AI. The Response sets out their adoption, use and implementation of AI. It also highlights the regulatory framework, grounded in their statutory objectives, that will appropriately support the delivery of the benefits that AI and machine learning can bring, whilst also addressing the risks in line with the principles set out in the Government's White Paper. On 23 April, the Financial Conduct Authority (FCA) published its approach to AI following the Government's White Paper. In this update, the FCA outlines its existing approach, work so far, and plan for the next twelve months. This includes the promotion of safe and responsible AI use in UK financial markets, as the FCA actively supports beneficial innovation as a vital component of effective competition.

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F Other FinTech regulatory developments

BIS: Project Meridian FX on synchronised settlement in FX

On 14 June, the Bank for International Settlements (BIS) launched Project Meridian FX, to build on the findings of Project Meridian by focusing on foreign exchange (FX) transactions. The starting point is the concept of the "synchronisation operator" (SO) developed in the first Meridian project. Meridian FX will test the usability of the SO for different types of assets and technologies. The project will provide insights on how operators of real-time gross settlement (RTGS) systems could enable interoperability with new payment technologies, such as distributed ledger technology (DLT). It will highlight opportunities that the synchronisation model could unlock, including more innovative and efficient settlement services for a wider range of assets that are settled in central bank money.

EBA: Regulatory products on governance, conflicts of interest and remuneration under MiCAR

On 6 June, the EBA published three regulatory products under the Markets in Crypto-Assets Regulation (MiCAR). This included guidelines on the minimum content of the governance arrangements for issuers of asset-referenced tokens, further specifying the various governance provisions in MiCAR. Second, the EBA published final draft Regulatory Technical Standards (RTS) on the minimum content of the governance arrangements on the remuneration policy. The RTS apply to issuers of significant asset-referenced tokens (ARTs) and electronic money institutions issuing significant e-money tokens (EMTs), and, where Member States require to apply Article 45(1) MiCAR, to issuers of non-significant EMTs. Third, the final draft RTS on conflicts of interest for issuers of ARTs that specify the requirements for policies and procedures on conflicts of interest were published.

BIS: Project Rialto on FX cross-border payments using wCBDC

On 4 June, the BIS launched Project Rialto to explore how instant cross-border payments could be improved using a modular foreign exchange (FX) component combined with settlement in wholesale central bank digital currencies (wCBDC). Improving cross-border payments is an explicit international policy goal and a priority of the G20. FX is a key component of cross-border payments, but currently the FX services facilitated by correspondent banks can be costly, slow and complex, and they expose participants in the payments chain to liquidity, credit and settlement risks. Decentralised solutions, CBDC and interlinked payment infrastructures are considered promising avenues for improving cross-border payments. How they interact has not yet been explored and could yield answers that advance cross-border payments globally.

ESMA: Final MiCAR rules on conflict of interest of crypto assets providers

On 31 May, ESMA published the final report on the rules on conflicts of interests of crypto-asset service providers (CASP) under the Markets in Crypto-Assets Regulation (MiCAR). In the report ESMA sets out draft Regulatory Technical Standards on certain requirements in relation to conflicts of interest for crypto-asset service providers (CASPs) under MiCAR, with a view to clarifying elements in relation to vertical integration of CASPs and to further align with the draft EBA rules applicable to issuers of asset-referenced tokens (ARTs).

EU Official Journal: Four Delegated Regulations under MiCAR published

On 30 May, four Delegated Regulations under MiCAR were published in the *Official Journal*, including Commission Delegated Regulation (EU) 2024/1506 for specifying certain criteria for classifying asset-referenced tokens and e-money tokens as significant, Commission Delegated Regulation (EU) 2024/1504 for the exercise of power to impose fines on issuers of significant asset-referenced tokens and issuers of significant e-money tokens, and Commission Delegated Regulation (EU) 2024/1503 for the fees charged to issuers of significant asset-referenced tokens and issuers of significant e-money tokens. The final Delegated Regulation (EU) 2024/1507 specifies the criteria and factors to be taken into account by ESMA, the EBA and competent authorities in relation to their intervention powers. The four Delegated Regulations entered into force on 19 June 2024.

