Assessment of Market Practice & Regulatory Policy
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ICMA Quarterly Report

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ICMA
International Capital Market Association

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

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include public and private sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has over 600 members in 65 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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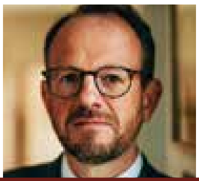

by **Stephen Fisher**

The Great Moderation, from the mid-1980s until 2019 before the COVID-19 pandemic struck, was a remarkable period of stability of both growth and inflation for the global economy. We were in a demand-driven economy with steadily growing supply. Central banks generally had the space and tools to deal with periodic overheating and recession.

However, during this period of relative stability and predictability, we witnessed significant market events, such as the bursting of the dotcom bubble, the global financial crisis of 2008, the subsequent euro area crisis, and Brexit, before the onset of the COVID-19 pandemic. These all subsequently shaped the regulatory architecture of global capital markets, and the period of macroeconomic moderation was anything but serene for regulatory policy makers.

This period of great moderation is over and new dynamics are at play, which will inevitably shape thinking in an already charged regulatory policy agenda. Market volatility and higher rates of inflation are back and the politicisation of seemingly everything makes simple solutions elusive when they are needed the most. This combination of pressures intensifies the need for policy that places the interests of end-investors at its heart. Governments representing over 90% of global GDP have committed to move to net-zero in the coming decades, which involves a reallocation of resources, inevitably impacting investment portfolios. Investors that take a forward-looking position with respect to climate risk and its implications for the energy transition will generate better long-term financial outcomes.

In this increasingly uncertain world, there are important elements of the policy agenda which remain a work in progress:

- The Financial Stability Board (FSB) has brought policy makers together globally to create recommendations to enhance financial stability, drawing on the lessons learned from market volatility in March 2020. This process will likely lead to recommendations regarding liquidity risk management tools and practices in open-ended funds. Further policy initiatives targeting the resilience of the broader non-bank financial ecosystem relate to Money Market Funds (MMF) and the margin practices of Central Clearing Counterparties (CCP). These came at a time when European policy makers were already considering the resilience and capacity of CCPs in a post-Brexit context, and the completion of the transition away from the LIBOR benchmark.
- In Europe, the post-COVID recovery agenda continues to drive rule making in the European Union (EU). This includes several initiatives under the Capital Markets Union (CMU) policy umbrella, which seeks to build a single market for capital in Europe and empower retail investors. These include proposals to reform cornerstone fund and market infrastructure legislation following the scheduled reviews of the Alternative Investment Fund Managers Directive (AIFMD), the Markets in Financial Instruments Regulation (MiFIR), and the European Long-Term Investment Fund (ELTIF) that started in 2021.
- At the same time, the EU will continue to progress the goals set out in the 2018 Action Plan on Financing Sustainable Growth, implementing amendments to the Taxonomy legislation, MiFID suitability requirements, and the Sustainable Finance Disclosure Regulation (SFDR), and finalising some of the planned regulatory requirements. The renewed sustainable finance strategy, published in 2021, further builds on the 2018 Action Plan by providing a roadmap with new actions aiming to support the financing of the transition to a sustainable economy.
- An emerging regulatory framework for digital assets and its related ecosystem is another important area of policy making, which is rising up the priority list.

ICMA's unique value proposition of bringing a unified voice of the capital markets, representing both the sell side and the buy side, is as valued by its members as it is sought after by policy makers. ICMA has been playing a leading role in recent years advocating for outcomes that would deliver open, efficient and resilient capital markets. BlackRock highly values the opportunity it has, through its membership of ICMA, to contribute to this process and to ensure that policy choices made today deliver for end-investors in the increasingly volatile world of tomorrow.

Stephen Fisher is Managing Director, Global Public Policy Group, BlackRock, a Member of the ICMA Board and Co-Chair of ICMA's Regulatory Policy Committee.

The transition of legacy US dollar LIBOR bonds under English law

by **Paul Richards**

Summary

In preparing for the cessation of panel bank US dollar LIBOR on 30 June 2023, there is a strong case for providing synthetic US dollar LIBOR for legacy US dollar LIBOR bonds outstanding under English law, because there are many more than in sterling, where synthetic LIBOR has already been provided; and because this could ensure international alignment between the UK market and the US market for as long as synthetic US dollar LIBOR continues to be published. The synthetic US dollar LIBOR rate would need to be the same as, or as close as possible to, the rate expected under federal US legislation (ie term SOFR plus a credit adjustment spread). The provision of synthetic US dollar LIBOR under English law would avoid an outcome in which many US dollar LIBOR bonds under English law would fall back to a fixed rate on 30 June 2023 when outstanding US dollar LIBOR bonds under federal US legislation will continue to reference a floating rate. As with sterling, the provision of synthetic US dollar LIBOR under English law should help to minimise the risk of market disruption and litigation.

Background

1 The authorities globally have for some time planned the permanent cessation of LIBOR, on the grounds that LIBOR poses clear risks to global financial stability, as the market for unsecured wholesale term lending between banks is no longer sufficiently active to support such a widely used reference rate.[1] Instead, the authorities have encouraged the market to adopt near risk-free reference rates, where the volume of underlying market transactions is greatest.[2] In all five LIBOR currencies, risk-free rates[3] have been adopted instead of LIBOR in new transactions, including in the bond market. In the case of US dollar LIBOR, restrictions were imposed on its use in new transactions from the end of 2021.[4]

1. Global coordination has been overseen by the FSB Official Sector Steering Group, chaired by John Williams, President of the Federal Reserve Bank of New York, and Nikhil Rathi, Chief Executive of the UK FCA. In each LIBOR jurisdiction, the public sector and the private sector have worked closely together through national risk-free rate working groups.

2. See also, Katie Kelly and Charlotte Bellamy, Transition from LIBOR in the Bond Market, ICMA Quarterly Report, Third Quarter 2022; and ICMA's response to the FCA consultation on Winding Down Synthetic Sterling LIBOR and US Dollar LIBOR, 1 August 2022. I am also grateful to both Katie Kelly and Charlotte Bellamy for their comments on an earlier draft of this assessment.

3. SOFR in US dollars; SONIA in sterling; €STR in euro; SARON in Swiss francs; and TONA in Japanese yen. In each case, the most robust risk-free rates are overnight rates, which are measured by the volume of overnight transactions and do not depend on any use of expert judgment. Overnight risk-free rates compounded in arrears are referenced in the majority of new floating rate bond issues. Forward-looking term risk-free rates are also used in some financial instruments and are preferred by the authorities to credit-sensitive rates, which they consider run the same risks as LIBOR.

4. See the statement by the Federal Reserve Board and others, November 2020; the statement by IOSCO, June 2021 and the statement by the CFTC, July 2021.

2 At the end of 2021, panel bank LIBOR ceased permanently in 24 of the 35 LIBOR settings in the five LIBOR currencies, including all euro LIBOR and Swiss franc settings, and some sterling, yen and US dollar settings; and there was a change in methodology in three sterling and three Japanese yen settings from panel bank to synthetic LIBOR for legacy transactions. The remaining three Japanese yen settings are due to cease at the end of 2022. The FCA announced on 29 September 2022 that one and six-month synthetic sterling settings will be retired at the end of March 2023, and is due to announce when to retire the three-month synthetic sterling setting.[5] The remaining five US dollar LIBOR settings – overnight, one month, three months, six months and 12 months – will continue for legacy transactions only until the end of June 2023, unless the FCA decides to compel the IBA, as the administrator for LIBOR, to change the methodology for calculating these settings from a panel bank basis and continue to publish them on a synthetic basis.

3 The scale of the transition from LIBOR to risk-free rates in US dollars is much greater than in the other LIBOR currencies. The US Alternative Reference Rates Committee (ARRC) has estimated[6] that roughly $223 trillion of legacy US dollar LIBOR exposures were outstanding at the end of 2020, of which exposures of $74 trillion were estimated to mature after 30 June 2023, when panel bank US dollar LIBOR will cease. Over 90% of the $74 trillion relates to derivative products, which are either centrally cleared and covered by CCP rulebooks or are expected to be transitioned through adherence to the ISDA IBOR Fallbacks Protocol. Around $5 trillion of the remaining US dollar LIBOR exposures relate to cash products, including bonds.[7]

Lessons from the legacy sterling LIBOR bond transition

4 There are lessons from the legacy sterling LIBOR bond transition for the transition in US dollar LIBOR bonds under English law.[8] In the UK, the market has successfully transitioned a large proportion by value of outstanding legacy sterling LIBOR bonds – in the form of FRNs and securitisations – from LIBOR to compounded SONIA plus a credit adjustment spread. Active transition ahead of the permanent cessation of LIBOR has been encouraged by the UK authorities. But even so, active transition has been – and remains – a challenge. It has to take place bond by bond. The bond market cannot use a protocol in the same way that the derivatives market can use the ISDA IBOR Fallbacks Protocol. The normal route to transition in the bond market is by way of consent solicitation.[9] Alternatives, such as exchange offers and buy backs, have not been widely used. In many cases, consent solicitation *is* feasible under English law, as consent thresholds for investors are significantly lower than 100%. But consent solicitation takes time and can be costly, success is not guaranteed and, in some cases, may not be feasible at all.[10] So, although significant progress on transition was made before the end of 2021, it was not possible to complete the transition by the end of 2021, when panel bank sterling LIBOR ceased to be published.

5 At that point, if nothing had been done, most outstanding legacy sterling LIBOR bonds would have fallen back from a floating rate to a fixed rate.[11] There is a risk that this would have caused market disruption and litigation. So it was important that the UK authorities intervened by directing

5. FCA CP22/11: Winding Down Synthetic Sterling LIBOR and US Dollar LIBOR, 30 June 2022.

6. ARRC March 2021 Progress Report.

7. ARRC March 2021 Progress Report.

8. ICMA chairs the Bond Market Sub-Group in the UK, working with the FCA and the Bank of England. Earlier in 2022, the Bond Market Sub-Group's remit, which had previously been limited to the transition in sterling LIBOR bonds, was extended to include the transition in US dollar LIBOR bonds under English law.

9. In a consent solicitation, an issuer seeks agreement with noteholders to change the contractual terms of the bond, such as the interest rate provisions. Private placements are often less difficult to transition than public bonds.

10. These are sometimes referred to as "tough legacy" contracts, which have been defined by the FSB as "contracts that have no or inappropriate fallbacks, and [which] cannot realistically be renegotiated or amended.": FSB, Reforming Major Interest Rates Benchmarks, 20 November 2020.

11. For bonds governed by English law, fallback triggers generally work as follows: "Type 1" bonds fall back to a fixed rate at permanent cessation of LIBOR, which was not envisaged when the bonds were issued with a floating rate; "Type 2" bonds fall back to a floating rate at permanent cessation; and "Type 3" bonds – and ARRC-recommended fallbacks for LIBOR bonds – fall back to a floating rate at pre-cessation, if and when LIBOR is declared or becomes "unrepresentative" of its underlying market. These examples do not describe every case. It is important to note that the operation of Type 1 bond fallbacks is subject to reference bank polling, which will no longer be fit for purpose once LIBOR ceases. Under federal US legislation, the reference bank polling mechanism is disapplied for financial instruments in scope of the legislation.

the IBA to change the methodology for calculating legacy one-month, three-month and six-month sterling LIBOR contracts from panel bank LIBOR to synthetic LIBOR.[12] As synthetic sterling LIBOR consists of term SONIA plus a credit adjustment spread, it continues to provide a floating rate.[13] In addition, the UK Treasury introduced legislation to ensure continuity of contract in law between panel bank LIBOR and synthetic LIBOR.[14] It is important to note that active transition continued after it became clear that synthetic sterling LIBOR would be available; and that, this year, more active transition is still needed, where feasible, because the UK authorities have made it clear that synthetic LIBOR is a temporary and not a permanent solution.

Implications for the legacy US dollar bond transition under English law

6 The market's experience of the legacy sterling LIBOR transition has implications for transitioning legacy US dollar LIBOR bonds under English law. There are almost as many legacy US dollar LIBOR bonds under English law as under New York law by number, though the value under English law is much less. Market participants need to take stock of their back book and check their bond documentation, as documentation for legacy US dollar LIBOR bonds under English law and New York law is not the same:

- Legacy US dollar LIBOR bonds under English law should be able to follow the same process of active transition through consent solicitation as for legacy sterling LIBOR bonds, though active transition of some international legacy US dollar LIBOR bonds under English law is likely to be difficult, as US dollar LIBOR bonds tend to be more widely held around the world, given the US dollar's international role. Where active transition is feasible, the focus should be on transitioning bonds, including securitisations, with fallbacks to a fixed rate at permanent cessation of LIBOR (Type 1) rather than bonds which already have a robust floating rate fallback at permanent cessation (Type 2) or bonds which also have a robust floating rate fallback triggered at pre-cessation if and when LIBOR is declared or becomes unrepresentative (Type 3 or ARRC-recommended fallbacks).
- By contrast to English law, where active transition is feasible in many cases, active transition is not generally feasible for LIBOR bonds governed by US law, as their consent thresholds are commonly 100%.[15] And federal US legislation has been introduced to enable many outstanding legacy US dollar LIBOR bonds at 30 June 2023 to continue to reference a floating rate, such as term SOFR plus a credit adjustment spread.[16]

7 That leaves the question of whether the UK authorities should follow the US, though by a different route under English law, by changing the methodology for panel bank US dollar LIBOR to synthetic US dollar LIBOR for legacy contracts (in other words, term SOFR plus a credit adjustment spread). There is a strong case for providing synthetic US dollar LIBOR for all legacy US dollar LIBOR bonds outstanding at 30 June 2023, for two main reasons.

8 The first is that there are many more legacy US dollar LIBOR bonds under English law than in sterling, where synthetic LIBOR has already been provided. Even though the cessation of panel bank US dollar LIBOR is at a later date than sterling, it will not be feasible to complete the transition of US dollar bonds under English law by 30 June 2023, just as it was not feasible in the case of sterling LIBOR. Many legacy US dollar LIBOR bonds are likely to be difficult to transition, where they are widely held by different types of investors, including retail investors, in jurisdictions where awareness of LIBOR transition may be limited, and with less impetus for investors to engage with the process. There may also be other difficulties to overcome (eg in the case of securitisations).

12. The FCA has stated that synthetic LIBOR settings "will no longer be representative of the underlying market and economic reality the setting is intended to measure.": FCA Announcement on Future Cessation and Loss of Representativeness of the LIBOR Benchmarks, 5 March 2021.

13. A similar approach was taken in relation to yen LIBOR. The FCA directed IBA to calculate the one-month, three-month and six-month yen settings using TORF plus a credit adjustment spread.

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

15. ARRC: "In cash markets, the ARRC recognizes that because debt and securitization instruments issued under US law typically require unanimous consent of all holders to amend, they are difficult to remediate. These securities often fall back to the last published value of LIBOR and would be covered under the LIBOR Act, also making remediation a less pressing issue.": LIBOR Legacy Playbook, 11 July 2022.

16. "The purposes of the Adjustable Interest Rate (LIBOR) Act are to establish a clear and uniform process, on a nationwide basis, for replacing the overnight and one, three, six and 12-month tenors of US dollar LIBOR in existing contracts that do not provide for the use of clearly defined or practicable replacement benchmark rate; to preclude litigation related to such existing contracts; to allow existing contracts that reference LIBOR but provide for the use of a clearly defined and practicable replacement rate to operate according to their terms; and to address LIBOR references in Federal law. [The Act does not affect the ability of parties to use any appropriate benchmark rate in new contracts.] The Federal Reserve Board is proposing a regulation which implements the statute by defining terms used in the statute and establishing Board-selected benchmark replacements for LIBOR contracts.": Draft Federal Reserve Board Regulation Implementing the Adjustable Interest Rate (LIBOR) Act, July 2022.

9 The second reason is that synthetic US dollar LIBOR – with permission for its use in all legacy US dollar LIBOR bonds – could ensure international alignment between the UK market and the US market for as long as synthetic US dollar LIBOR continues to be published, giving more time for active transition of legacy US dollar LIBOR bonds governed by English law with Type 1 fallbacks, where this is feasible, and more time for bonds to mature, where it is not. The synthetic US dollar LIBOR rate would need to be the same as, or as close as possible to, the rate expected under federal US legislation (ie term SOFR plus a credit adjustment spread). The provision of synthetic US dollar LIBOR under English law would avoid an outcome in which many US dollar LIBOR bonds under English law would fall back to a fixed rate on 30 June 2023 when many US dollar LIBOR bonds under US law would continue under federal US legislation to reference a floating rate. As with sterling, the provision of synthetic US dollar LIBOR under English law should help to minimise the risk of market disruption and litigation.

Differences in legislative approach to the transition from LIBOR

10 The legislation introduced in the US (under the LIBOR Act), the UK (under the UK Benchmarks Regulation) and the EU (under the EU Benchmarks Regulation) has the common objective of supporting an orderly wind-down of LIBOR. But the legislative route to achieving an orderly wind-down is not the same. The US approach involves contractual override, as a result of which references to US dollar LIBOR in legacy contracts outstanding at 30 June 2023 are replaced by references to a SOFR-based rate (eg term SOFR) plus a credit adjustment spread.

11 The UK approach involves keeping LIBOR for legacy contracts but changing its methodology from panel bank LIBOR to synthetic LIBOR, which would consist of a term risk-free rate (ie SOFR for US dollars) plus a credit adjustment spread for up to ten years, subject to annual review. The UK approach could produce the same result as the US approach for as long as synthetic LIBOR continues to be published, but synthetic LIBOR needs to appear on the same screen as panel bank LIBOR. It is important to avoid any market confusion between the permanent cessation of US dollar LIBOR under federal US legislation on 30 June 2023 and the continuation of synthetic LIBOR for legacy contracts under English law, if the UK authorities follow the same approach for US dollar LIBOR as they have followed for sterling LIBOR.