US House of Representatives: Financial Innovation and Technology for the 21st Century Act

On 22 May, the US House of Representatives passed H.R. 4763 on the Financial Innovation and Technology for the 21st Century Act. The Act provides robust, time-tested consumer protections and regulatory certainty necessary to allow digital asset innovation to flourish in the US. The legislation provides the Commodity Futures Trading Commission (CFTC) with new jurisdiction over digital commodities and clarifies the Securities and Exchange Commission's (SEC) jurisdiction over digital assets offered as part of an investment contract. Additionally, the Bill establishes a process to permit the secondary market trading of digital commodities if they were initially offered as part of an investment contract. Finally, H.R. 4763 imposes comprehensive customer disclosure, asset safeguarding, and operational requirements on all entities required to be registered with the CFTC and/or the SEC.

BCBS: Report on digitalisation of finance

On 16 May, the Basel Committee on Banking Supervision (BCBS) published a Report on the implications of the ongoing digitalisation of finance on banks and supervision. This Report builds on the Committee's 2018 paper, *Sound Practices: Implications of Fintech Developments for Banks and Bank Supervisors*, and takes stock of recent developments in the digitalisation of finance. This includes the use by banks of application programming interfaces (API), AI and machine learning, distributed ledger technology and cloud computing. The Report also outlines the potential risks for banks and financial stability arising from the digitalisation of finance, the trends outlined in previous sections, and regulatory implications.

EBA: Final draft technical standards under MiCAR

On 7 May, the EBA published three sets of final draft RTS and one set of final draft ITS. The standards relate to the authorisation as issuer of asset-referenced tokens (ARTs), to the information for the assessment of acquisition of qualifying holdings in issuers of ARTs, and to the procedure for the approval of white papers for ARTs issued by credit institutions under the Markets in Crypto-Assets Regulation (MiCAR).

European Commission: Letter on the DLT Pilot Regime Implementation

On 3 May, Commissioner Mairead McGuinness responded to ESMA's letter on the DLT Pilot Regime, underlining the continued importance of the regime and of exploring high quality solutions based on DLT to create new markets, improve efficiency of existing ones, reduce costs and mitigate certain risks. The letter also provides clarity on the uncertainty on the duration of the regime, highlighting that it has no expiration date, and providing no proposal is made and adopted to amend the regime, the framework will continue to apply in its current form.

ESMA: Letter to the European Commission on the DLT Pilot Regime

On 3 April, Verena Ross, Chair of ESMA, published a letter to the European Commission, the Parliament, and the Council (ECOFIN) providing an interim update on the DLT Pilot Regime. The letter provides an update on the regime, with mention to the status of the applications submitted so far, and to highlight the main challenges observed during interactions with the national competent authorities and (potential) applicants. The letter suggests that the novelty of this particular regime may explain its relatively slow uptake and that further clarity on some aspects of the regime would support an increased uptake.

BIS: Project Agorá

On 3 April, the BIS launched Project Agorá to explore how tokenisation of wholesale central bank money and commercial bank deposits on programmable platforms can improve the monetary system. The project will also investigate how tokenisation and smart contracts could enable functionalities and transactions that are not viable today. Smart contracts can enable new ways of settlement and unlock types of transactions that are not currently practical, in turn offering new opportunities to benefit businesses and people. The project was launched alongside the Bank of France (representing the Eurosystem), Bank of Japan, Bank of Korea, Bank of Mexico, Swiss National Bank, Bank of England, and the Federal Reserve Bank of New York.

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ICMA FinTech & Digitalisation Forum

The ICMA FinTech & Digitalisation Forum 2024 is back following the success of last year's full day event and will be held on 18 September 2024. ICMA's flagship event provides opportunities to meet with peers and network within the industry, whilst bringing together thought leaders, market practitioners and policy makers to discuss the latest opportunities and challenges of digital bonds, the nexus between sustainability and fintech and digitalisation, wholesale CBDCs, artificial intelligence, innovation more broadly and its global implications for bond markets. For sponsorship or speaking opportunities, please contact ICMA's Head of Business Development and Events sponsorship, Sanaa Clausse BenAbdelhadi.

LIDCs' continued viability underpins China's economy and debtholders' confidence

by **Joyce Huang** and **Roy Luo**

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Local investment and development companies (LIDCs), also generally known as local government financing vehicles (LGFVs), are state-owned entities established by local governments in China to facilitate infrastructure development, land management, and the provision of public goods and services. These companies have become an integral part of China's economic landscape, playing a crucial role in supporting regional growth and development. LIDCs have also become an important component of China's capital markets, as they have been actively issuing bonds and other debt instruments to finance their operations and projects. The bonds issued by LIDCs are often seen as implicitly backed by local governments and have been an investment option for investors seeking exposure to China's infrastructure and urban development sector. The ongoing viability and performance of LIDCs are seen as essential in underpinning China's economic growth and maintaining the confidence of debtholders.

LIDCs' business activities and revenue profiles have been increasingly diversified following the economic development and urbanisation of the regions in which they operate. More and more LIDCs have pursued market-oriented business activities with reduced involvement in public projects (eg infrastructure and affordable housing constructions) and less reliance on government subsidies. Having said that, LIDCs' business development still usually follows the guidance of their respective local governments and is closely linked to their regional development plans. To help LIDCs generate stable income, some local governments have injected operating assets or franchise rights of infrastructure and public services such as urban water supply, sewage treatment, and public transportation to their associated LIDCs.

As LIDCs continue to maintain close ties with their respective local government owners or controllers in carrying out government policies, we continue to expect that LIDCs will play a pivotal role in fostering regional economic growth, industrial transformation, employment, social security and tax revenue in China.

Potentially high contagion risk of defaults on publicly traded bonds of LIDCs

We believe that LIDCs' defaults on their publicly traded bonds would have significant contagion risk given their homogenous business profiles and similar credit risk features. LIDCs are generally government-funded entities carrying out various public policy missions as an extension of government functions, with repayments stemming primarily from receivables, subsidies or capital from their respective government owners. Therefore, the creditworthiness of an LIDC is usually linked to its sponsoring local government, although a shift towards market-oriented activities would reduce its reliance on government funding.

We consider that an LIDC's default could hamper the funding capability of other LIDCs under the same local government. This in turn would disrupt the continuing provisions of essential public services and other government functions, and may lead to social instability and an economic downturn in the region. In addition, given that publicly traded bonds of LIDCs are highly transparent and usually held by a diverse group of investors, the impact of an LIDC's default on its outstanding bonds could spread to neighbouring regions and regions with similar economic and fiscal conditions. It could also undermine investor confidence and impede LIDCs' accessibility to the bond market.

Policy support and funding flexibility sustain debt repayment capability

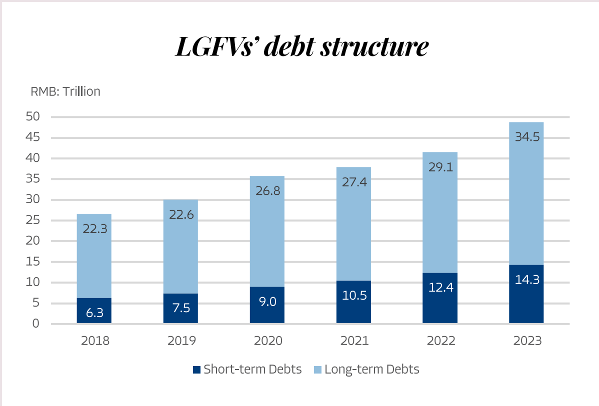
We expect that proactive policy measures and ongoing external funding capability will likely lead to lower funding costs and healthier debt structures of LIDCs. Against China's administrative system, provincial governments may assume greater responsibility for handling LIDCs' indebtedness within their jurisdictions, particularly if local governments within a province have weak capacity to support LIDCs. However, direct capital support would be unlikely to prevent moral hazard.