12 For contracts that are subject to the laws of one of the EU Member States, the European Commission may choose to designate one or more replacements for LIBOR in the event that LIBOR ceases publication or is found to be no longer representative. These replacement rates would only apply to contracts or financial instruments that do not have fallback provisions or that have fallback provisions that are considered to be not sufficiently robust.[17]

13 Most other jurisdictions have so far not passed specific legislation relating to the transition from LIBOR. The ARRC has noted that, if a LIBOR contract does not have a pre-cessation trigger, then it may continue to reference LIBOR if LIBOR continues to be published using a synthetic methodology under the FCA's powers of compulsion.[18]

US dollar LIBOR ICE Swap Rate

14 Some legacy bonds – including capital instruments – contain references to US dollar LIBOR-based benchmarks, such as the US dollar LIBOR ICE Swap Rate, rather than LIBOR itself. The ARRC has noted that legacy bonds referencing the US dollar LIBOR ICE Swap Rate are not covered by US federal LIBOR legislation and has published a recommended fallback formula for these rates that can be considered for use in determining the successor rate after US dollar LIBOR ends. But the fallback rates can only be implemented if the contractual fallback language allows for that. The ARRC recommends that issuers take active steps to address securities that do not have workable fallback language.[19]

Next steps

15 A decision has yet to be taken by the UK authorities on whether to compel the IBA to publish synthetic US dollar LIBOR when panel bank US dollar LIBOR ceases on 30 June 2023. But the FCA consultation on whether to retire one and six-month synthetic sterling LIBOR at the end of March 2023, and on when to retire three-month synthetic sterling LIBOR, has also raised the question of whether synthetic US dollar LIBOR is needed for certain contracts that are not within scope of LIBOR-related federal US legislation.[20]

16 If a decision were to be taken to require publication of any synthetic form of US dollar LIBOR, the FCA has indicated in its consultation that:

- it would expect that any synthetic US dollar LIBOR would follow a similar model to sterling and yen LIBOR: the model the FCA chose for synthetic sterling LIBOR was IBA's term

17. ARRC LIBOR Legacy Playbook, 11 July 2022. The European Commission may also exercise the powers described above in respect of contracts governed by a non-EU law that does not provide for the orderly wind-down of a benchmark and where all the parties to the contract are established in the EU.

18. ARRC LIBOR Legacy Playbook, 11 July 2022.

19. ARRC LIBOR Legacy Playbook, 11 July 2022.

20. FCA CP 22/11: Winding Down Synthetic Sterling LIBOR and US Dollar LIBOR, 30 June 2022.

SONIA reference rates, plus the respective ISDA fixed spread adjustment;

- the FCA would take into account whether market support had already been established, through public or private sector-led working groups and/or open consultation, on a fair way of calculating a replacement value for the relevant benchmark;
- the ARRC has formally recommended CME's term SOFR rates as an alternative reference rate for US dollar LIBOR in certain cases where such use is in line with its best practice recommendations;
- a model using the ARRC's recommended term SOFR rates would depend on CME's term SOFR rates being available to IBA for use in a synthetic rate under an agreement acceptable to both parties, as in the case of synthetic yen LIBOR (where QUICK Benchmarks Inc has made its TORF rates available to IBA).

17 In its consultation, the FCA stated: "market participants should not rely on any synthetic US dollar LIBOR settings being published, nor on any such rate being available for use in all legacy contracts. The FCA would have to specify which legacy contracts are permitted to use any synthetic US dollar, in line with its policy framework."

18 In its response to the FCA consultation, ICMA argued that synthetic US dollar LIBOR is needed in the bond market for all outstanding legacy US dollar LIBOR bonds governed by English and other non-US laws, for the reasons set out in this assessment.[21] The FCA is assessing feedback to its consultation and is due to respond later in the autumn.

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21. ICMA response to FCA consultation paper CP22/11 on Winding Down Synthetic Sterling LIBOR and US Dollar LIBOR, August 2022.

ICMA's new Global Repo and Collateral Forum


By **Alexander Westphal** and **Andy Hill**

Since the early 1990s, ICMA has played a prominent role in promoting the interests and activities of the international repo market, and of the product itself. This includes the development of the Global Master Repurchase Agreement (GMRA), which has become the principal master agreement for cross-border repos globally, as well as for many domestic repo markets. Repo and collateral remain at the core of ICMA's activities today and this work is supported primarily by ICMA's European Repo and Collateral Council (ERCC), which was established in 1999 and has rapidly established itself as the main representative body for the cross-border repo and collateral market in Europe. The ERCC has become a brand in itself that is well-known and recognised within the industry but also in regulatory circles, in large part thanks to the active engagement from members in the ERCC Committee and related working groups.

There has always been an important global dimension to ICMA's repo and collateral work, not least due to the GMRA being a global standard, something that has been recognised from very early on. In fact, the ICMA rulebook anticipates an elaborate governance structure to underpin the repo and collateral work which includes, besides the ERCC, an overarching International Repo and Collateral Council (IRCC). In practice, however, the latter has never gathered sufficient momentum, mainly due to the complex set-up and so the ERCC has, unsurprisingly, taken centre stage. In the meantime, the ambition to better reflect the global dimension of ICMA's repo and collateral work in the governance structure has not disappeared. In fact, this is more relevant today than ever. ICMA's membership outside of Europe continues to grow and many of these members are actively using repo. The use of the GMRA has also further expanded. ICMA now commissions legal opinions in almost 70 jurisdictions around the world and is actively working with various emerging economies to help establish stable and efficient repo markets, in close collaboration with Frontclear and other development institutions. Finally, a number of the key themes that have emerged over the past years in the repo space are clearly global opportunities and/or challenges. This is true for the role of technology and the global drive towards increasing automation and digitisation, and it is certainly also the case for the important discussions around sustainable finance and the role that repo can play in this context.

In September 2022, in recognition of these developments, ICMA decided to launch a new forum, the Global Repo and Collateral Forum (GRCF), which aims to bring together market practitioners from around the world to discuss repo and collateral developments from a global perspective. This will include the topics already mentioned, namely the important legal work around the GMRA, as well as technology and sustainability. But the GRCF will also provide an opportunity to exchange views on a long list of other common themes, such as repo market resilience and functioning, the role of the buy side, structural and legal reform, global regulatory trends, as well as market best practice. The GRCF is open to all ICMA member firms with an active interest in cross-border repo and collateral markets. This includes firms based in Europe, although it is important to note that the GRCF aims to complement rather than replace the ERCC, which will continue to be at the core of our repo and collateral work in Europe. The GRCF will meet at least on a quarterly basis, with the inaugural meeting scheduled for later this year.

In terms of structure, ICMA has decided to follow a pragmatic approach. The GRCF has been established as a separate forum outside of the formal ICMA rulebook. There are several benefits to this approach. But most importantly, it will provide ICMA with the necessary flexibility to fully take on board feedback and ideas from members and shape the GRCF accordingly. The GRCF is intended to add value to ICMA's global membership, so ICMA is keen to ensure that the format and agenda of the group are as relevant as possible and closely reflect members' interests. This includes the potential creation of more topical working groups or events under the GRCF umbrella, for instance a workstream focusing specifically on emerging markets.

If you are an ICMA member and would like to sign up for the GRCF distribution list or share any ideas, feedback or questions, please send an e-mail to **grcf@icmagroup.org**.

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Secondary bond market data

By **Andy Hill**

ICMA is preparing to publish its first semi-annual report providing detailed data on EU and UK bond market trading activity. The purpose of the report, which is an initiative of ICMA's Secondary Market Practices Committee, is to capture and represent aggregated bond market data as reported under the MiFID II/MiFIR obligation. ICMA has leveraged the capabilities of Propellant.digital for the purpose of this report.[1]

The report covers transactions in both corporate bonds and sovereign bonds (as defined by the regulatory class of financial instrument – or "CFI" code – and the corresponding sub-asset class) as reported under both the EU and UK MiFID II/MiFIR requirements. It provides traded volumes and trade counts disaggregated by underlying currency, and, in the case of sovereign bonds, by underlying issuer. It further disaggregates by trade sizes, maturity buckets, distribution channels, as well as transaction jurisdiction (EU or UK).

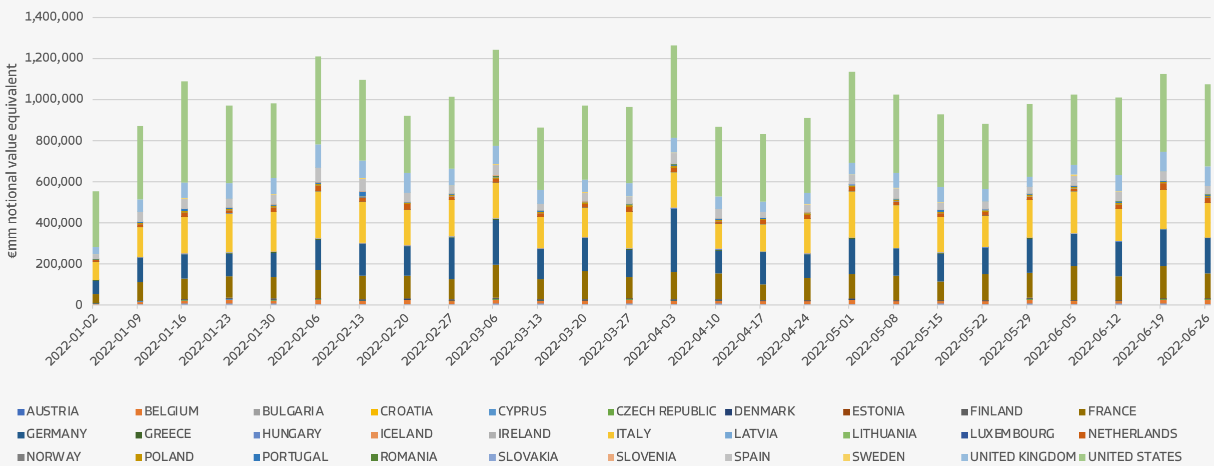
This inaugural report will cover the period of January through June 2022. ICMA intends to update the report on a semi-annual basis in order to be able to track long-term trends in secondary bond market structure and activity.

ICMA also expects that in time both the depth and quality of the underlying data will improve, particularly as reports such as this seek to present a picture of the European bond markets.

Sovereign bond volumes

The total notional value of sovereign bonds (EEA, UK, US) traded in H1 2022 was €25.799 trillion, including 2,577 discrete ISINs. This is an average weekly notional value of €992.3 billion. 54.0% of total traded notional (€13.935 trillion) was EUR-denominated, with 37.4% (€9.657 trillion) USD-denominated. GBP denominated sovereign volumes made up 7.2% (€1.856 trillion) of the total. Other currencies account for 1.4% of total notional value (€351.2 billion).

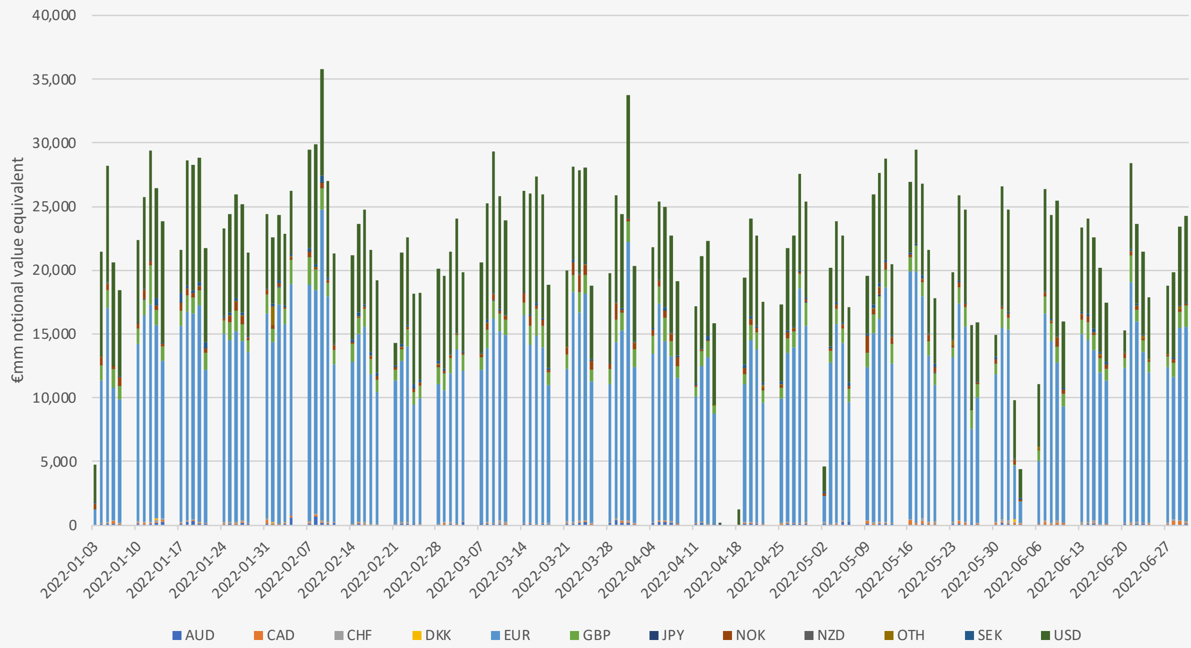
Weekly Sovereign Bond Volumes by Sovereign Issuer



1. Propellant is software solution that provides market participants functionality to enable them to aggregate transparency data of up to 55 Trading Venues (TVs) and Approved Publication Arrangements (APAs).

Corporate bond volumes

Daily Corporate Bond Volumes by Currency



The total notional value of corporate bonds traded in H1 2022 was €2.851 trillion, including 38,265 discrete ISINs. This is an average daily notional value of €22.1 billion. 60% of total traded notional (€1.71trillion) was EUR-denominated, with 30.8% (€879 billion) USD-denominated. GBP-denominated corporate volumes made up 5.4% (€155 billion) of the total. Other currencies account for 3.8% of total notional value (€108 billion).

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Understanding DLT and blockchain in bond markets

By **Gabriel Callsen**

Distributed ledger technology (DLT) and blockchain represent an exciting new frontier in the evolution of fixed income securities issuance and trading. An increasing number of both public sector and private sector institutions across the globe have issued DLT-based debt instruments.[1] This trend is expected to accelerate when the EU's DLT Pilot Regime and UK FMI Sandbox proposal, amongst other initiatives, take effect in 2023.

To raise market awareness and clarify some of the fundamental questions, ICMA and its DLT Bonds Working Group have developed a first set of Frequently Asked Questions (FAQs). These FAQs are designed to serve as an entry point for non-experts to gain a basic understanding of DLT bonds and their impact on capital markets.

The DLT Bonds Working Group brings together a diverse range of constituents, including issuers, investors, banks, market infrastructure providers and law firms from Europe, North America, the MENA region and Asia-Pacific. The FAQs reflect the shared interest in promoting greater consistency across the industry and support the nascent segment of DLT-based securities.

The FAQs address fundamental questions such as "What is distributed ledger technology?", "What is blockchain?", "What are virtual assets and crypto assets?" and "What is a central bank digital currency?", amongst others.

Furthermore, the document seeks to clarify the use of DLT in bond markets, the perceived benefits and challenges as well as legal considerations. For example, a "DLT bond" is understood to be an instrument whose register of ownership is stored using DLT. While the nature of DLT bonds continues to evolve, two different models can be distinguished:

(i) "Native" bonds issued onto a distributed ledger or blockchain. Such securities are held and traded through the DLT or blockchain environment, ie outside the traditional market infrastructure. The creation and existence of such bonds will be specific to each transaction and will likely differ across transactions. This type of instrument could also be referred to as a "native digital asset", "security token" or "bond token", depending on the deal structure.

(ii) Traditional bonds which are immobilised from an operational perspective ie held by an (I)CSD or custodian and represented through a token on a blockchain or DLT network (see also Q&A 6). Whether a token holds legal value or not depends on the specific jurisdiction and the underlying operational configuration. This type of instrument could be referred to as a "tokenised bond", or "non-native security token".

DLT bonds are sometimes also referred to as blockchain or digital bonds. While DLT and blockchain are used interchangeably, there is no market consensus on the use of the term "digital bond", which can be used loosely to refer to any debt security issued in dematerialised ie electronic form.

Other issues addressed by the FAQs include "What is the difference between DLT bonds and traditional bonds, and how they are held?", "How does DLT bond documentation generally differ from traditional legal bond documentation?" and "How might DLT bonds change the issuance and lifecycle process?".

Given the variety of DLT bonds and the various issuance structures, the FAQs do not attempt to be a comprehensive reference or prescribe specific approaches. Where feasible, the FAQs rely on existing definitions and terminology used by central banks, multilateral financial institutions or regulatory bodies to ensure consistency and avoid any ambiguity that may arise from the introduction of new concepts or terms.

The full set of FAQs, including examples and visualisations, can be found on ICMA's website. The FAQs are intended to be a living document and will be updated and revised regularly to ensure they remain relevant to developments in the fast-evolving DLT bonds space. Member firms who would like to contribute or learn more about the DLT Bonds Working Group and this initiative are welcome to get in touch.

Contact: Gabriel Callsen
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1. See ICMA's FinTech tracker of DLT-based bond issuance, trading, settlement, distribution as well as repo and securities lending transactions.

Recent developments and enhancements in the panda bond market

by **Qing Ren**

A panda bond is a RMB-denominated bond issued in China's onshore market by overseas issuers. In recent years, the panda bond market has been expanding with the opening-up of China's capital market and the internationalisation of RMB, developing into a market promoting integrity and transparency, allowing high quality issuers to raise funds efficiently. In 2022, the People's Bank of China (PBoC) has maintained a prudent monetary policy as the Fed has entered an interest rate hike cycle. The attraction of panda bonds to overseas issuers is enhanced due to the narrowing and reversal of the China-US interest rate spread. To promote high-quality development of the bond market, the National Association of Financial Market Institutional Investors (NAFMII) has launched a package of streamlined measures for the registration and issuance of panda bonds.

Recent developments in the panda bond market

Under the leadership of the PBoC, NAFMII actively promotes the development of the panda bond market.

In 2022, the panda bond issuance volume and the number of tranches have increased significantly over previous years. As of the end of August 2022, the issuance volume of panda bonds registered with NAFMII amounted to over RMB400 billion (USD56 billion). The outstanding volume is RMB165 billion (USD23 billion), an increase of RMB26 billion (USD3.6 billion) from the end of 2021. The issuance volume of the first eight months this year reached RMB67 billion (USD9 billion), reflecting year-on-year growth of 19%.

While promoting cross-border investment and financing and the use of renminbi, the market has also supported the development of the real economy.

The main issuers of panda bonds in the interbank market are overseas non-financial enterprises, which account for 80% of issuance volume and 90% of the number of issuances. The issuers of non-financial enterprises cover industries such as automobiles, infrastructure, electricity, consumption, and medicine, and the types of entities are diverse. In addition, the issuance volumes from international development institutions have grown rapidly with a year-on-year growth of 64% in the first eight months of 2022.