The impact of the pandemic, policies to reduce taxes and fees, and the decrease in government fund income during the property market downturn undermined the fiscal strength of local governments in certain areas. To resolve local debt risks, China's central government has proposed a series of measures, mainly including limiting the growth of LIDC debts and emergency lending provided by policy banks. The central government also plans to increase the issuance of ultra-long-term special-purpose treasury bonds, aiming to support key national projects, which could lower local governments' investment burdens and capital needs.

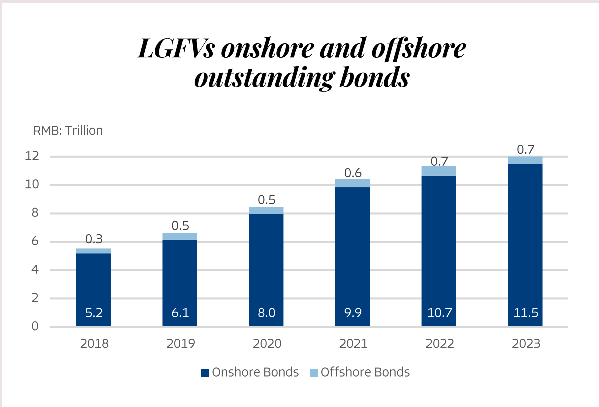
Provincial governments generally have more resources and stronger coordination capabilities than municipal, district and county governments. Some provincial governments have issued special-purpose refinancing bonds with lower borrowing costs and longer maturities to replace LIDCs' existing debts, effectively easing their debt repayment pressure. In addition, we believe that other financing instruments such as bank borrowings and non-traditional financing (obtained through trusts, asset management plans, financial leases, etc.) would continue to provide contingent financing flexibility. These loans are often bilateral in nature or involve only a small number of borrowers, indicating that negotiations with lenders are feasible if necessary. Moreover, local governments usually have significant influence over banks, especially those regional banks in which local governments have equity stake. We noted that some LIDCs with serious indebtedness restructured their bank loans or trust loans through extension, interest rate cuts or even principal reductions to resolve their debt risks. China's LIDCs mainly rely on bank loans, bond issuance and non-traditional financing, as well as government funds and equity capital to support their operations. Bank loans typically represent the largest share of interest-bearing debt, followed by bond issuance and non-traditional financing.

Conclusion

LIDCs continue to maintain close ties with their respective local government owners or controllers and their business activities remain highly linked to the regional development plans, making them a vital pillar in China's economic landscape. While defaults on LIDCs' publicly traded bonds may pose significant contagion risks, the ongoing viability of LIDCs remains essential in underpinning the confidence of debtholders. Provincial governments may assume greater responsibility for managing LIDC indebtedness and the central government has also taken initiatives to support key national projects. Proactive policy measures and ongoing external funding capability will likely continue to underpin LIDCs' creditworthiness.



Note: The year-end balance of LGFVs' outstanding debt categorized by Wind.
Source: Wind and Lianhe Global's calculations



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Source: Wind and Lianhe Global's calculations

Joyce Huang is Managing Director and Roy Luo is Director, Lianhe Ratings Global.

Leveraging AI to facilitate climate standards and capital equilibrium in Sub-Saharan Africa

by **Catherine Okwara**

FS Sub-Saharan Africa faces a significant challenge in adopting climate and sustainability standards, which has hindered the region's ability to attract Green, Social, Sustainability and Sustainability-Linked Bonds. These challenges are compounded by the high barriers to entry for African issuers, who pay a premium above their peers in developed markets due to perceived risks in Sub-Saharan African credit. The lack of technical expertise in climate reporting further complicates access to the US$4 trillion GSS+ bond market.