Proceeds of panda bonds are mainly used in RMB in China, and about 10% are used overseas in RMB or converted into foreign currencies. Approximately 68% are medium and long-term bonds.

Panda bonds are favoured by overseas long-term investors, in particular central banks and international development institutions. As of the end of August 2022, the proportion of panda bonds held by overseas investors in the interbank market exceeded 17%, which is the highest level of foreign holdings among all types of bonds in the interbank market.

Notable transactions

International development institutions are increasingly involved in the panda bond market. The New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) have successively issued panda bonds this year. The regular issuance of these high-quality seasoned issuers in China's bond market is expected to improve market liquidity.

In May 2022, the NDB successfully issued a three-year RMB7 billion (USD1 billion) bond with a coupon rate of 2.7%, the largest panda bond released by a multilateral development bank in China's interbank market. The proceeds are to be used to finance infrastructure and sustainable development in NDB's member countries, in addition to being used for general purposes in China.

Also, AIIB issued a bond using its Sustainable Development Framework in China's bond market. In addition, foreign companies such as Anta Sports Products Limited and China Everbright Greentech Limited have also issued green bonds and carbon neutrality bonds in the China's bond market.

In the first half of the year, five panda bonds were listed on the Chongwa (Macao) Financial Asset Exchange (MOX) on a pilot basis. Listing of the information of these panda bonds enables international investors to obtain bond information and will ultimately attract international investors to enter the panda bond market.

Recent reforms to facilitate issuance

NAFMII launched a package of measures in the panda bond market in July 2022 to give issuers more flexibility in registration and issuance. These reforms can improve the efficiency of registration and issuance in four ways:

First, more overseas issuers can enjoy the convenience of universal registration ("Debt Financing Instrument (DFI) Registration"). Under the measures, all types of enterprise are allowed to apply for DFI Registration. Enterprises may prepare one set of registration documents covering multiple types of debt financing instruments, including short-term commercial paper, commercial paper, medium-term notes, perpetual notes, asset-backed notes and green notes, and apply for DFI Registration, while previously only seasoned enterprises that meet certain requirements were allowed to benefit from the convenience of single registration. It brings issuers more flexibility in choosing the instrument type, size, maturity and the main underwriter, which can significantly reduce the burden and cost of repeated registration.

Second, it unifies the information disclosure requirements for overseas enterprises. It allows overseas enterprises, no matter whether they meet NAFMII's requirement of "seasoned" issuers or not, to use the same prospectus form, standardising the requirement of information disclosure for different types of enterprises.

Third, it enables tap issuance for certain issuers. International development institutions and foreign governmental agencies are allowed to conduct tap issues based on the relevant business Q&A previously published by NAFMII.

Fourth, it introduces the Frequent Issuer Program (FIP) for panda bonds. Referencing the practices of the Euro Medium-Term Note Program and NAFMII's FIP for domestic issuers, the new rule introduces a FIP for panda bond issuers, streamlining the preparation of the issuance documentation for panda bonds. Under the FIP mechanism, frequent issuers are not required to disclose the repetitive information in the prospectus.

Outlook for the panda bond market

Europe and the United States are still in an interest rate hike cycle, while China maintains monetary liquidity at a reasonable, adequate level. Panda bonds may become an attractive financial tool to overseas issuers due to a lower issuance cost. Meanwhile, China's continued convergence with international standards in the green, social and sustainability fields will promote issuance of sustainable panda bonds, which will bring new opportunities for the development of panda bonds.

Qing Ren is Head of International Cooperation Department, National Association of Financial Market Institutional Investors (NAFMII).

Asset management at ICMA

Nicolette Moser
in discussion with **Irene Rey**

Welcome to ICMA, and more specifically to AMIC, Nicolette. You are joining us after many years working in different roles for large global asset managers.

Thank you, Irene, I am really excited to be joining AMIC in such tumultuous times.

Could you please tell us a little more about yourself by way of introduction?

I am originally from a small island, Guernsey, but I enjoy living and working in London. I have spent my career working in various functions in asset management firms, mostly in London but I did live in Luxembourg for a few years. I love cats and I know we have that in common.

We are currently reviewing AMIC strategy: do you have a vision for AMIC?

I obviously have my own thoughts, but ICMA is a membership organisation and I believe that it is important that our strategy be member-led. Therefore, I have been spending my first few weeks at ICMA meeting with representatives from AMIC member firms to hear directly from them their feedback, ideas and suggestions. AMIC members also belong to other trade associations and it is important that, as AMIC, we focus our resources where we can make the best impact for the membership. I am enjoying this opportunity to get to know the individuals that make the AMIC what it is, as well as learning more about the firms that they represent and the priorities for their businesses. I am trying to have as many in-person catch-ups as possible. It was wonderful to meet so many of our French AMIC members at and around the recent AMIC ExCom meeting which was held in Paris this September. My message to AMIC members is that, if I have not spoken to you yet, an invitation will soon be finding its way into your in-box.

What do you think are some of the greatest challenges faced by the asset management industry and what do you think is the industry's wider role in society?

That is a timely question given the current headwinds. The purpose of asset management is to help ordinary people invest to meet their individual life goals, whatever those may be: children's education or funding retirement. There is growing awareness and an understanding of the impact investment can have, for good or ill, on the environment and wider society. Citizens are increasingly looking to invest for the benefit of people and planet, or at the very least do no harm. Addressing environmental and social challenges requires coordinated action from policy makers and regulators, but the investment industry has a role to play in building a sustainable environment for future generations while at the same time delivering a financial return for their clients. There are many challenges with respect to ESG investing, data quality and consistency included, and rightly, scrutiny from law makers and regulators as well as the public will only increase. The industry will need to work harder to ensure best practice as well as delivering a return for their clients.

How seriously is the industry taking D&I?

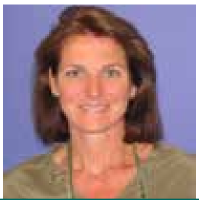
There has definitely been a relatively self-driven focus on diversity and inclusion over the past decade or so by the investment industry and I would highlight the work done by The Diversity Project, *Promoting Investment Industry Diversity*. Therefore, I do not doubt that the industry is serious about D&I. Whether the very many initiatives have successfully delivered a more diverse and inclusive culture within asset management, I am not so sure, but I am afraid that I do not have the answers.

What keeps you awake at night?

I am also Chair of the Governing Board of a primary school. School Governors have a strategic role and work together to carry out three core functions including overseeing the school finances and balancing the books. The increasing number of children at our school qualifying for free school meals and the general underfunding of state education certainly keeps me awake at night.

Nicolette Moser joined ICMA on 5 September 2022 as Senior Director, ICMA Asset Management and Investors Council (AMIC) Executive Committee.

Diversity, equity, inclusion and belonging at the European Investment Bank



Sandra de Greef, Head of Division for Organisation and People Development, Personnel Policies, at the European Investment Bank.

interviewed by **Katie Kelly**, Senior Director, ICMA

Introduction

For this edition of the ICMA Quarterly Report, I had the pleasure of speaking to Sandra de Greef at the European Investment Bank.

Diversity, equity, inclusion and belonging (DEIB) has evolved significantly, such that now it has become fully embedded in all corporate cultures. Can you give us a summary of EIB's main achievements and activities in DEIB over the years? Do you have a particular strategy that you currently peg to, and if so, how are you doing?

The EIB is committed to the EU's objectives and values, and aspires to live up to one of its founding principles – United in Diversity.

We try to ensure equality in our recruitment, performance, promotions, talent management, professional development and all HR procedures and practices, and we strive to embed DEIB to make our internal processes truly inclusive to diverse identities, backgrounds and perspectives. It is a complex exercise, but we have deployed many efforts to involve all relevant stakeholders, whose engagement has become increasingly relevant to positively impact business results.

Good progress was achieved with the EIB Diversity and Inclusion Strategy 2018-2021 to improve gender balance across a range of levels. In 2020, the Bank became EDGE ASSESS-certified, recognising our strong commitment on gender and pay equality, and we are aiming for recertification this year.

But our approach is not only about gender. We aim to build a safe and truly inclusive work environment where *everyone* feels comfortable bringing their identities to work.

For instance, a number of important changes have been implemented to ensure the EIB is a truly disability-inclusive environment, including in recruitment, reasonable adjustments, IT, and other processes and practices. In 2022, we launched disability and LGBTIQ reverse mentoring programmes so that colleagues can learn more about the experience of minority groups in the workplace. We have been working on an LGBTIQ Action Plan to ensure full inclusion of all staff regardless of sexual orientation and gender identity.

We are also addressing other needs, including intergenerational diversity and cooperation, ethnic inclusion and anti-racism.

Did the pandemic have an effect on your strategy, positive or negative?

It required us to strengthen our inclusion efforts to ensure that people felt that they belonged at the EIB even whilst at a distance and in different personal situations. This was particularly difficult for colleagues who joined us as newcomers in this time, parents facing home schooling and families suffering from COVID.

We have developed resources to raise awareness among managers and staff on remote working, with an emphasis on DEIB. For example, guidelines for inclusive performance management, or practical tips and strategies to make our communication and working environment more inclusive and accessible. About half of our managers have participated in "leading hybrid teams" training.

Hybrid working has now become the norm at the EIB, with colleagues working in-office, remotely, and from multiple locations. When correctly managed, this represents a great opportunity for flexibility and inclusion. Managers are more conscious that different situations need different managerial approaches, which we hope to build on to shift our culture towards even more inclusivity.

You place a lot of value on disabled and neurodiverse talent. Can you explain some of your initiatives to foster disability inclusion, and how successful they have been?

We actively work to ensure that staff living with disabilities, neurodivergent colleagues and those with specific needs can thrive at the EIB, supporting them from recruitment, on-boarding and throughout their time at the Bank.

In June 2021, the EIB became the first Multilateral Development Bank to join the Valuable 500, a global business collective driving system change when it comes to disability inclusion in the workplace. We are also a member of PurpleSpace, an international network that aims to support employee disability networks and promote the inclusion of people with disabilities in the workplace. We would recommend watching this conversation between the leads of the Employee Resource Group and Werner Hoyer, President of the EIB.

Elsewhere, the EIB organised its first Disability Awareness Week entirely dedicated to raising awareness on the inclusion of people living with disabilities. We have also established a managers' exchange network on disability to provide peer support on disability inclusion best practices and provide input to the DEIB office on matters relating to the improvement of relevant HR policies and practices.

We are also very sensitive to the inclusion of neurodiverse talent, and we continue to work with relevant services across the Bank to support any specific needs.

According to a report of the UN Secretary General's Panel on women's economic empowerment, empowering women in the economy and closing gender gaps at work are central to the UN's 2030 Agenda for Sustainable Development. As a pioneer in sustainability, how does the EIB address women's economic empowerment internally?

At the EIB, achieving improved gender balance and working towards gender equality is a clear social and business imperative both in our internal DEIB efforts, and in our global operations.

Internally, all our directorates establish annual action plans and targets on recruitment, talent development and other measures to improve gender equality. We are proud to say that there is no statistically significant pay gap between men and women. We have developed and implemented specific gender initiatives such as: ''No Diversity, No Panel'' to encourage balanced gender representation in speaking opportunities, and a "Female Leadership Mentoring" programme which offers mentoring opportunities to women in a bid to diversify our talent pipelines and help us achieve gender balance ambitions.

And in your global operations?

Globally, we mainstream gender equality in all our projects, as reflected in our EIB Group Gender Strategy and Action Plan. We consider that gender is macro-critical, and we firmly believe in the business and development impact case for gender equality. And we know that countries with higher levels of gender equality are likely to be more economically stable – often leading to positive investment in support of enhanced competitiveness. Unfortunately, the COVID pandemic, the Russian invasion of Ukraine, the food and energy crises, climate change and many recent extreme weather events have set us back.

We also consider that gender balance is critical in achieving climate action goals; climate change impacts are not neutral, and in fact, exacerbate existing gender and social inequalities. There is ample evidence that more diversity in leadership, workforces, supply chains and development projects generate better climate outcomes. For example, companies with improved gender diversity on boards are 40-60% more likely, than those without diversity, to reduce the intensity of energy consumption, greenhouse gas emissions, and water use.

Since 2018, the EIB has contributed financing of €900 million directly to women's economic empowerment, aligning with the 2xChallenge criteria and primarily supporting women entrepreneurs or micro, small or medium-sized enterprises. In 2019, we launched SheInvest to boost women's economic empowerment in Africa, further supported by a €2 billion technical assistance facility (Africa Women Rising) launched in 2020, which continues to provide capacity-building support to women-led businesses across Africa.

We also support gender equality through our infrastructure and investment loan operations. The Bank has financed operations that significantly contributed to gender equality in the bio-economy, transport, telecom, health, urban development and the energy sector amounting to over €3.2 billion.

We intentionally seek to finance projects that contribute to gender equality, such as in the care sector. But we also look at the design of an infrastructure project or investment loan through a gender lens, identifying and addressing potential gender gaps that may impede the access to, use and benefit from, the services and products generated.

Our new Environmental and Social Sustainability Framework provides an enhanced approach for the Bank and its clients to identify and mitigate any gender specific risks in the operations that we finance. We have strengthened our internal due diligence tools to better assess risks of Gender Based Violence and Harassment and, in 2018, signed the IFI statement to prevent sexual harassment and exploitation.

The EIB is tracking its gender equality investments, enabling it to understand better what works, and what does not. In addition, the EIB has recently introduced a gender tagging system aligned with the OECD's gender equality policy marker to better enable us to track our contribution to gender equality across all of our operations.

Finally, we partner with organisations that drive positive change and make a difference in promoting gender inclusive working environments and societies, such as Catalyst and Where Women Work, as well as being of the signatories of the Diversity Charter in Luxembourg.

Do you have any particular strategies on how to achieve diverse talent, given the difficulties faced by many companies in recruitment?

We have implemented a series of measures to attract, hire, develop and ultimately retain diverse talent; our job advertisements are screened for "gendered" language, our directorates establish annual action plans and targets on recruitment, and we conduct dedicated outreach and sourcing activities with specialist recruitment organisations and head-hunters. We have developed inclusive guidelines for recruitment and performance management and our interview panels must be gender-balanced.

On key international awareness days, we engage in a range of communication and initiatives to raise awareness of diversity, inclusion, and equality-related topics. Our Employee Resource Groups and DEIB Champions play a key role in fostering an inclusive environment and promoting best practices across the Bank.

What future actions do you have in the pipeline?

We will continue to mainstream DEIB through all our policies, practices, and processes to make sure it continues to positively impact business results and contribute to developing increasingly sustainable solutions.

Moreover, we will continue to broaden the scope of diversity: anti-racism and ethnic inclusion, intergenerational dialogue and cooperation, social diversity, and diversity of thought are all topics which will further enhance and leverage the diversity of the EIB.

What kind of conversation do you think we will be having on DEIB in 10 years' time?

Maybe one day we will no longer need to have this conversation. But although equality is a long journey that has a strong long-term impact, any progress achieved may be reversed. So while we need to protect equality, we also need to continue striving for the inclusion of all.

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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.

Primary markets

1 The ICMA Public Sector Issuer Forum meets on 13 October 2022 at the World Bank in Washington in the margins of the World Bank/IMF annual meetings.

2 ICMA has worked with members on the practical aspects of implementing the Hong Kong SFC Code of Conduct requirements, which took effect on 5 August 2022.

3 ICMA has worked with members on the practical implications for product governance stemming from the ESG amendments to MiFID due to take effect in November 2022 and on a related response to ESMA's consultation on revising its product governance guidelines.

4 ICMA has brought together market participants to discuss the scope for deepening the access of mid-cap companies across national borders in the bond market, particularly in the EU.

5 ICMA's Common Data Dictionary Working Group has held regular meetings to build a consensus on key bond information with the objective of promoting STP and interoperability within the primary issuance process.

Secondary markets

6 Following the successful outcome of ICMA's campaign, supported by the industry, in opposing mandatory buy-ins under the CSDR, and ICMA's response to the European Commission's consultation on its proposed revisions to the CSDR, the ECB published its Opinion on 28 July 2022. The ECB's Opinion is consistent with ICMA's position.

7 ICMA is continuing to engage with the EU authorities on thresholds and variables set out in the *ICMA Proposal for a New Post-Trade Transparency Regime for the EU Corporate Bond Market*. In addition, and in parallel with the corporate bond advocacy efforts, ICMA has launched a Transparency Taskforce with the aim of creating a sovereign bond transparency framework. These proposals will support an appropriate EU bond market transparency regime framework for both corporate and sovereign EU bond markets through the vehicle for transparency: the bond consolidated tape.

8 ICMA responded in July 2022 to IOSCO's discussion paper on *Corporate Bond Markets – Drivers of Liquidity During COVID-19 Induced Market Stresses*.

9 ICMA intends in October 2022 to publish its first semi-annual report detailing secondary bond market data, which is based on MiFID II/R public trade reporting. The data is compiled using the Propellant software solution.

Repo and collateral markets

10 ICMA is in the process of setting up a Global Repo and Collateral Forum.

11 On 14 September 2022, ICMA's ERCC held its autumn General Meeting in Luxembourg, for the first time since November 2019 as an in-person event.

12 ICMA is actively engaged in two key EU repo-related advocacy points: first, the proposed punitive RWA weightings for short-term SFTs with non-bank counterparties under CRR3, where a number of MEPs have supported ICMA's recommended amendment; and second, the ability for EU regulated money market funds to access repo clearing in third country CCPs.

13 ICMA is holding a series of repo buy-side workshops to discuss different uses and relative importance of the repo market, challenges in accessing the repo market and possible alternatives, and potential solutions to improve access.

14 ICMA is considering outreach to the ECB highlighting the ongoing challenges facing the repo and short-term markets related to persistent excess liquidity and collateral scarcity, as well as proposing possible solutions.

15 Phase 2 of the ICMA GMRA clause library project to digitise market standard agreements was launched in September 2022.

16 ICMA has set up a Commercial Paper (CP) Transparency Taskforce to investigate where and how greater transparency can be achieved in the CP market.

Asset management

17 ICMA responded to a discussion paper from the UK FCA and the Bank of England on the resilience of money market funds in July 2022, following its response to an earlier consultation by the European Commission in May.