Artificial Intelligence (AI) holds promise in overcoming these challenges, promoting the adoption of climate standards, and fostering capital equilibrium in Sub-Saharan Africa. This article provides a cursory overview of AI's role in addressing the challenges of adopting climate standards and creating capital equilibrium in Sub-Saharan Africa.

Africa's low adoption of climate standards

Despite contributing the least to climate change, Africa is paradoxically the most vulnerable to its effects with a low adaptive capacity. Consequently, African Issuers have the most to gain from accessing the GSS+ market for green funding, which could help bridge the estimated US$100 billion annual funding gap for climate-proofing its infrastructure.

Yet, the adoption of climate standards on the continent is remarkably low. A 2021 report by the African Development Bank highlighted that less than 10% of Sub-Saharan African countries have integrated comprehensive climate standards into their national policies. This low adoption rate affects the issuance of GSS+ bonds, as investors seek assurance that their funds are used in environmentally and socially responsible ways. Several factors are responsible, some of which are:

- *High barriers to entry and premiums for African Issuers:* African issuers face high barriers to entry in the GSS+ bond market. They often pay a premium above issuer peers in developed markets due to perceived risks associated with Sub-Saharan African credit. According to the International Monetary Fund (IMF), African countries pay an average premium of 300 basis points more than similarly rated counterparts in developed regions. This additional cost makes it less attractive for African issuers to participate in the GSS+ bond market, limiting their access to essential capital for sustainable development projects.

- *Lack of technical expertise in climate reporting:* The lack of technical expertise in climate reporting is a significant hindrance for Sub-Saharan African countries. This issue is compounded by the strenuous and often complex reporting requirements for GSS+ issuances, making compliance challenging for Sub-Saharan African countries and further deterring potential issuances. Countries in Sub-Saharan Africa also face significant hurdles in accessing the training, technology, and institutional support needed to meet stringent international reporting standards. This gap in expertise means that even when projects are genuinely sustainable, the inability to communicate and validate the continent's sustainability credentials effectively hampers its chances of attracting GSS+ financing. Consequently, the region continues to face significant barriers in securing sustainable financing, essential for addressing pressing climate challenges and fostering long-term development.

AI's role in overcoming the challenges

AI could play a transformative role in addressing these challenges and facilitating the adoption of climate standards in Sub-Saharan Africa. Here are several ways AI can help:

- *Enhancing data collection and analysis:* AI could streamline data collection and analysis processes, enabling Sub-Saharan African countries to meet stringent reporting requirements more efficiently. AI-powered tools can gather data from various sources, including satellite imagery, sensors, and climate models, and analyse it to generate comprehensive reports. This capability reduces the burden of manual data collection and ensures accuracy.
- *Predictive modelling and risk assessment*: AI enhances predictive modelling and risk assessment, providing valuable insights into potential climate-related events and their impacts. For example, machine learning algorithms can predict droughts, floods, and other extreme weather events, helping governments and organisations prepare and respond effectively. These predictive capabilities can reduce perceived risks and lower African issuer premiums in the GSS+ market.
- *Automated reporting:* AI could automate the reporting process, making it easier for Sub-Saharan African countries to comply with international climate standards. By automating data collection and report generation, AI would ensure that reports are accurate, timely, and comprehensive, thus significantly reducing the administrative burden and cost associated with manual reporting.
- *Building technical expertise:* AI supports capacity-building efforts by providing training and resources to enhance technical expertise in climate reporting. AI-driven platforms can offer online courses, tutorials, and real-time assistance, enabling African professionals to acquire the necessary skills for effective climate reporting. This capability can help bridge the technical expertise gap and improve the quality of climate reports from Sub-Saharan African countries.