18 ICMA's AMIC is engaging with MEPs on the impact of the proposed Alternative Investment Fund Managers Directive (AIFMD) amendments. Specific priority topics for AMIC include delegation, liquidity management tools, loan originating funds and supervisory reporting.

Sustainable finance

19 In July and August 2022, ICMA responded to the sustainability reporting standards consultations by the International Sustainability Standards Board and EFRAG as well as the call for evidence from the UK Transition Plan Taskforce on a sector neutral framework for private sector transition plans.

20 On 19 August, ICMA responded to SEBI's consultation on green and blue bonds as a mode of sustainable finance.

21 On 7 September, ICMA responded to the call for feedback on the EU Platform for Sustainable Finance's report on minimum safeguards.

22 On 12 September, ICMA published a brief paper analysing China's recent Green Bond Principles, which constitutes a call for harmonisation of the different green bond regulations in China and the adoption of 100% use-of-proceeds approach, while also articulating its reference to ICMA's Green Bond Principles.

FinTech and digitalisation

23 The first stage of modelling open repo and floating rate repo workflows in Phase 2 of the ICMA project on the Common Domain Model was completed in July 2022. The next stage consists in translating these workflows into code and further expanding the model to evergreen repos. ICMA, ISDA and ISLA have jointly appointed the FinTech Open Source Foundation (FINOS) to provide a repository for the CDM following the RFP launched in May.

24 ICMA's DLT/Blockchain Bonds Working Group released an FAQ document on *DLT and Blockchain in Bond Markets* in September 2022.

25 Following ICMA's response to the ECB's questionnaire in relation to wholesale central bank digital currency, ICMA participated in a virtual meeting with the ECB and other respondents on 8 September 2022. Separately, ICMA responded to other consultations by HM Treasury and the BCBS.

Transition from LIBOR to risk-free rates

26 ICMA was invited to make a short presentation at the Federal Reserve Bank of New York/FCA event on *Last Call on LIBOR: Final Steps to Transition* on 11 July 2022.

27 On 1 August 2022, ICMA responded to FCA CP 22/11 *on Winding Down Synthetic Sterling LIBOR and US Dollar LIBOR.*

Key ICMA regulatory policy messages


by **Julia Rodkiewicz** and **Charlotte Bellamy**

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

Contacts: Julia Rodkiewicz and Charlotte Bellamy
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EU Central Securities Depositories Regulation (mandatory buy-in regime)

- **Regulatory initiative:** Review of the EU Central Securities Depositories Regulation (CSDR).
- **Key issues:** Settlement discipline (SD), including revised mandatory buy-in (MBI) proposal.
- **Key messages:** ICMA cautions against imposing an MBI regime, particularly for bond markets. Penalties should first be allowed time to run and possibly be recalibrated. In parallel, other measures to improve settlement efficiency should be exhausted in the first instance (either market-based or regulatory, eg auto partialling, auto borrowing and lending facilities). If MBIs are implemented, this should be through market regulation, not post-trade regulation. The Level 1 CSDR text should exempt Securities Financing Transactions (SFTs) from the buy-in process.
- **Legislative stage:** The European Commission's (EC) CSDR review proposal of March 2022 is now being debated by the European Parliament (EP) and the Council of EU Member States (the Council) with a view to agreeing on a final text, possibly in 2023. In July 2022, the ECB published its opinion on the EC's CSDR review proposals, favourably suggesting among other things to discard the application of the MBI provisions altogether.
- **Recent ICMA engagement and materials:** Meetings with the EC, EP and Council representatives. ICMA published its feedback on the EC proposal in May 2022 and a briefing note in September 2022.

Contacts: Andy Hill and Alexander Westphal.

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

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

EU MiFIR and UK Wholesale Markets Review

- **Regulatory initiatives:**

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

  - UK Wholesale Markets Review (WMR).

- **Key issues:** Pre- and post-trade transparency and consolidated tape for bond markets, SFT reporting.
- **Key messages:** ICMA members would like to see the introduction of an effective, appropriately calibrated and dynamic post-trade transparency regime for all bonds, including corporate and sovereign bonds. In particular, large and extra-large illiquid trades should benefit from delayed publication of both price and size to prevent undue risk to counterparties involved. Once deferrals have expired, all bond trades should be published in a centralised place. Regarding pre-trade transparency, the current obligations are ineffective and potentially counterproductive and should be removed. Separately, ICMA is advocating for all SFTs to be exempted from EU MiFIR transaction reporting because the MiFIR regime does not cater for the specific nature of SFTs and is inconsistent with SFT Regulation (SFTR). In the UK, SFTs with the Bank of England have been removed from the scope of UK MiFIR reporting.
- **Legislative stage:**

  - EU: The EC's MiFIR review proposal of November 2021 is now being debated by the EP (draft report on MiFIR and MiFID) and the Council with a view to agreeing a final text in 2023. On 1 June 2022, the ECB issued an opinion on the MiFIR transparency proposals, which argues for the SFT reporting requirement to be revoked among other things.

  - UK: The Financial Services and Markets Bill (FSMB), published in July 2022, will introduce powers for HM Treasury (HMT) to repeal the current UK MiFIR (as well as other retained EU financial services regulation) and introduce a new regime in line with the March 2022 outcome of HMT's July 2021 WMR consultation. In some areas, including UK MiFIR, the FSMB amends the current legislative framework, for example to simplify the fixed income transparency regime and implement certain other outcomes of the WMR.

- **Recent ICMA engagement and materials:** Meetings with representatives of the EU institutions and relevant UK policy makers. ICMA published a position paper on post-trade transparency in December 2021, feedback to the EC's proposal in March 2022 and its response to the WMR consultation in September 2021.

Contacts: Elizabeth Callaghan and, on MiFIR/SFTR reporting, Alexander Westphal.

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

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

EU Alternative Investment Fund Managers Directive and EU European Long-Term Investment Fund (ELTIF) Regulation

- **Regulatory initiatives:** Reviews of:

  - EU Alternative Investment Fund Managers Directive (AIFMD).

  - EU European Long-Term Investment Fund (ELTIF) Regulation.

- **Key issues:**

  - AIFMD: Liquidity management tools, delegation, loan originating funds and reporting.

  - ELTIF: Funds of funds, illiquid assets ratios, securitisation exposure, "green" ELTIF category.

- **Key messages:**

  - AIFMD: ICMA's Asset Management and Investors Council (AMIC) in general welcomes the EC's targeted review of the AIFMD and supports the Council's and EP's proposals for recognising the critical risk management responsibilities that should remain with Alternative Investment Fund (AIF) managers. However, there are several outstanding concerns regarding delegation, shareholder loans, leverage cap limits for loan originating AIFs and proposals for duplicating existing UCITS reporting requirements. AMIC views the draft EP proposals on a delegation equivalence regime, leveraged buy-out (LBO) operations, performance fees and undue costs, securities lending and ESG references as duplicative of other existing conduct, disclosure and sustainable finance rules.

  - ELTIF: AMIC generally welcomes the positions adopted by both the Council and EP, especially with respect to the proposals to raise the market capitalisation threshold further and the additional derogation allowing for open-ended ELTIFs. AMIC has noted the draft proposals to include sustainability-related disclosures, cautioning against duplicative or inconsistent requirements as compared to the EU Sustainable Finance Disclosure Regulation (EU SFDR) and EU Taxonomy Regulation (the EU Taxonomy).

- **Legislative stage:** EC's AIFMD and ELTIF review proposals of November 2021 are now being debated by the EP (AIFMD draft report and draft amendments available here and here and ELTIF report) and the Council (AIFMD and ELTIF positions) with a view to reaching an agreement, possibly in the first half of 2023 for AIFMD and probably earlier for ELTIF.

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

Contacts: Nicolette Moser and Irene Rey.

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

More information: The Asset Management section of the Q3 2022 ICMA Quarterly Report, pages 56-57.

EU Green Bond Standard

- **Regulatory initiative:** EU Regulation on European Green Bonds (EU GBS) proposal.

- **Key issues**: The nature of the standard (voluntary vs. mandatory), extension of scope to other sustainable bonds, additional and entity-level transparency requirements, liability risks and legal costs, taxonomy alignment and usability, grandfathering, and external reviewers.

- **Key messages:** ICMA expresses strong support for a voluntary standard and full grandfathering of Technical Screening Criteria alignment to maintain the stability of the EU GBS designation. There are concerns regarding (i) increased legal liability and costs creating significant disincentives for issuers, (ii) Taxonomy usability issues, (iii) unintended barriers to financing of Taxonomy-aligned CapEx plans; (iv) mandatory requirements for all green use of proceeds bonds and environmental sustainability-linked bonds which duplicate entity-level requirements under other EU sustainable finance regulation and create implementation challenges.
- **Legislative stage:** The EC's EU GBS proposal text of July 2021 is now being debated by the EP (report) and the Council (position) with a view to reaching an agreement on a final text possibly over the course of the coming months.
- **Recent ICMA engagement and materials:** Meetings with representatives of the above-mentioned EU institutions. ICMA published a note analysing the EP's report and Council's position in June 2022. See also ICMA's publication on *Ensuring the Usability of the EU Taxonomy* of February 2022 which is relevant to the link between the EU GBS and the EU Taxonomy.

Contacts: Nicholas Pfaff and Ozgur Altun.

More information: The Sustainable Finance section of the Q3 2022 ICMA Quarterly Report, pages 53-54.

EU and UK Prospectus Regulations

- **Regulatory initiatives:**

  - EU Prospectus Regulation review (part of the EC's Listing Act consultation, which also covers other matters including the EU Market Abuse Regulation, the EU Transparency Directive and the EU Listing Directive).

  - UK Prospectus Regime review.
- **Key issue:** Appropriately calibrated EU and UK prospectus regimes allowing smooth and efficient cross-border bond issuance in Europe.
- **Key messages:** Wholesale bond markets in Europe currently function reasonably efficiently under the current EU and UK Prospectus Regulations, and this must be preserved. In relation to retail bond markets and SME bond markets, regulation is only one factor among various other commercial and market drivers. Constructing an appropriate regulatory regime would require a holistic consideration of various regulatory tools and incentives.
- **Legislative stage:**

  - EU: The EC consultation of November 2021 is currently expected to be followed by a legislative proposal before the end of 2022.

  - UK: The FSMB will introduce powers for HMT to repeal the current UK Prospectus Regulation and introduce a new regime in line with the outcome of HMT's consultation on the UK Prospectus Regulation.
- **Recent ICMA engagement and materials:** Meetings with the EC, certain EU national competent authorities (NCAs), EU Ministries of Finance, HMT and FCA have taken place or are anticipated for the coming months. On the EU Prospectus Regulation, see ICMA's response and key points from ICMA's response to the EC's Listing Act consultation. On the UK Prospectus Regulation, see ICMA's article on the UK Prospectus Regulation review outcome.

Contact: Charlotte Bellamy.

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

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

EU Capital Requirements Regulation 3

- **Regulatory initiative:** Review of the EU Capital Requirements Regulation (CRR), the so-called CRR3 proposal, which is a part of a broader review of EU prudential rules for banks.
- **Key issue:** Capital treatment of Securities Financing Transactions (SFTs).
- **Key message:** ICMA advocates for the recognition of the short-term nature of SFT transactions in Risk Weighted Assets calculation under the standardised approach with respect to banks' counterparty credit risk exposures to non-banks.
- **Legislative stage:** The EC's CRR3 proposal of October 2021 is now being debated by the EP (draft report and draft amendments) and the Council with a view to agreeing on a final text, possibly in 2023.
- **Recent ICMA engagement:** Outreach to key representatives in the Council and EP. ICMA published a briefing note in July 2022.

Contacts: Andy Hill and Alexander Westphal.

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

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

Wholesale Central Bank Digital Currency (wCBDC) consultation

- **Regulatory initiative:** European Central Bank (ECB) consultation on the potential use of new technologies such as Distributed Ledger Technology (DLT) for wholesale central bank money settlement.
- **Key issue:** Whether to introduce a wholesale digital euro (CBDC) for wholesale payments, securities settlement and collateral management or use the existing TARGET platform via a so-called "trigger solution".
- **Key message:** ICMA advocates for a wholesale digital euro (CBDC) to support next-level automation, more efficient securities settlement and post-trade processing and increase the attractiveness of capital markets.
- **Policy development stage:** Following the consultation and a stakeholder meeting in September 2022, the ECB is considering next steps.
- **Recent ICMA engagement and materials:** ICMA responded to the ECB consultation in June 2022, published a one-page viewpoint on wholesale CBDC and participated in an ECB stakeholder meeting in September 2022. ICMA also published FAQs on DLT and blockchain in bond markets in September 2022.

Contacts: Georgina Jarratt, Gabriel Callsen and Rowan Varrall.

Working Group/Lead Committee: DLT Bonds Working Group.

More information: The FinTech and Digitalisation section of this Quarterly Report.

EU and UK Money Market Funds Regulations

- **Regulatory initiative:**

  - EU: Review of the EU Money Market Funds (MMF) Regulation.

  - UK: Review of the UK Money Market Funds (MMF) Regulation.

- **Key issues:** MMF market and fund composition, measures to enhance resilience and EU MMFs' access to third country repo clearing.

- **Key messages:** ICMA highlights the unintended consequences of changes to the composition of certain MMF structures. In addition, ICMA suggests a shift of focus towards strengthening the efficiency and resilience of the underlying market, noting ICMA's *The European Commercial Paper and Certificates of Deposit Market White Paper* of September 2021. ICMA raises member concerns related to a provision in the EU and UK MMF Regulations which restricts the ability of regulated MMFs to access third-country CCPs for transacting cleared repo. ICMA suggests that authorities discuss reciprocal arrangements for repo clearing access for MMFs with their relevant international counterparts.

- **Legislative stage:**

  - EU: Following the EC's consultation of April 2022, its report may be expected in autumn 2022 at the earliest.

  - UK: A consultation may be released following the joint FCA and Bank of England *Discussion Paper on the Resilience of MMFs* in May 2022.

- **ICMA engagement, recent materials and next steps:** Outreach to key representatives in EC, Council and EP. ICMA responded to the EC's consultation in May 2022. ICMA responded to the FCA and Bank of England Discussion Paper in July 2022. ICMA has set up a CP Transparency Taskforce to investigate where and how greater transparency can be achieved in the CP market.

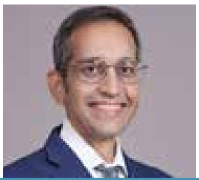
Contacts: Katie Kelly and, on repo clearing, Andy Hill and Alexander Westphal.

Working Group/Lead Committee: Commercial Paper and Certificates of Deposit Committee (CPC).

More information: The Asset Management section of this Quarterly Report.

Primary Markets



by **Ruari Ewing, Charlotte Bellamy, Katie Kelly and Mushtaq Kapasi**

The EU and UK Prospectus Regulations

Introduction

ICMA has been closely involved in the development of a regulatory regime for prospectuses in Europe since its inception. Our aim is to protect and promote the efficiency and smooth functioning of the market for new international bond issues.

Currently both the EU and UK are considering changes to their prospectus regimes. This article summarises the status of the two reviews and key concerns for the international bond markets. It also discusses regulatory developments relating to sustainability disclosures in the context of new bond issues.

The EU regime

Originally the EU Prospectus Directive and now the EU Prospectus Regulation, the EU prospectus regime has already been through several iterations and amendments. Following a targeted consultation earlier this year, market participants are now waiting to see how the European Commission proposes to amend the EU Prospectus Regulation again. The amendments are expected to be published as part of an initiative known as the Listing Act, which is also expected to include proposed amendments to other regulation relating to the listing of securities in the EU such as the Market Abuse Regulation (MAR), MiFID, the Transparency Directive and the Listing Directive.

The European Commission's review of the EU Prospectus Regulation has been launched under the Capital Markets Union 2020 Action Plan, Action 2, supporting access to public markets. The Commission states that it "plans to adopt a legislative proposal ... that cuts the red tape for companies, in particular SMEs, wanting to raise funds on EU public markets, while preserving market integrity and investor protection. The proposal will critically assess the rules applicable to companies going through a listing process and companies already listed on EU public markets."

The targeted consultation on the Listing Act appeared to have a strong equity focus, but the forthcoming amendments are expected to impact upon bond markets. The key points from ICMA's response to the European Commission's targeted consultation of February 2022 are set out in the blue box.

Key points from ICMA's response to European Commission targeted consultation on a Listing Act

1. The EU's primary bond markets currently function efficiently, particularly in the wholesale space. The regulatory environment for listing wholesale bonds in the EU is considered to be reasonably well-calibrated, although is perceived to place more emphasis on investor protection than ensuring access to finance for bond issuers.
2. Given the well-functioning nature of wholesale primary bond markets currently, many ICMA members would welcome only necessary adjustments to the EU Prospectus Regulation. However, some more ambitious proposals to increase flexibility for bond issuers could also be considered. In any event, the base prospectus format, wholesale disclosure regime and flexibility for bond issuers to choose their home Member State under the EU Prospectus Regulation work well and must be retained. Similarly, the public offer exemptions and application to securities to be admitted to a regulated market (but not MTFs) provide important flexibility.
3. In relation to MAR, the broad scope (namely its application to securities listed on regulated markets, MTFs and OTFs), the definition of "inside information", obligations relating to insider lists and the market soundings regime are considered problematic or disproportionate.
4. Changes to the listing-related requirements under MiFID, Transparency Directive and Listing Directive are, on balance, not considered to be necessary at this time.
5. There is scope to develop a pan-EU retail bond market, but regulation is only one factor among various other commercial and market drivers. Constructing an appropriate regulatory regime would require a holistic consideration of various regulatory tools and incentives. The situation is similar for SME issuer access to public bond markets, where investors tend to need more (rather than less) information about the issuer. While challenges exist in both the retail and SME contexts, they should be considered separately given retail investors are less likely to be able to assess and bear the increased risks associated with investing in SME bonds.

In addition to the responses it receives to its targeted consultation on the Listing Act, the European Commission is also likely to take into account the results of ESMA's peer review of prospectus scrutiny and approval procedures by NCAs. The peer review report was published in July 2022 and indicates that there is a wide variety of approaches taken by NCAs in the scrutiny and approval of prospectuses, and that some of these divergences may impact issuers' ability to raise capital. It seems likely that this headline outcome is relevant primarily for issuers of shares, noting that most issuers of bonds are able to choose their "home Member State" for prospectus approval purposes and will often choose a home Member State with a NCA that has appropriate experience and expertise in scrutinising and approving non-equity prospectuses. Indeed, as indicated in ICMA's response to the European Commission's targeted consultation on the Listing Act, ICMA members' experience is that there is alignment in the way national competent authorities assess draft prospectuses for non-equity securities. Nonetheless, ESMA's peer review report highlights areas of divergence and makes policy recommendations that provide interesting insight into potential areas of focus for the European Commission, ESMA and NCAs in the future, for example relating to the length of prospectuses, risk factor disclosure, prospectus summaries and prospectus comprehensibility.