Conclusion

In summary, AI has the potential to revolutionise the adoption of climate standards and the creation of capital equilibrium in Sub-Saharan Africa. By enhancing data collection, analysis, predictive modelling, automated reporting, and technical expertise in the short and medium term, AI can help Sub-Saharan African countries overcome perceived risk challenges in the long term. However, mastering AI would require a learning curve that comes with its own challenges. Nevertheless, integrating AI into climate and sustainability efforts would ensure Africa can access the necessary financing for sustainable development.

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ICMA Capital Market Research

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The Asian International Bond Markets: Development and Trends
(Fourth edition)
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Published: 26 March 2024
Author: Joint report by ICMA and the China Central Depository & Clearing Co Ltd (CCDC)

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Author: Julia Rodkiewicz, ICMA

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Author: Andy Hill, ICMA

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Author: Gabriel Callsen, ICMA

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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)

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The Asian International Bond Markets: Development and Trends
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Author: Gabriel Callsen, ICMA

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Published: 25 May 2022
Authors: Lisa Cleary, ICMA, assisted by D2 Legal Technology (D2L)

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

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

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

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

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

ICMA Events, Education and Training

Highlights from the 56th ICMA AGM & Conference

The 2024 ICMA Annual General Meeting (AGM) and Conference was the 56th edition of our flagship event where our global membership gathered with representatives from the wider financial market. The Annual Conference, which has long since established itself as a staple in the capital markets events calendar, was attended by over 1,100 senior public sector officials, bankers and investors who are active in the cross-border bond markets as well as lawyers, academics and journalists, from various international institutions and jurisdictions.

The ICMA Women's Network kicked off this year's programme with an interactive session led by senior women discussing how best to harness their influence as role models to halt the decline of female representation at all levels: from encouraging a culture which supports female advancement, visibility and return to work at various stages, to maintaining momentum in an environment which can be inherently unsupportive and prone to unconscious bias.

Mairead McGuinness, European Commissioner for Financial Services, Financial Stability and Capital Markets Union, was guest speaker at the welcome reception and addressed the importance of completing Capital Markets Union and called for greater collaboration across EU capital markets and to discuss the importance of T+1 settlement in the context of the EU's competitiveness.

The public conference, led by ICMA's Chair, Janet Wilkinson, and Chief Executive, Bryan Pascoe, was opened on Thursday afternoon by Alexia Bertrand, State Secretary for the Budget and Consumer Protection, as well as Minister of Justice and the North Sea, to the Federal Government of Belgium. Alexia discussed the Belgian budget, highlighting the expenditure challenges that come with high taxation and retaining a strong social security system. Other keynote speakers over the two-day conference included Valérie Urbain, Chief Executive Officer, Euroclear; Verena Ross, Chair, ESMA; Anders Fogh Rasmussen, Former Prime Minister of Denmark, Former Secretary General, NATO, Founding Chairman, Rasmussen Global, Founder and Chairman, Alliance of Democracies Foundation and Senior Advisor, Citigroup; Aigboje Aig-Imoukhuede, Chairman, Coronation Group; Professor Álvaro Cartea, Oxford-Man Institute and Mathematical Institute, University of Oxford; and Baroness Moyo, Member of the House of Lords, United Kingdom.

Speeches were supplemented by a number of important and thought-provoking panel discussions concentrating on the fixed income market as well as the current state and prospects for capital markets, in particular the geopolitical and regulatory landscape, the sustainability agenda and FinTech developments.

We would like to once again thank our speakers, sponsors and exhibitors, members and delegates for their support.

Save the date

The 57th ICMA AGM & Conference will be in Frankfurt from 4 to 6 June 2025!
Further details will be announced in due course.

Events in the 4th quarter

This autumn, ICMA will host a number of in-person conferences, addressing the latest developments across FinTech and asset management as well as primary and secondary markets. You can also look out for our schedule of topical webinars.