In terms of the timing for next steps, the European Commission was originally expected to publish a legislative proposal in Q3 2022, but its website now makes reference to publication in the second half of 2022.

The UK regime

In the UK, the current UK Prospectus Regulation is a close mirror image of the EU Prospectus Regulation, on-shored, with relatively minor amendments, at the end of the Brexit implementation period at the end of 2020. Under the European Union (Withdrawal) Act 2018, the UK Prospectus Regulation and related detailed rules that derive from EU law have a status equivalent to statute and can only be amended via an Act of Parliament.

In July, the UK Government introduced the Financial Services and Markets Bill. The Bill is intended to implement the UK's Future Regulatory Framework Review and is the start of a multi-year review of UK financial services regulation inherited from the EU. The overarching ambition is to have a more agile regime in which the regulators, notably the FCA and PRA, have increased powers to set and change rules.[1]

In relation to the UK Prospectus Regulation, the Bill will allow the current regime inherited from the EU to be revoked and replaced with a new regime comprised of (i) high level fundamental laws that will sit in statute and (ii) powers for the FCA to make detailed regulations. Going forwards, the FCA will therefore be able to amend the detailed rules quickly, either to correct errors or to deal with changed circumstances, without requiring primary legislation.

This more flexible regime is considered broadly to be welcome. In addition, ICMA was pleased to see in the outcome of the review of the UK Prospectus Regulation published by HM Treasury on 1 March 2022 that some of the key suggestions that ICMA made in its response to the UK Prospectus Regulation consultation will be taken forward. For example, ICMA was pleased to see that HM Treasury intends to set the threshold for the exemption from the UK public offer regime based on minimum denominations at £50,000, and not £100,000. This was a key concern for international bond market participants, noting that bonds with the commonly-used €100,000 minimum denomination would meet the current EU Prospectus Regulation threshold but would not meet a UK regulatory threshold if it were to be set at £100,000. ICMA had emphasised this point in its engagement with HM Treasury; and is pleased to see this concern addressed.

Whilst the general approach for the future UK prospectus regime is known and the wheels for change have been set in motion with the publication of the Financial Services and Markets Bill, the precise impact of the changes for international bond markets are still to be seen. The impact will depend in large part on how the FCA exercises the significant powers that will be granted to it. As described in the outcome of the review of the UK Prospectus Regulation, these powers will include specifying if and when a prospectus is required, what a prospectus should contain, whether it needs to be reviewed and approved prior to publication and other detailed rules currently contained within the UK prospectus regime. It is anticipated that the FCA will consult upon the exercise of these expanded powers in due course.

Outside the review of the UK Prospectus Regulation, the FCA is currently reviewing the effectiveness of UK primary markets and published a Discussion Paper in May. This followed Consultation Paper CP21/21 to which ICMA responded in September 2021. The Discussion Paper was primarily related to equity markets. In relation to debt securities, the FCA noted that disclosure requirements are predominantly set under the UK Prospectus Regulation and further action in this area should be taken in parallel to future reforms of that regime. Similarly, the UK Secondary Capital Raising Review (which was accepted in full in the UK Chancellor's Mansion House speech of 19 July 2022) appears to be primarily focused on reforming the UK's equity capital markets. Some of the recommendations relating to shares could become relevant for debt securities, depending on how they are taken forward, and ICMA intends to monitor developments in this area.

1. In September 2022, the UK Government also introduced the Retained EU Law (Revocation and Reform) Bill, known as the Brexit Freedoms Bill. Whilst this Bill's revocation of all retained EU laws on 31 December 2023 will not apply to the UK Prospectus Regulation, there may be aspects of the Bill that impact interpretation of the UK prospectus regime.

What will EU/UK Prospectus Regulation divergence mean for markets?

As policy makers and regulators in the EU and UK adjust their regimes, the rules for prospectuses in the EU and the UK are likely to diverge. The impact of this divergence for wholesale international bond markets will depend in large part on the scope of the two regimes and how the exemptions from it are structured.

Importantly, companies and other issuers will wish to continue to offer their bonds to institutional investors on a pan-European basis as they do currently: ie without needing two prospectuses (one for the EU regime and one for the UK regime). What this means for the regulations is that the "public offer" exemptions from the two regimes need to be at least as wide as they are now. There is currently no indication that the exemptions will be narrowed in either the EU or UK. This is something that ICMA will continue to monitor closely.

In addition, any form of change to regulation (even that which is deregulatory in nature) brings costs for industry in the year it is introduced because market participants need to spend time understanding the amendments and adapting their policies and procedures accordingly. *Many ICMA members will now be facing implementation costs on two fronts (ie from both the EU and UK), rather than one.* It is therefore even more important that the changes to the EU and UK prospectus regimes are appropriately calibrated and do not introduce unnecessary or disproportionate costs for companies and other borrowers seeking to access finance in the international bond markets.

ICMA will continue to monitor the proposed adjustments to the two regimes and discuss with members and policy makers the potential impact for the international bond markets.

What about sustainability disclosures in bond prospectuses?

The question of sustainability disclosures in prospectuses for new bond issues continues to be an area of focus for ICMA members. A previous ICMA Quarterly Report article summarised some of the considerations.

So far there have been no specific amendments to the EU or UK Prospectus Regulations related to environmental, social or governance aspects of a bond issuer's business or for sustainable bonds.[2] However there have been a number of related regulatory developments.

In relation to disclosure requirements for sustainable bonds, the EU Green Bond Standard is currently making its way through the EU legislative process and could include specific disclosure requirements for new bonds issued within the scope of that regulation. See further the Sustainable Finance section of the Q3 2022 ICMA Quarterly Report.

In the UK, the FCA published Primary Market Bulletin 41 and Feedback Statement FS 22/4 on ESG integration in UK capital markets in June 2022. In these publications, the FCA:

- encouraged issuers of "use of proceeds" debt instruments to consider voluntarily applying or adopting relevant industry standards, such as the Principles and Guidelines that ICMA has developed for green, social, and sustainability bonds;
- reminded issuers, their advisors and other relevant market participants of their existing obligation to ensure any advertisement is not inaccurate or misleading, and is consistent with the information contained in the prospectus; and
- encouraged issuers and their advisors to consider verifiers' and assurance providers' expertise and professional standards, and to engage with second party opinion (SPO) providers and verifiers who adhere to appropriate standards of professional conduct, such as ICMA's Guidelines for External Reviewers.

Of particular interest to ICMA's primary market members is the second item noted above and the related FCA statement that "where bond frameworks form part of a communication that relates to an offer or admission of securities, they are likely to be advertisements for the purposes of the prospectus regime, so must comply with the Prospectus Regulation and the Prospectus RTS Regulation".

Whilst this is not understood to indicate that current disclosure practices for green, social or sustainability bonds need to change, ICMA's primary market members have noted the FCA's statements and concern that, occasionally, the language used in green, social and sustainability bond frameworks could be considered more definitive than the relevant sections in the prospectus and that the FCA is monitoring activities in this area.

More generally, several global, regional and national initiatives related to corporate sustainability reporting and disclosures are under way or being implemented. These could be relevant for bond issuers outside of the sustainable bond market, as well as issuers of sustainable bonds. ICMA has been tracking and responding to relevant consultations

2. With the exception of Recital 7 of Regulation (EU) 2021/337 amending the EU Prospectus Regulation which highlights environmental, social and governance (ESG) matters as increasingly important and calls on the European Commission to assess whether it is appropriate to integrate sustainability-related information in the EU Prospectus Regulation and assess whether it is appropriate to make a legislative proposal in order to ensure coherence with sustainability objectives and the comparability of sustainability-related information across EU financial services law.

in this area as reported in the Sustainable Finance section of this Quarterly Report.

ICMA will continue to discuss with its members the developing regulatory landscape and market practice in this area.

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Hong Kong SFC conduct requirements for bookbuilding and placing

In August 2022, a new Code of Conduct for capital market transactions in Hong Kong went into effect. The Hong Kong Securities and Futures Commission (SFC) released consultation conclusions including the final text of the Code in October 2021, and issued FAQs in May 2022 to provide further guidance with respect to the Code.

This is the most significant regulation of debt primary markets in Asia-Pacific in recent memory. In fact, the SFC's proposals in certain aspects go beyond regulatory requirements found in other debt capital markets, including the EU and United States. The new Code applies to all bond issuances managed from Hong Kong. The reforms also affect syndication practices for a large proportion of cross-border G3 Asian deals and almost all international bonds from Chinese issuers. The new rules also affect global deals with a more tenuous Hong Kong connection.

As the Code applies to DCM activities "conducted in Hong Kong", rather than to transactions as a whole, its application to regional and global transactions is complex. Scenarios in which lead managers in a transaction may be located both in Hong Kong and outside of Hong Kong pose particular difficulty in terms of determining consistent syndicate practices for a particular primary bond offering. This is especially true for those aspects of the Code relating to the appointment of syndicates by the issuer, assessment of investors, and book updates. The SFC's recent FAQ provided helpful clarity allowing a Hong Kong syndicate to take "reasonable steps" for compliance in some situations where adherence to the Code would require cooperation by other syndicates or investors outside of Hong Kong (and therefore not subject to the Code).

So far, since the August 2022 effective date, implementation of the Code has not caused significant disruption to issuers' access to funding. And institutional investors and private banks have not reported major concerns about transparency or allocation since the effective date of the Code. However, international deal activity in Asia DCM has been muted overall, due both to global macroeconomic considerations and domestic China issuer dynamics.

The Code continues to have uncertain application with respect to roles and responsibilities in DCM transactions, particularly where (i) lead managers include HK banks and non-HK banks; and (ii) internal syndicate/DCM teams include HK staff and non-HK staff.

Highlights of the new Code include:

- *DCM scope:*

  - For DCM transactions, the Code applies to relevant bookbuilding, placing and marketing activities conducted in Hong Kong. (On the other hand, ECM deals are fully in scope or out of scope depending on whether they are listed in Hong Kong).

  - Club deals, private placements, and pre-priced/allocated deals are out of scope

  - Convertible and exchangeable bonds will be considered DCM for purposes of the Code

- *Appointment of syndicate:*

  - Syndicate managers should be appointed "at an early stage".

  - All active syndicate members must be formally appointed with a written agreement which specifies roles, responsibilities, fixed fee entitlement, and a fee payment schedule

- *Advice from syndicates to issuer:*

  - Syndicate managers do not have to advise issuers on syndicate membership.

  - Syndicates should advise on pricing and allocation, but should follow the allocation strategy agreed with the issuer.

- *Syndicate/proprietary orders:*

  - Proprietary orders of syndicates must give priority to outside investor orders, unless otherwise advised by the issuer.

  - Arm's length orders from syndicate asset management arms will not be considered proprietary (ie they are *pari passu* with external client orders).

  - Orders from treasury arms of syndicate banks will be considered proprietary.

- *X orders* are prohibited, with no exemptions

- *Book updates:*

  - Effectively mandatory: syndicates should disclose "complete and accurate information in a timely manner on the status of the order book" to targeted investors.

  - Syndicate managers should also disseminate "material information related to the offering" (particularly orders and price-sensitive information) to other syndicate banks "in a timely manner".

- *Assessment of investor clients:*

- Lead managers should take "all reasonable steps" to identify investors associated with issuers and should advise issuers to provide sufficient information to syndicates to enable them to reasonably identify associated investors.

- For DCM, "associated" investors are defined as investors who are directors, employees or major shareholders of issuers, syndicate members, or related group companies

- *Investor disclosure:*

  - For "omnibus" orders, syndicate members will have to disclose the underlying investor identities to issuers and to the senior syndicate managers. (The intention is to enable discovery of duplicate orders and orders associated with the issuer or syndicates).

  - This information will be limited to client's name and ID, and the senior syndicate managers can use underlying investor information only for order allocation.

- *Rebates:*

  - No outright ban on rebates, but disclosure is required.

  - Rebates may be offered by issuers to intermediaries but cannot be passed on to end-investors.

- *Inflated orders:*

  - Syndicates should not "knowingly" accept inflated orders and should clarify with investor clients orders "that appear unusual".

- *Record keeping:*

  - Syndicate must keep a robust audit trail: this includes, among other things, records of all orders and changes to order books, as well as "key communications with and information provided to" issuer, other syndicate members, and investors.

The new Code follows the original consultation paper on *A Proposed Code of Conduct on Bookbuilding and Placing Activities in Equity Capital Market and Debt Capital Market Transactions* issued in February 2021, and ICMA's response to the consultation in May 2021.

In recent months, ICMA has worked intensively through the Asia Bond Syndicate Forum, the Asia-Pacific Legal and Documentation Forum, buy-side members of ICMA, and other market stakeholders and associations, to facilitate efficient and pragmatic procedures to comply with the letter and spirit of the Code.

ICMA committees have shared several draft template documents to facilitate members' initial compliance with the Code – see July 2022 drafts on the "Other ICMA primary market documentation" webpage (available to ICMA members and ICMA Primary Market Handbook subscribers): Appointment Letter, Issuer Code Compliance Communication (ICCC), CMI-Investor Code Compliance Communication (CICCC), Sales Legend/Disclaimer and Allocation rationale template.

ICMA will continue to remain active over the implementation phase:

- engaging directly with the SFC to elucidate areas of the Code relating to DCM where the practical interpretation is not clear;
- working through the ICMA primary market committees to establish best practices on procedures and documentation to comply with the Code, including further updates as required to template communications among syndicates and to issuers and investors;
- bringing together various constituencies (including issuers and investors across the region) to ensure that emerging market practice is fair, efficient and practical; and
- educating Asia-Pacific bond market stakeholders on the new Code and implications for Asian primary market practice.

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ICMA Public Sector Issuer Forum

The Public Sector Issuer Forum (PSIF) brings together the treasurers or heads of funding from among the major sovereign, supranational and agency issuers (SSAs) active in the international capital markets by way of regular meetings, sometimes in the margins of other global events. It is supported by an ICMA secretariat based in London and benefits from strategic input as required from ICMA's Market Practice and Regulatory Policy and Sustainable Finance departments.

The PSIF is a very important group for its members, as well as for ICMA. It serves as an information exchange, permitting insightful discussion between members on key issues relating to international capital markets activity, focusing both on market practice and on the impact of increasing regulation out of the UK and the European Union, as well as extraterritorial implications from the US.

The PSIF also provides an opportunity to explore the nexus between macroeconomics, geopolitics and the practical implications for efficient functioning of the global financial markets, trends and outlooks, sometimes with the inputs of recognised specialists helping to inform the discussions.

The role of SSA issuers in the future evolution of the sustainable finance market cannot be overstated: SSA issuers can largely take credit for the development of the green bond market to date, which is arguably one of the most significant market developments of the last decade. The PSIF allows innovation in sustainable finance to be shared, and moreover, highlights where individual or collective contributions to often fast-moving regulatory, policy and market developments can be helpful.

Elsewhere, PSIF members successfully manage to balance these technical interactions on key issues with the opportunity to network with each other and create lasting, global working relationships.

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ICMA Agreement Among Managers

On 21 July, ICMA published amendments to the ICMA Agreement Among Managers (AAM) contained in Appendix A1 of the ICMA Primary Market Handbook (PMH). The amendments were notified to ICMA members and Primary Market Handbook subscribers in ICMA Circular No. 5 of 21 July 2022.

The amendments were to paragraph 1.5 in the introductory text, to paragraph 3(1) in the AAM Version 1 and to the definition of Default Securities in the AAM Version 1.

The purpose of the amendments is to effect consistency changes consequent to the March 2022 implementation of a new syndicated closing model by the two international central securities depositories (Euroclear and Clearstream).

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Transparency in commercial paper markets

ICMA's Commercial Paper and Certificates of Deposit Committee produced a white paper entitled *The European Commercial Paper and Certificates of Deposit Market*, in which it was suggested that transparency in the underlying structure of the European commercial paper (CP) market is relatively fragmented and uneven.

An influencing factor may be that different, national CP markets have emerged but are now converging. This, compounded by a lack of regulatory requirement and therefore little impetus from securities supervisors for CP transparency – in some part because CP is out of the scope of regulations such as MiFID and the Prospectus Regulation, and tends to be unlisted – means that there is no fully-harmonised, consistent and transparent source of CP data.

This results in limited market visibility on even the most basic information, such as issuance, outstanding amounts, pricing details and market structure. This in turn can make it difficult to obtain a holistic overview of pre- and post-trade CP data, to understand the size of the CP universe, and to conduct the type of analysis which could be helpful in supporting greater confidence for potential market participants, and with price formation.

That said, there are already well-functioning, useful data collection initiatives, but as they operate on different bases, capture particular market segments and use divergent reference points, it can be difficult to reconcile their data across the piece.

In view of this, ICMA has established a CP Transparency Taskforce (CPTT) to identify whether, how and where greater transparency in CP can be achieved, and to consider how any particular solution could be modelled, funded and function. Further details of the CPTT's work will be reported in the Quarterly Report as it progresses.

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Common data dictionary for primary bond markets

Update on progress: Since formation of the Common Data Dictionary (CDD) Working Group in April 2022, ICMA members have continued to build a consensus on the representation of key bond information. The group has focused on key economic terms of a vanilla bond (eg nominal amounts, denominations, currencies, prices, net proceeds, interest, and interest payment related information), key dates (eg pricing, settlement, issue dates) among other information typically included within a term sheet (eg whether bearer or registered, status of the note, relevant parties, ratings) as the initial use case and scope of work.

Building a consensus has consisted in understanding from members exactly *what* bond data is expected to be captured, for what purpose, and *how* they expect the data to be represented. This has involved reviewing various market practices, standards (such as ISO standards), and other stakeholder specifications for the group to reconcile different perspectives and reach a common understanding for data representation in the CDD.

Next steps: ICMA will be conducting an outreach to wider ICMA committees and the regulatory community to raise awareness of the current work developed by the CDD Working Group. Further engagement from all constituents will be welcome.

In parallel, ICMA will commence developing the current framework into a machine-readable format. This will involve the structuring and categorising of key data points, mapping to ISO standards where relevant, and drafting a user document on leveraging the machine-readable CDD.

Background and objective: Following previous roundtables with primary market constituents, it was agreed the development of a data dictionary would promote straight-through-processing (STP) and interoperability and assist in streamlining operations or developing new services. ICMA formally established the Common Data Dictionary (CDD) Working Group in April 2022 and is tasked with breaking down such a dictionary into deliverable objectives, based on specific use cases and scope.

The CDD aims to define a common language, leveraging existing standards and initiatives where possible, which would be available to the market and allow for choice and interoperability. The intention is to provide a framework that market participants can map to or reference when exchanging data electronically through the issuance process of a bond. The group represents a broad constituency of ICMA members, from issuers, banks, investors, market infrastructure, law firms and vendors.

Further information is available on the CDD Working Group webpage. Please contact us if you would like to join.

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Secondary Markets


by **Andy Hill and Elizabeth Callaghan**

CSDR Refit: the future of mandatory buy-ins

As the Council and European Parliament prepare to discuss the Commission's proposals for the CSDR Refit, ICMA continues to advocate for the removal of the mandatory buy-in (MBI) provisions. ICMA has long maintained that an MBI framework would negatively impact bond market pricing and liquidity, could lead to market instability, and would undermine the EU's competitiveness as a global marketplace. This is a view broadly shared by the ECB in its recently published opinion.

In the event that MBIs are retained, ICMA proposes several refinements to the Commission's proposal.

More flexibility in the two-step approach

The two-step approach provides that an implementing Act can be used to apply MBIs to a particular financial instrument or transaction type "where the Commission considers that those measures constitute a proportionate means to address the level of settlement fails in the Union and that, based on the number and volume of settlement fails, any of … [three outlined] … conditions is met".

While ICMA is broadly supportive of the approach, it feels that there could be more scope for flexibility. ICMA would propose that the three outlined conditions for assessing whether MBIs are a proportionate means to address settlement fails should be considered in combination, rather than as independent criteria.[1] A more holistic assessment of the impact, and cause, of settlement fails would seem to be a more robust, and even flexible, approach than relying on a single (potentially objective) benchmark.

Such a methodology should also take into consideration the specific asset class, recognising that not all securities are alike, underlying market structures, liquidity conditions (noting that these are variable), possible frictions related to the interdependencies of multiple market infrastructures,[2] as well as existing contractual frameworks or market initiatives for resolving settlement fails. Data integrity will also be key in any analysis used to determine trends in settlement efficiency rates, as will identifying and accounting for any data and methodology inconsistencies in any comparison with other jurisdictions. The work of the Eurosystem related to settlement efficiency on the TARGET2-Securities platform[3] also helps to highlight the challenges in establishing reliable and consistent metrics for measuring settlement fails.

As the Commission seems to anticipate in its proposal, there remains a question mark over whether the current calibration of the penalty mechanism,[4] with respect to the fees applied, are appropriate, particularly in light of a very low or negative interest rate environment. As we move to a higher (positive) interest rate environment this may help, and this may even be more impactful than penalties. But ICMA would recommend periodic assessments of the impact of penalties on settlement efficiency rates for different

1. The conditions outlined in the Regulation being: (i) penalties have not achieved the desired outcome; (ii) settlement efficiency rates in the EU are not comparable with similar third country markets; and (iii) the level if fails in the EU is likely to have a negative impact on financial stability.

2. In some cases, securities are transacted across multiple CSDs, CCPs, and involving different custodians and settlement agents, increasing the possibility for late settlement.

3. See: https://www.ecb.europa.eu/paym/intro/publications/html/ecb.targetsecar202205.en.html

4. ICMA has been supportive of a cash penalty framework for EU bond and repo markets, particularly in a low interest rate environment. In line with this, ICMA has worked with its members and the broader industry in facilitating the implementation of the CSDR penalty regime, including the provision of market best practice and FAQs.

asset classes, and to consider a recalibration of the relevant fees, where appropriate, rather than moving directly to MBIs.[5]

As part of the assessment, the Commission should also be able to consider other settlement efficiency tools, such as shaping or partial settlement, which may be more appropriate and effective than MBIs.[6]

Similarly, ICMA would also recommend the ongoing monitoring on the impact of penalties on market liquidity across different asset classes to ensure that this is not detrimental, particularly as market interest rates increase.

An explicit Level 1 exemption for SFTs

While the Commission proposal introduces a number of critical amendments to the buy-in framework, one key area of concern that remains is the potential application of MBIs to securities financing transactions (SFTs). This relates specifically to Article 7(4)(b) in the Regulation, which remains in the proposal: "for operations composed of several transactions including securities repurchase or lending agreements, the buy-in process referred to in paragraph 3 shall not apply where the timeframe of those operations is sufficiently short and renders the buy-in process ineffective".

While this opens up the possibility to exclude very short-dated SFTs from the requirements,[6] ICMA would strongly disagree with the inclusion of any SFTs in an MBI regime.

Firstly, SFTs are not independent outright sales or purchases of securities: they are the short-term loan of securities. Particularly in the case of a failing start-leg, neither a buy-in nor cash compensation would make economic sense from the perspective of both parties, and certainly would not restore either to the position they would have been in had the original SFT settled.

Secondly, SFTs are broadly executed under established contractual arrangements (such as a GMRA or GMSLA) that include specific provisions designed to protect the non-failing party in the case of a settlement fail (on either leg). Imposing an MBI regime on such "documented" SFTs would undermine the integrity of these contractual, transaction-specific remedies.

Thirdly, documented SFTs are subject to daily (and even intra-day) margining. Thus, the credit exposure for a failed-to party is significantly less than that of a failing cash transaction.

Finally, SFTs are frequently used to help resolve settlement fails. In other words, they are a fundamental tool for improving settlement efficiency. Bringing SFTs into scope of a (highly disproportionate) MBI regime would be a disincentive to lending securities and would therefore be counterproductive to the objectives of settlement discipline. In its published opinion on the proposed amendments to CSDR, the ECB also urges the EU legislator to exclude SFTs from the scope of MBIs, noting that SFTs do not create an outright open position and that MBIs would not be a proportionate remedy.[7]

ICMA would therefore recommend that the proposal be revised to provide an explicit exception for SFTs, which is also proposed by the ECB for similar reasons.

Application through market regulation

Should MBIs be deemed necessary for a particular security or transaction type, upon further assessment, this should be applied through market regulation (either as a standalone regulation or as part of MiFIR) and not as part of CSDR or any other post-trade regulation.

As ICMA has suggested previously, many of the implementation (and enforceability) challenges related to the CSDR MBI framework stem from the fact that any legal requirements covering a buy-in transaction would be better achieved through market regulation, not post-trade regulation. Buy-ins are not a post-trade process. They are market transactions, executed between trading parties, with associated market risk. In most cases these will not be the "CSD participants" referred to in the Regulation. In other words, what the CSDR MBI framework effectively attempts to do is to impose a requirement for a trading entity to enter into a market transaction through a regulation that does not directly apply to them. In many cases that trading entity will not even be an EU regulated entity.

Hence, in the event that the Commission determines that an MBI requirement is appropriate for a particular instrument or transaction type in the EU, ICMA would strongly recommend that it apply this through market regulation, targeted at the relevant, regulated trading parties. This would be far more effective, and significantly less complex, than trying to apply the law through contractual arrangements "along the transaction chain".

ICMA's position, with supporting materials and analysis, has been shared with Member States and MEPs in a briefing note.

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5. See: ICMA's white paper on optimising settlement efficiency (February 2022).

6. Although a degree of ambiguity remains, such as in the case of "open SFTs".

7.See: https://www.ecb.europa.eu/pub/pdf/other/en_con_2022_25_f_sign~5d1a092f24.en.pdf?362f3efce375621569f1b cae7662ee6a

EU post-trade transparency regime for sovereign and corporate bonds

In December 2021, ICMA published a proposal for a new post-trade transparency regime for the EU corporate bond market. The proposed framework was developed by a dedicated Transparency Taskforce (under the umbrella of the ICMA MiFID II/R Working Group), made up of senior sell-side and buy-side traders and market structure experts, as well as relevant data providers, with a broad range of market coverage, including the EU, UK, and global bond markets.

A framework for bond market post-trade transparency

The objective was to design a model for calibrating deferrals for certain bond transactions that would aim to optimise post-trade market transparency while minimising the potential negative impacts on market liquidity resulting from information leakage. Bond market liquidity is largely contingent on the ability and willingness of market makers to intermediate, which often entails taking risk positions, long or short, onto their balance sheets. Often it will take some time for the market maker to trade out of a position, particularly if it is a large trade, or the underlying bond is illiquid. In these cases, it is important for both liquidity providers and liquidity takers that the market maker is not put at additional risk by alerting the market with too much information about the trade. To do so could result in revised pricing for certain trades (to the detriment of investors), or even the unwillingness for dealers to make a price.

The Taskforce was also conscious of the importance of simplicity, and again tried to strike a balance between a framework that achieved the objectives of providing meaningful transparency and protecting liquidity, while also being relatively uncomplicated to implement. In doing so, the Taskforce developed a deferral model that is calibrated using the following discernible variables: the outstanding amount of the underlying bond; whether the bond has an investment grade (IG) or high yield (HY) credit rating; and the size of the transaction. Based on these criteria, the Taskforce proposed four deferral categories (or "buckets"), ranging from real time (which would include most transactions), to a full two-week deferral of price and volume. An additional, four-week deferral was proposed for the few exceptionally large transactions (ie so-called "block trades").

While ICMA welcomes the work being undertaken by the co-legislators to agree a workable transparency regime for bond markets, ICMA's buy-side and sell-side members, as represented through the Taskforce, remain highly concerned around a number of issues related to the Council's and Parliament's proposals.

Deferral calibrations

Some of the Council's proposal for deferrals relating to large trades in illiquid bonds and very large transactions do not calibrate for the underlying risk for market makers who take these trades onto their books. Even in the case where publication of the trade size is deferred for long enough for the liquidity provider to trade out of their position, the posting of the price will reveal critical information that can be inferred by the market: namely the price "skew" (ie how far it is from the mid-price in either direction) will indicate both that a large transaction has taken place and the direction of the trade.

Credit differentiation

The Taskforce continues to push for the inclusion of credit rating classification (IG and HY) in the eventual corporate bond transparency framework. It is important to recognise that IG and HY markets have very different market structures and liquidity profiles, and accordingly different sensitivities to transaction information leakage. HY bonds, for instance, as well as being an inherently riskier asset class tend to be much smaller issues, and often have more bespoke indentures. HY bonds also attract a smaller sub-set of investors (noting that investor mandates are often restricted by credit ratings), as well as a smaller universe specialist market makers. It is for these reasons that the US TRACE framework differentiates between IG and HY corporate bonds.

ICMA understands that the reluctance to incorporate credit rating differentiation into the EU transparency regime relates to a reliance on credit rating agencies (despite these being employed by the ECB in determining eligibility for its Corporate Sector Purchases Programme). The Taskforce is therefore exploring the possibility of determining an effective IG/HY differentiation that is independent of external credit ratings, and instead is based on relative yield (or credit spread) thresholds for underlying bonds. However, this is significantly more complicated, and likely to be far less accurate, than relying on existing publicly available credit ratings.

Market Expert Advisory Group

A key part of ICMA's proposal for an effective bond market transparency regime is the creation of a Market Expert Advisory Group (MEAG). This stakeholder consultative group would be made up of a broad cross-section of industry experts, including both investors and market makers, as well as data experts, representing different m arket segments.

As well as the MEAG working closely with the Commission and ESMA to maintain high standards of data quality, it would also be able to advise on the semi-annual recalibration of transparency thresholds. This would be based on an assessment of market impact and liquidity conditions, including the relative levels of market maker intermediation and dealer inventories, in particular with respect to larger trades and less liquid bonds.

Amount outstanding as opposed to issuance size

While a relatively nuanced detail, the Taskforce is encouraging the Council and Parliament to replace the criteria of "issuance size" in its liquidity determination with "amount outstanding". While issuance size represents the initial amount of a bond issued, in time this can vary as a result of subsequent taps or partial redemptions (eg with the exercise of imbedded call or put options).

Sovereign bond transparency

The Taskforce believes that a consolidated tape for bonds should not be restricted purely to corporate bonds, and that it should also extend to the (much larger) sovereign bond market. Importantly, a meaningful transparency regime for sovereign bonds should not perpetuate the existing post-trade reporting option of aggregating transactions indefinitely. Rather this should be replaced with the possibility for "extended deferral" before disaggregating certain transactions that may be sensitive to information leakage.

The Taskforce is currently undertaking data analysis to support the proposal for a framework for sovereign bond transparency. Similar to the proposed model for corporate bond transparency, this will likely provide for different categories (again determined by relative size of transaction and liquidity of the underlying bond). This will result in a "real time" bucket, which would cover the majority of transactions, along with the possibility for weekly aggregation, for a limited, discrete deferral period for more sensitive trades, before full disaggregation. This would support the objective of full transparency, in time, while protecting market liquidity. An additional consideration may be that individual NCAs could elect to opt in to a particular deferral category, based on an assessment of the liquidity of their underlying sovereign debt market.

It is important to stress that, for post-trade transparency to be effective for the sovereign bond market, there should be no possibility for indefinite aggregation of trades. As with the corporate bond market, investors and liquidity providers need transaction level data in order to build, refine, and test their risk models, to analyse transaction costs and execution performance, to inform investment decisions, as well as to facilitate automation. All of this will help to underpin market efficiency and resilience, not least in times of high volatility or market stress.

A further consideration is that, without a meaningful (disaggregated) consolidated tape for sovereign bonds, potential candidates to become a consolidated tape provider (CTP) may be commercially disincentivised if the largest segment of the EU bond market Is not a viable option for their offering, and they are left only with corporate bonds. In other words, not addressing the sovereign bond indefinite aggregation issue could have existential implications for an EU consolidated tape for bonds.

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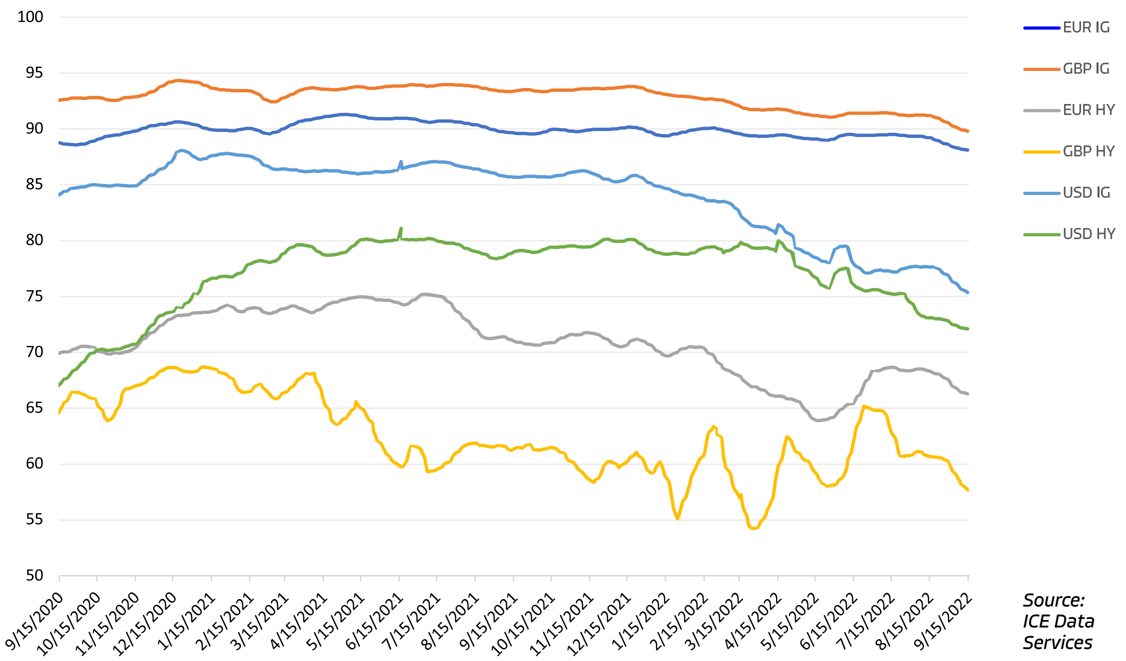
Corporate Bond Market Liquidity Indicators™

Market liquidity dropped overall in Q3, with USD IG hitting new lows last seen at the onset of the pandemic

Liquidity Tracker



Source: ICE Data Services

Commentary

Liquidity in credit markets continued to decline in Q3, particularly in the HY space. USD HY dropped to levels last seen towards the end of 2020, widening the gap to USD IG after a period of convergence in the last quarter. Market liquidity in GBP HY fell to levels last observed in May 2022, while EUR HY registered a moderate decline in comparison. As regards IG corporate bond markets, liquidity levels in GBP and EUR remained rangebound. However, USD IG liquidity continued to follow a downwards trajectory, hitting a low last seen at the beginning of the COVID pandemic in 2020.

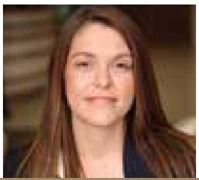
The decline of corporate bond market liquidity appears to be linked to a number of factors, including: (i) rising interest rates to tackle inflation in major economies, led by the Federal Reserve; (ii) Russia's invasion of Ukraine, which has led to a steep rise in energy prices adversely impacting the real economy; (iii) spill-over effects from a deteriorating economic outlook into financial markets; (iv) geopolitical tensions resulting in increased market fragmentation which may become entrenched; and (v) widening credit spreads and increased volatility during the last two months.

More secondary bond market data and analysis can be found on ICMA's secondary market data webpage.

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

Repo and Collateral Markets



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

ERCC General Meeting

On 14 September, ICMA ERCC members gathered in Luxembourg for the first in-person ERCC General Meeting since November 2019. The event was kindly hosted by Deutsche Börse in the framework of the GFF Summit 2022. Following the welcome remarks by ICMA CEO Bryan Pascoe, the agenda featured two panel discussions. In the first panel, four members of the ERCC Committee discussed with moderator Godfried De Vidts the current state of the repo market, including the latest market turmoil. This was followed by a second panel with ICMA experts who provided updates on a selection of key topics and initiatives that the ERCC has been working on in 2022. A recording of the event will be circulated in due course to participants and can also be accessed by other ICMA members on the webpage of the event.