18 September PARIS	AI and Tech Innovation in Capital Markets, an Opportunity for Female Leadership
16 October LONDON	The AMIC Forum: Mind the Gap – Democratisation of Investing and Financing the Real Economy
22 November TOKYO	8th Annual ICMA & JSDA Conference: Enabling Sustainable Society / Economy-Wide Transition through Sustainable Bonds

Registration is now open for this year's ICMA FinTech & Digitalisation Forum in London on 18 September.

The automation and digitalisation of the industry is one of the most important topics being discussed by our global membership and the wider market. The evolution of the digital bond ecosystem, the emergence of AI as a potentially disruptive force, and the criticality of models and standards will all be debated.

The agenda will combine keynote speeches and panel discussions with leading market figures and experts working in the FinTech and digitalisation space, from the buy and sell side, market infrastructure providers along with software and data vendors. SSA issuers and regulators from different regions will also share their perspectives. Download the sponsorship brochure for details of available packages.

Further details about ICMA events are available at www.icmagroup.org/events or contact events@icmagroup.org

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

ICMA education and training

ICMA Education and Training is delighted to announce the launch of a 10-part video series entitled *Let's Talk Markets* that aims to support the industry in a rapidly changing market.

The series sees industry experts discussing key industry trends and highlights the importance of understanding the complex landscape as it evolves when it comes to delivering effective client service.

Featuring a selection of industry-leading guests including experts from the likes of the European Investment Bank, HSBC, A&O Shearman and BofA Securities, the series looks beyond the trends and headlines to offer fresh insights and analysis on topics such as sustainability and digitalisation, as well as shining a spotlight on specific markets, their intricacies and developments.

Industry veteran and ICMA CEO Bryan Pascoe kicks off the series, providing career advice and outlining the importance of education, mentorship and ongoing professional development within the financial sector.

Commenting on the launch of the vlogs, Bryan Pascoe said: "Market capacity building is critical in promoting efficiency and well-functioning capital markets, and that is part of ICMA's core mission. By bringing together this group of experienced market leaders to share their insights in this series, we hope to continue promoting the highest standards across the sector. The capital markets are evolving fast – and it's never been more important for participants to stay updated on trends and best practice."

Episode 2 features former Chief Sustainable Finance Advisor of the European Investment Bank Eila Kreivi and ICMA's own Simone Utermarck looking back at 10 years of the Principles. Describing the challenges of the green transition, Eila Kreivi comments: "Municipalities and cities, for example, have a lot of work to do in decarbonisation. They are responsible for a lot of carbon emissions, but don't necessarily have a lot of resources to dedicate to interpreting the intricacies of green finance and green bonds or green loans. They need a lot of education and capacity building."

Future episodes will tackle asset management, the repo market, and primary as well as secondary markets. The series can be accessed via ICMA's website, YouTube and available from all major podcast providers.

To find out more about ICMA Education and Training, please click here.

Recordings of a selection of our events are available via the ICMA website. In addition, we continue to produce a range of podcasts featuring important stakeholders in the market, discussing their views on a variety of issues relating to capital markets. With more than 344 podcasts and an impressive 137,662 downloads to date from across the globe, the ICMA Podcast series remains a valued service for the market.