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CRR3: treatment of RWA weightings for SFTs

In the previous edition of the ICMA Quarterly Report (Issue 66, Third Quarter 2022, 12 July 2022), ICMA updated on its position paper on the prudential treatment of SFT counterparty risk under the Standardised Approach in CRR3. The current proposed calibration will result in a relatively high capital valuation adjustment (KVA) for SFTs in banks' Internal Models as a result of the application of the Output Floor. This would make transacting SFTs with non-rated entities, such as pension funds and insurance funds, more expensive, which could also impact liquidity. The ERCC is recommending the introduction of a maturity adjustment under the SA-CR for short-term SFTs. This would be consistent with other aspects of CRR2 and CRR3 that take into account maturity sensitivities in the SA.

Since reaching out to a number of regulators and policy makers, there appears to be growing traction among MEPs and some Member States to support the proposal for a more proportionate calibration for RWAs of short-term SFTs in the CRR3 Standardised Approach. The ERCC will continue to monitor the discussions as they proceed and to highlight the case for the proposed maturity adjustment.

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EU MMF access to third country repo clearing

Money Market Funds (MMFs) play an important role in providing liquidity to financial markets, including the repo markets (eg by entering into reverse repo transactions). ICMA believes that it is in the interests of market efficiency and financial stability to ensure that MMFs are able to participate in the necessary funding markets since this is an important source of liquidity, particularly in times of market stress.

A provision under the EU Money Market Fund Regulation ((EU) 2017/1131) sets out certain restrictions related to EU regulated MMFs to entering into cleared repo transactions in third countries. The key restricting provision is in the Delegated Regulation ((EU) 2018/990) which provides the regulatory framework for MMF investments in simple, transparent and standardised (STS) securitisations, asset-backed commercial papers (ABCPs), requirements for assets received as part of reverse repurchase agreements, and credit quality assessment methodologies. Article 2 of the Delegated Regulation requires that MMFs receive a haircut where they receive collateral through a reverse repurchase agreement. There are a number of exceptions, however (outlined in Article 2(6)), for certain counterparty types, including EU authorized CCPs (as defined in (EU) No 648/2012)). This exemption is particularly important since the risk models of CCPs usually make it implausible for a CCP member to apply a haircut to repo or reverse repo transactions with the CCP.

Unfortunately, this exemption does not apply to reverse repo transactions with non-EU authorised CCPs, even if they are EU recognised CCPs. This has raised concerns with a number of ICMA members, especially as it prevents EU regulated sterling MMFs from accessing the sterling cleared repo market through the UK CCP.

The ERCC Secretariat is in contact with the European Commission regarding this issue and has provided additional information and data to support the case for amending the relevant exemption to include EU *recognised* CCPs.

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Settlement efficiency

The ERCC continues to focus on settlement efficiency and ways to help the industry optimise the current set-up and processes. As part of the initiative, the ERCC is holding a second series of workshops. The aim is to look at the evolution of settlement efficiency since the go-live of CSDR cash penalties in February 2022, but this is also an opportunity to follow up on the earlier ERCC recommendations in relation to key optimisation tools that were released in February along with a discussion paper. A first follow-up workshop was held in June with a particular focus on auto-partialling, while a second workshop on 7 October took a closer look at the recent developments related to auto-borrowing, a functionality offered by a number of CSDs as an important remedial tool to cover fails. A key element in all the work is the underlying data provided by the relevant market infrastructures. The ERCC is working closely with the two ICSDs, who have made helpful contributions. But it is also involved in the ongoing work undertaken by the Eurosystem and T2S CSDs as part of a separate workstream on settlement efficiency established under the ECB's CSD Steering Group (CSG), which met on 28 September for a sixth Market Settlement Efficiency Workshop.

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Repo and sustainability

On 27 September, ICMA held the third meeting of its Repo & Sustainability Taskforce. At the meeting members discussed the latest draft of an ICMA paper on high-level categorisation relating to sustainability in the repo market. The paper looks at the different intersections between repo and sustainable finance from two perspectives: (i) wider sustainability considerations in the existing repo business, and (ii) specific sustainability-related repo products that have emerged in the market. The paper also provides observations on current market practice which could be used as an important basis for developing future guidance. The draft paper is currently going through its final review stage and is scheduled for publication in mid-October. The Taskforce, composed of members from 60 firms, will continue to drive the work on repo and sustainability going forward. Members are encouraged to share suggestions and ideas on any additional areas of focus.

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SFTR reporting

Updated public version of the ICMA SFTR Recommendations: On 23 September 2022, ICMA released the latest public edition of its detailed SFTR Recommendations. This is the eighth update to the public version of the SFTR Guide since its initial release in February 2020. Compared to the previous public version, the updated Guide includes six new questions and numerous further updates, reflecting new insights as well as additional guidance from regulators. A blackline version has been published alongside the Guide itself to provide a complete overview of the recent changes. The SFTR Recommendations will continue to evolve to reflect ongoing discussions within the ERCC's SFTR Taskforce and new public versions of the Guide will be released periodically. In addition, ICMA members also have access to the SFTR members' page, which hosts a range of further best practice documents to complement the Recommendations.

ICMA discussions with ESMA: On 19 September 2022, ICMA and ISLA met with ESMA's SFTR team in Paris to discuss ongoing reporting challenges and possible solutions. As part of the meeting, ESMA confirmed once again that the full SFTR review will not be launched in 2022 as initially expected, but in 2023 at the earliest. In the meantime, however, there will be an opportunity to update some of the important Level 3 guidance, in particular the SFTR validation rules. The meeting was also an opportunity to further explain the latest joint ICMA/ISLA feedback to ESMA which had been shared as a follow-up to a recent discussion related to SFTR public data. ICMA will discuss the key take-aways from the meeting with members of its SFTR Taskforce and will aim to gather some additional suggestions for possible changes that can be achieved at this stage.

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Legal developments in the repo market

Digitising legal documentation for repo market efficiency: Phase II of the ICMA GMRA Clause Taxonomy and Library Project was launched in September 2022. Continuing the great work from Phase I, Phase II will work on collating negotiated business outcomes and related model wordings for the remaining clauses of the GMRA. Industry participants are strongly urged to participate in ICMA's GMRA Clause Taxonomy and Library Working Group and to continue to contribute to this transformational project.

Annual legal opinion update: ICMA will begin the 2023 annual GMRA legal opinion update exercise shortly. The ICMA legal opinions cover almost 70 jurisdictions and provide members with access to a substantive body of legal knowledge covering both the enforceability of the netting provisions of the GMRA as well as the validity of the GMRA as a whole.

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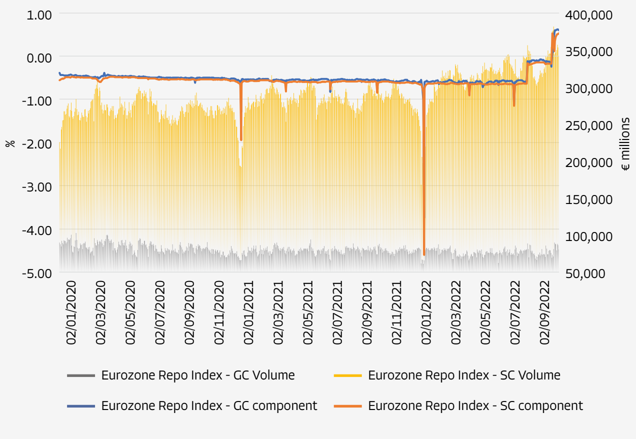
CME Euro Repo Funds Rate data

ICMA publishes charts showing CME Euro Repo Funds data[1] on the ERCC section of ICMA's website including General Collateral (GC) and Specific Collateral (SC) rates and traded volumes. These are updated daily. Currently ICMA publishes the following charts:

- Eurozone Repo Index General Collateral & Specific Collateral Index Values & Volumes
- RFR by Sovereign Issuer Index Values & Volumes
- RFR GC Rates (2022)
- RFR Specific Rates (2022)

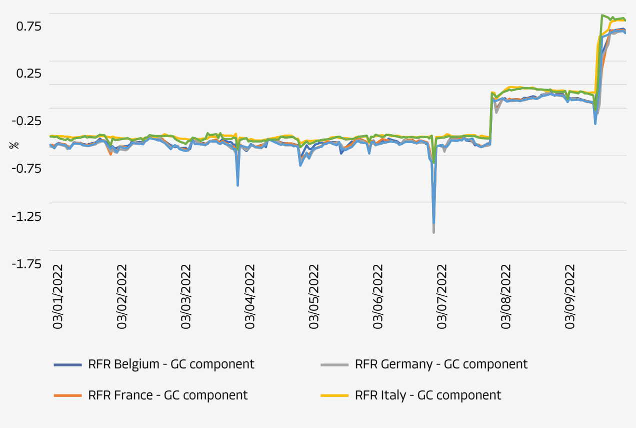
This is part of the ERCC's broader data offering, which includes the semi-annual European repo survey and SFTR public data.

Eurozone Repo Index General Collateral & Specific Collateral Index Values & Volumes



Source: ICMA analysis using data provided by CME Group Benchmark Administration Limited

RFR GC Rates



Source: ICMA analysis using data provided by CME Group Benchmark Administration Limited

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1. EUR RFR data is provided by *CME Group Benchmark Administration Limited*

Sustainable Finance

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





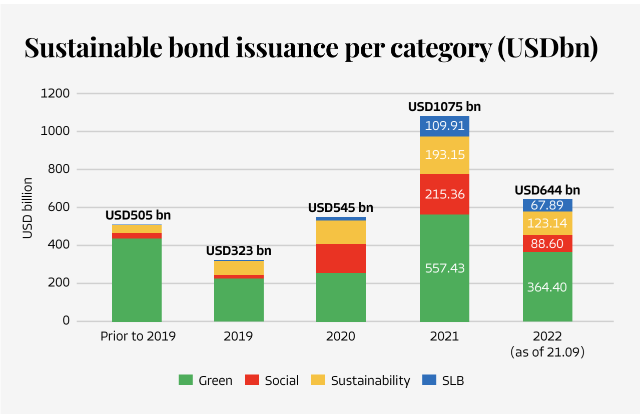


Summary

In addition to a summary of issuance activity in the sustainable bond market, we report on the ECB's plans to decarbonise with the help of green bonds aligned with the Principles. We also note the recent convergence of regulation in the Chinese green bond market with international market practice, as well as the UK FCA's "measured approach" towards use-of-proceeds bonds. We provide an update on progress towards international rules for corporate sustainability reporting standards and on the implementation of the EU's ambitious, but complex, sustainability disclosure regime while also looking at new EU initiatives relating to greenwashing. Finally, we consider other international regulatory developments relating to sustainability.

Sustainable bond market update

The sustainable bond issuance volume reached USD644 billion in 2022 (as on 21 September 2022), which represents 79% of total issuance over the same period in 2021.



Source: ICMA based on Bloomberg Data – as of 21 September 2022

Green bond issuance topped USD372 billion (vs USD384 billion over the same period in 2021) and continues to dominate the sustainable bond market, representing 57% of total issuance YTD. Q3 highlights include The Kingdom of Belgium and Italy selling their second green bonds, raising EUR4.5 billion and EUR6 billion respectively. Singapore raised SGD2.4 billion (USD1.7 billion) by selling its inaugural 50-year green bond, making it the longest-tenor sovereign green issuance to date. On the corporate front, KPN issued a EUR500 million hybrid perpetual bond while General Motors became the latest major automotive firm to sell green bonds (USD1 billion, 7-year and USD1.25 billion, 10-year) focusing on clean transportation. In addition, Intel raised USD1.25 billion from its debut green bond issuance while Chinese firm Lenovo also entered the sustainable bond market by selling a green bond (USD625 billion, 10-year) to finance renewable energy and green buildings projects. Lastly, FIs also closed several deals that include Intesa Sanpaolo (a EUR1 billion, 5-year green bond) and a debut green bond issuance from Abu Dhabi Commercial Bank (a USD500 million, 5-year).

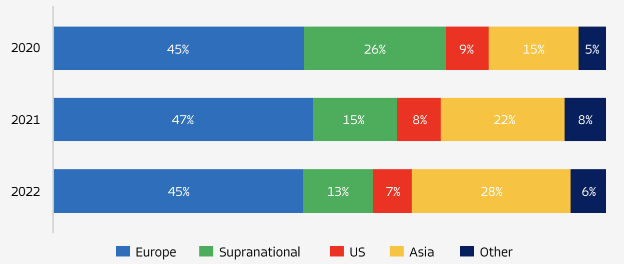
Social bonds continue to decline with Q3 volume being the lowest since Q1 2020, which marked the start of the COVID-19 pandemic. Government agencies and supranationals remain frequent issuers with CADES selling a EUR3 billion, 5-year bond and a EUR5 billion, 10-year bond. African Development Bank also issued a EUR1.25 billion 7-year social bond.

Sustainability bonds remain strong, with supranationals dominating. Examples of Q3 issuances include EIB's largest Sustainability Awareness Bond to date (USD4 billion, 5-year tenor) and IBRD's Sustainable Development Bond (USD4 billion, 5-year). Corporate issuers were also active, amongst them were La Poste SA, closing a EUR1.2 billion, two-part debt offering with 6-year and 10.5-year tenors. Wells Fargo issued a USD2 billion inclusive communities and climate bond, maturing in 2026.

Sustainability-Linked Bond (SLB) issuance continues to expand and additional corporates have entered for the first time. Anglo American Capital issued its inaugural bond (EUR745 million, 10-year) where targets include GHG emissions reduction, fresh water abstraction and labour supports. Amongst other issuers was Saint-Gobain, selling its first SLB (EUR500 million, 10-year), targeting Scope 1&2 GHG emissions and non-recovered production waste reduction by 80% by 2030 vs a 2017 baseline, whilst Enel issued another bond (EUR1 billion, 6.5-year) targeting Scope 1&2 GHG emissions reduction.

Geographically, Europe is the leading region in sustainable bond issuance, stably accounting for 45% (USD293 billion) of the market. Asian issuers almost doubled their market share over past years, increasing it from 15% (2020) to 28% (2022), whilst supranational issuance share has halved from 26% (2020) to 13% (2022). The sustainable bond market share of the US issuers has been fluctuating between 9% (2020) and 7% (2022).

Sustainable bond issuance over time by region (2020-2022)



Source: ICMA based on Bloomberg Data – as of 21 September 2022

ECB's plans to decarbonise with the help of green bonds aligned with the Principles

Following up on its July 2021 Action Plan and Climate Roadmap, in July 2022, the European Central Bank (ECB) announced further steps to account for climate change in its monetary policy operations, based on adjustments to corporate bond purchases and collateral framework, as well as the introduction of disclosure requirements and enhancement of risk management. On 19 September, the ECB provided further details on how it aims to gradually decarbonise its corporate bond holdings on a Paris-aligned path (see the press release and detailed FAQ).

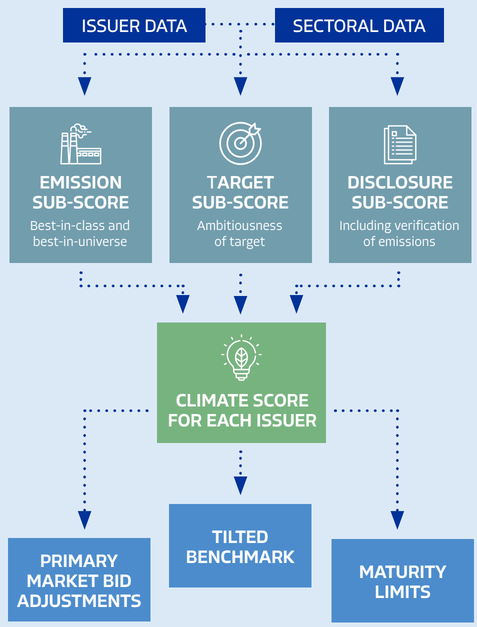
Importantly, *the ECB acknowledged the importance of green bonds in funding climate transition and stated that it may give preferential treatment to green bonds* in its primary market bidding behaviour. This will be subject to a stringent process that will require: (i) alignment of the green bond framework with a leading market standard such as the Principles and the complementary Climate Bond Standard; (ii) an SPO confirming such alignment; and (iii) a pledge in the bond prospectus on the annual external verification of the use of proceeds. The ECB also indicated that it supports the development of the EU Green Bond Standard.

More broadly, effective from October 2022, the ECB will tilt its purchases towards issuers with a better climate performance by reinvesting the sizeable redemptions expected over coming years. ECB will use a proprietary methodology where each eligible issuer will be attributed an aggregated climate score based mainly on three sub-scoring criteria:

- *backward-looking emissions:* in the form of past GHG emissions and emission intensities and comparing issuers' performance with their peers in a specific sector and against all eligible issuers (due to the insufficient quality of Scope 3 reporting at issuer level, the ECB will use sector-level data);
- *forward-looking targets:* rewarding issuers with more ambitious targets while attributing lowest score to those with no self-reported emissions data (such that targets cannot be verified) or have no short-term targets; and,
- *disclosure quality*: rewarding those with higher-quality disclosures (eg completeness and external verification of emissions) while attributing the lowest score to those with no self-reported data.

The tilting will be conducted by increasing the benchmark weighting of higher scorers (and decreasing lower) and incorporating the tilted benchmark into issuer group limits. Additionally, a differentiated bidding approach to favour higher scorers as well as bond maturity limits for lower-scoring issuers will be used.

Infographic on ECB methodology for issuer climate scoring



Source: ECB

China's convergence with international market practice for green bonds

SA

On 29 July 2022, the China's Green Bond Principles (China GBP) were released by the China Green Bond Standard Committee (the Committee). ICMA has been involved and advised the Committee and NAFMII which has been acting as the secretariat to the Committee in the drafting process since early 2021.

As a self-regulated framework and by its nature not a rule or regulation, the China GBP articulates its reference to ICMA's Green Bond Principles (GBP) and is a call for harmonisation of the different green bond regulations in China and the adoption of 100% use-of-proceeds approach (please see table below).

While green financial bonds and green debt financial instruments are required to use 100% of the proceeds in green projects, the regulations for which are based on international best market practices (ie ICMA Green Bond Principles), international market participants were concerned about green corporate bonds and green enterprise bonds, for which only 70% and 50% were required respectively. The China GBP calls for harmonisation of the domestic requirements and convergence with international practices.