Glossary

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AI	Artificial intelligence
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
AMI-SeCo	Advisory Group on Market Infrastructure for Securities and Collateral
APA	Approved publication arrangements
APP	ECB Asset Purchase Programme
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BDT	Bond Data Taxonomy
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BMR	EU Benchmarks Regulation
bp	Basis points
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBDC	Central Bank Digital Currency
CBIC	ICMA Covered Bond Investor Council
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDM	Common Domain Model
CDS	Credit default swap
CIF	ICMA Corporate Issuer Forum
CMU	EU Capital Markets Union
CoCo	Contingent convertible
COREPER	Committee of Permanent Representatives (in the EU)
CPC	ICMA Commercial Paper Committee
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payments and Settlement Systems
CRA	Credit rating agency
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
CSPP	Corporate Sector Purchase Programme
CSRD	Corporate Sustainability Reporting Directive
CT	Consolidated tape
CTP	Consolidated tape provider
DCM	Debt Capital Markets
DEI	Diversity, equity and inclusion
DLT	Distributed ledger technology
DMO	Debt Management Office
DNSH	Do no significant harm
DvP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council (of the EU)
ECON	Economic and Monetary Affairs Committee of the European Parliament
ECP	Euro Commercial Paper
EDDI	European Distribution of Debt Instruments
EDGAR	US Electronic Data Gathering, Analysis and Retrieval
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFC	Economic and Financial Committee (of the EU)
EFTA	European Free Trade Area
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
ESAP	European single access point
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	Environmental, social and governance
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ESRS	European Sustainability Reporting Standards
ETF	Exchange-traded fund
ETP	Electronic trading platform
€STR	Euro Short-Term Rate
ETD	Exchange-traded derivatives
EURIBOR	Euro Interbank Offered Rate
Eurosystem	ECB and participating national central banks in the euro area
FAQ	Frequently Asked Question
FASB	Financial Accounting Standards Board
FCA	UK Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FICC	Fixed income, currency and commodity markets
FIIF	ICMA Financial Institution Issuer Forum
FMI	Financial market infrastructure
FMSB	Financial Markets Standards Board
FPC	UK Financial Policy Committee
FRN	Floating rate note
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FSC	Financial Services Committee (of the EU)
FSOC	Financial Stability Oversight Council (of the US)
FTT	Financial Transaction Tax
G20	Group of Twenty
GBP	Green Bond Principles
GDP	Gross Domestic Product
GFMA	Global Financial Markets Association
GHG	Greenhouse gas
GHOS	Group of Central Bank Governors and Heads of Supervision
GMRA	Global Master Repurchase Agreement
G-SIBs	Global systemically important banks
G-SIFIs	Global systemically important financial institutions
G-SIIs	Global systemically important insurers
HFT	High frequency trading
HKMA	Hong Kong Monetary Authority
HMRC	HM Revenue and Customs
HMT	HM Treasury
HQLA	High Quality Liquid Assets
HY	High yield
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositories
IFRS	International Financial Reporting Standards
IG	Investment grade
IIF	Institute of International Finance
IMMFA	International Money Market Funds Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
ISSB	International Sustainability Standards Board
ITS	Implementing Technical Standards
KID	Key information document
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio (or Requirement)
L&DC	ICMA Legal & Documentation Committee
LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
LTRO	Longer-Term Refinancing Operation
LMT	Liquidity management tool
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II/R	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
ML	Machine learning
MMF	Money market fund
MOU	Memorandum of Understanding
MREL	Minimum requirement for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NAFMII	National Association of Financial Market Institutional Investors
NAV	Net asset value
NBFI	Non-bank financial intermediation
NCA	National competent authority
NCB	National central bank
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio (or Requirement)
OEF	Open-ended fund
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
OTC	Over-the-counter
OTF	Organised Trading Facility
PBOC	People's Bank of China
PCS	Prime Collateralised Securities
PEPP	Pandemic Emergency Purchase Programme
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QMV	Qualified majority voting
RFQ	Request for quote
RFRs	Near risk-free reference rates
RM	Regulated Market
RMB	Chinese renminbi
RMO	Recognised Market Operator (in Singapore)
RPC	ICMA Regulatory Policy Committee
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted asset
SBBS	Sovereign bond-backed securities
SEC	US Securities and Exchange Commission
SFC	Securities and Futures Commission
SFDR	Sustainable Finance Disclosure Regulation
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Statutory instrument
SLB	Sustainability-Linked Bond
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SARON	Swiss Average Rate Overnight
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
STS	Simple, transparent and standardised
T+1	Trade date plus one business day
T2S	TARGET2-Securities
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TONA	Tokyo Overnight Average rate
TR	Trade repository
VNAV	Variable net asset value

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