As People's Bank of China (PBOC) and China Securities Regulatory Commission (CSRC) have already shown support and National Development and Reform Commission (NDRC)'s reaction remains to be seen, the China GBP partially harmonises the green bond regulations for China's domestic bond markets. Shenzhen Stock Exchange (SZSE) updated its rules for green corporate bonds on 16 September 2022 and Shanghai Stock Exchange (SSE) has started to require 100% use of proceeds for new issuances and will revise its product rules accordingly soon. This will effectively address the greenwashing concerns of some international market participants and promote foreign participation in the Chinese green bond market in the long run.

Types of green bond in China's domestic markets	***Regulated by***	***Percentage of UoP required***	
		before the launch of China GBP	***after the launch of China GBP***
green financial bonds	People's Bank of China (PBOC)	100%	100%
green debt financial instruments	National Association of Financial Market Institutional Investors (NAFMII)	100%	100%
green corporate bonds	China Securities Regulatory Commission (CSRC), Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE)	70%	100%
green enterprise bonds	National Development and Reform Commission (NDRC)	50%	Remains to be seen whether NDRC will support it

Overall, the China GBP is based on and aligned with the ICMA GBP. It has some additional requirements and some very minor differences in the detailed requirements due to the local context. For more detailed analysis, please refer to ICMA's full analysis here.

The UK FCA's "measured approach" towards sustainable bonds

In June 2022, the UK Financial Conduct Authority (FCA) released its Feedback Statement on ESG integration in UK capital markets (and a Primary Market Bulletin). It brings together views of respondents to the FCA's June 2021 consultation (to which ICMA responded in September 2021) and sets outs potential future actions. Reflecting on the feedback for green, social and sustainability bonds, the FCA said it is taking a "measured approach to ESG-labelled debt instruments". We note that:

- Very positively, the FCA encourages issuers to adopt voluntarily and apply the relevant industry standards such as ICMA's Principles for green, social, sustainability bond issuances and the Guidelines for External Reviews when choosing their SPO providers and verifiers. The FCA may consider further with HM Treasury the case for regulatory oversight of SPO and verification providers, but in the meantime encourages these service providers to also apply the Guidelines for External Reviews voluntarily.
- The FCA is not introducing a requirement to include a binding contractual provision regarding use of proceeds but may reconsider this in the context of the review of the UK Prospectus Regulation. It otherwise reminds issuers and other relevant parties of their existing obligation to ensure any advertisement is not inaccurate or misleading and is consistent with the information contained in the prospectus (see also the related article on the EU and UK Prospectus Regulations in the Primary Markets section of this Quarterly Report).
- Regarding a potential UK Green Bond Standard, due to the mixed feedback, the FCA announced that it will continue to engage with market participants and stakeholders and follow global developments in this space. It may potentially reconsider, subject to the Government's policy, the case to develop a UK standard for UoP bonds in the context of the revision of the Prospectus Regulation.

Beyond sustainable bonds, the FCA stated that, if HM Treasury extends its regulatory perimeter, it will take necessary steps to develop and consult on a proportionate and effective regulatory regime for ESG data and rating providers. In the interim, the FCA, with HM Treasury, would convene, support and encourage industry participants to develop and follow a voluntary Code of Conduct addressing issues such as transparency, good governance, management of conflicts of interest, and systems and controls.

Progress towards international corporate sustainable reporting standards

On 29 July 2022 and 8 August 2022 respectively, ICMA on behalf of its constituencies responded to the IFRS Foundation's International Sustainability Standards Board (ISSB) proposal to create a comprehensive global baseline of sustainability standards for the capital markets and to the first set of European Sustainability Reporting Standards (ESRS) proposed by the European Financial Reporting Advisory Group (EFRAG) under the upcoming Corporate Sustainability Reporting Directive (CSRD).

More specifically, ISSB asked for feedback on general requirements to provide material information on all significant sustainability-related risks and opportunities necessary to assess enterprise value, and on requirements to disclose material information about significant climate-related risks and opportunities. EFRAG consulted on sector agnostic standards, including cross-cutting standards which address disclosures on matters that are crucial to the relationship between sustainability matters and the company's strategy and business model, its governance and organisation, and its materiality assessment, and on topical standards which cover a specific sustainability topic or sub-topic from the areas of environment, social and governance (ESG). Sector specific standards and SME proportionate standards will follow at a later point.

In our responses, we welcomed that both ISSB and EFRAG proposals draw heavily on the disclosure framework introduced by the Task Force on Climate-related Financial Disclosures (TCFD). Furthermore, we underlined that ICMA supports the concept of double materiality under CSRD and reflected in the proposed ESRS, as it will provide a more comprehensive picture to investors and promote transparency to all other stakeholders, and suggested encouragement of an "inside-out" perspective in addition to the "outside-in" (enterprise value) one in ISSB proposed sustainability standards as well.

In line with other ICMA papers, we emphasised the critical importance of international operability and usability between ISSB and EFRAG as well as other proposed standards such as the US SEC, and also for global jurisdictions to recognize disclosures made pursuant to other jurisdictions' rules in order to avoid or minimise divergences and advance towards a convergent standard.

More specifically with regards to climate-related disclosures, we recognised the importance of transition plans and supported the inclusion of Scope 3 emission reporting, where relevant.

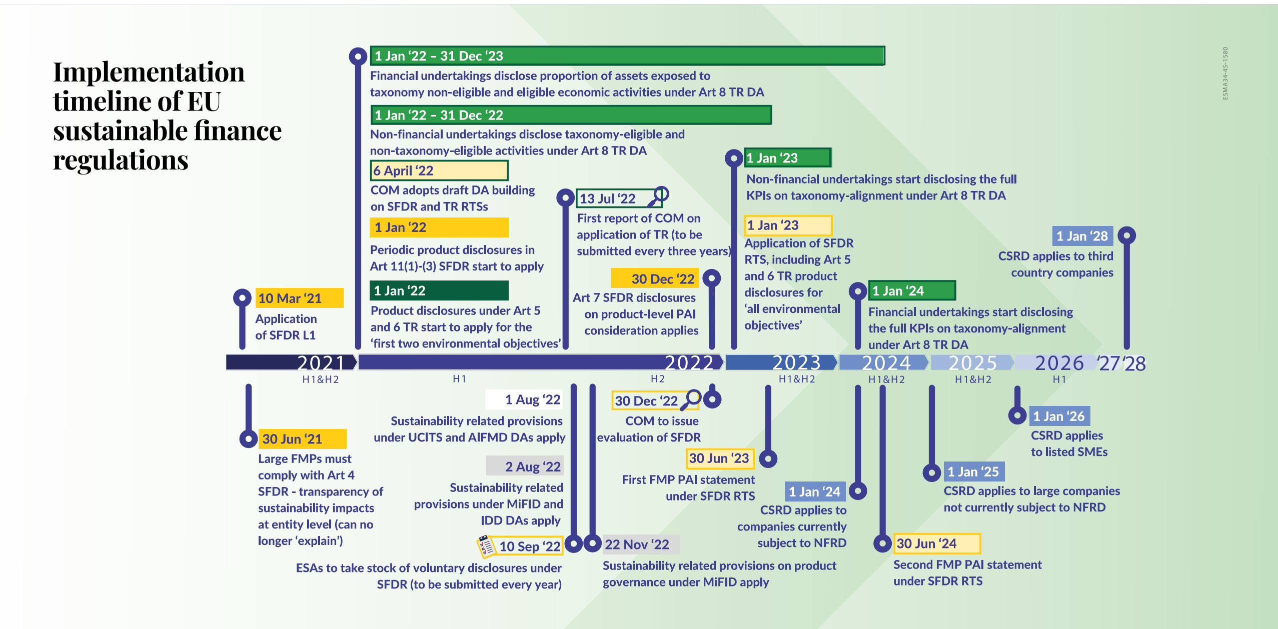
With regards to value chain reporting, which is part of both proposals, while generally being supportive, we cautioned on asking for excessive data from the outset and instead suggested a proportionate and gradual implementation, starting with a company's direct customers and suppliers.

Following the comments received, ISSB aims to finalise the requirements by the end of 2022. EFRAG says it has the ambition to submit the first set of draft ESRS to the European Commission by November 2022.

Update on the implementation of the EU Sustainability Disclosure Regime

ICMA published a year ago in September 2021 an update on the EU Sustainability Disclosure Regime which we characterised as the growing body of various disclosure regulations that were being developed or already being implemented. This effort continues and has gained in breadth and complexity. ESMA recently published the helpful infographic below which summarises the timeline of key measures under existing legislation such as the Taxonomy Regulation and SFDR while also highlighting the status of CSRD.

There are also several important related developments which we summarise below.



Source: ESMA

Minimum safeguards under the EU Taxonomy

The minimum safeguards set out in Article 18 of the Taxonomy Regulation require that companies implement procedures to comply with OECD Guidelines for multinational enterprises and the UN guiding principles on business and human rights. This adds a social and governance component to the environmental EU Taxonomy. In order to be Taxonomy-aligned, *all* of the following criteria have to be met:

(i) an economic activity has to substantially contribute to one more of the six environmental objectives;

(ii) the economic activity does not do any significant harm to any of the environmental objectives;

(iii) compliance with minimum safeguards can be established on entity level.

What constitutes "making a substantial contribution" or "doing significant harm" is further defined by technical screening criteria (TSC).

On 11 July 2022, the EU Platform on Sustainable Finance (EU PSF) published its draft report on the proposed minimum safeguards, with a call for feedback open until 6 September 2022. ICMA's response identified positive aspects but highlighted our continuous concerns related to the usability of the EU Taxonomy. The EU PSF (ICMA is a member) also held a webinar to present the draft proposal.

The main proposal of the EU PSF's draft report on the minimum safeguards is that the proposed EU Corporate Sustainability Due Diligence Directive (CSDDD, see below) could potentially be used as a proxy for establishing compliance with minimum safeguards, depending on the final text (see more on the CSDDD below). Following the consultation, the EU PSF is currently reviewing the feedback and finalising the report on the minimum safeguards to submit to the Commission.

Corporate Sustainability Due Diligence Directive (CSDDD)

On 23 February 2022, the European Commission adopted a proposal for a Corporate Sustainability Due Diligence Directive (CSDDD). The proposal originally was supposed to be published as the Sustainable Corporate Governance Initiative but then morphed into the CSDDD due to negative consultation responses on one of the studies related to directors' duties and sustainable due diligence.

The proposed CSDDD aims to foster sustainable and responsible corporate behaviour throughout global value chains. Although a number of EU Member States such as Germany and France have already introduced national rules on due diligence and some companies have taken measures at their own initiative, there is a need for a larger scale improvement that is difficult to achieve with voluntary action. The CSDDD proposal therefore establishes a corporate sustainability due diligence duty to address negative human rights and environmental impacts.

In scope are (i) all EU limited liability companies with 500 or more employees and EUR150 million or more in net turnover worldwide) and (ii) other limited liability companies operating in defined high impact sectors, which do not meet the previous thresholds, but have more than 250 employees and a net turnover of EUR40 million worldwide and more (for these companies, rules will start to apply two years later); and (iii) *non-EU companies* active in the EU with turnover threshold generated in the EU aligned with companies mentioned under (i) or (ii).

Following a call for feedback which closed on 23 May 2022, in a next step the proposal will be presented to the European Parliament and the Council for approval. Once adopted, Member States will have two years to transpose the Directive into national law and communicate the relevant texts to the Commission.

Sustainable Finance Disclosure Regulation (SFDR) and other

On the Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy reporting, we note that several new documents have been published by the European Commission (EC) and European Supervisory Agencies (ESAs). These include specifically: (i) an updated statement by ESAs on the application of the SFDR; (ii) two new EC mandates to ESAs on the SFDR Regulatory Technical Standards (RTS) for additional transparency on nuclear and gas-related activities and the review of PAI indicators and financial product disclosures; (iii) the EC's responses on the interpretation of the SFDR and the Taxonomy Regulation (TR); (iv) ESAs' clarifications on the draft version of the RTS; (v) ESAs' report on the voluntary PAIs disclosures; and (vi) ESAs' final report with draft RTS regarding financial products' disclosures on fossil gas and nuclear energy activities. We also note the *Official Journal* publication of the Delegated Regulation 2022/1288 on the SFDR RTS as well as ESAs' submission of a new list of additional queries on the interpretation of the SFDR to the EC, in July and September, respectively.

Lastly, we note:

- the release of the final report on certain aspects of the MiFID II suitability requirements related mainly to sustainability preferences (see ICMA AMIC response to the earlier public consultation);
- the ongoing legislative developments under UCITS/AIFMD review and ELTIF regulation which include sustainability aspects.

New EU Regulatory initiatives on "greenwashing"

There are several new proposals and initiatives from the EC focused mainly on further regulatory action against greenwashing risks. On 30 March 2022, the EC adopted a proposal to amend the Unfair Commercial Practices Directive, which will be reviewed and negotiated between the co-legislators. *The proposal is broad in scope and may impact the offer and sale of sustainable bonds primarily in the retail market* (while possible wider implications remain under review). Among other measures, it proposes a ban on displaying a sustainability label which is not based on a "certification scheme" *or* not established by public authorities in business to consumer context (such as the EU GBS).

Separately, on 30 June 2022, the EC issued a broad request for input to ESAs in relation to greenwashing risks and supervision of sustainable finance policies, which follows up on its Renewed Action Plan (item 5a). ESAs' input and findings will be presented in a progress report (within 12 months) and a final report (within 24 months), based on which the EC will consider whether further steps are necessary for effective supervision and enforcement in the context of greenwashing and risks.

Other international regulatory developments

We note the following regulatory developments in different international jurisdictions:

- *SEBI consultation on green and blue bonds:* In August 2022, SEBI published a consultation paper on green and blue bonds, proposing several amendments to make its regulatory framework for green bonds more in line with the recommendations of the GBP and the Guidance Handbook and introducing the concept of blue bonds (see ICMA's response).
- *Taiwan's product rules for SLBs:* In July 2022, Taipei Exchange amended the "Operation Directions for Sustainable Bonds" based on the SLBP, to introduce SLBs to TPEx's Sustainable Bond Market. ICMA had provided technical advice in the revision process.
- *Transition bonds piloted by NAFMII and SSE:* NAFMII published a notice in June 2022 that issuers from eight traditional industries may pilot-issue transition bonds in China's interbank bond market and should use 100% of the proceeds to finance projects that contribute to energy efficiency or reduce pollution and/or carbon emissions but do not meet the technical criteria of the China's Green Bond Catalogue. Clean coal and natural gas are among the transition project categories. Issuers should also disclose their transition plan in their main business activities. Separately, Shanghai Stock Exchange also introduced low-carbon transition bonds for the exchange-traded bond market in June 2022. Issuers of this type of bond are required to either use 70% of the proceeds for low-carbon transition activities or have sustainability-linked features with low carbon transition SPTs.
- *SC Malaysia's SRI-linked sukuk framework:* In June 2022, also with ICMA's input, SC Malaysia released its Sustainable and Responsible Investment linked (SRI-linked) Sukuk Framework, based on ICMA's SLBP.

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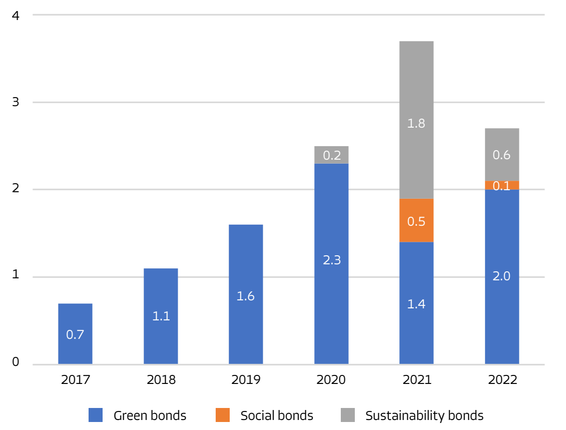
The sustainable bond market in Taiwan by Taipei Exchange

The development of the sustainable bond market in Taiwan: Sustainability is valued in Taiwan and throughout the world. Financial institutions attract funds from investors which can be managed on their behalf based on sustainable criteria and objectives. In response to sustainability trends and under the guidance of the Financial Supervisory Commission, Taipei Exchange (TPEx) established green bond, sustainability bond and social bond markets in accordance with the Green Bond Principles (GBP), Sustainability Bond Guidelines (SBG) and Social Bond Principles (SBP) of the International Capital Market Association (ICMA). In 2021, we integrated those three into the sustainable bond market and promulgated the Taipei Exchange Operation Directions for Sustainable Bonds.

Market briefing and highlights: In 2021, the outstanding amount of sustainable bonds in Taiwan reached USD9.4 billion, which is milestone in the local sustainable bond market. There were 35 sustainable bonds with a total value of USD3.8 billion issued in 2021, which increased 59% and 69% from 2020, hitting a record high in both the quantity and the issuance amount of sustainable bonds.

As of August 2022, 19 green bonds had been issued in Taiwan in the total amount of USD2 billion. Eight sustainability bonds were issued in the total amount of USD0.6 billion, and two social bonds were issued in the total amount of USD0.1 billion. In terms of the outstanding balance, there were 84 sustainable bonds in an outstanding amount of USD12.1 billion, up 28% from 2021.

Development of Taiwan's sustainable bond market (2017 to 2022) in USDbn



Source: TPEx data obtained on 31.08.2022

From 2017 until the present, there has been a significant increase in and diversification of new issuers of sustainable bonds. In 2021, 16 new issuers entered the sustainable bond market, which is the largest increase in new issuers in any single year. It is worth mentioning that the Chilean Government, as the first foreign government to issue a sustainability bond in Taiwan, enhanced the diversity of sustainable bond issuers. Currently, sustainable bond issuers in Taiwan include domestic banks, foreign financial institutions, state-owned enterprises, private enterprises, and foreign governments, showing that Taiwan's sustainable bond market has effectively attracted diversified issuers.

At the inception of the green bond market, since the national policy to promote offshore wind power generation, sustainable bond issuers were mainly renewable energy-related companies such as Taipower and Orsted. Nowadays, Taiwan's representative high-tech companies such as TSMC have entered the sustainable bond market, which shows that Taiwan's sustainable bond market is not only assisting the global energy transition, but also assisting the enterprise sustainability transition.

New product launched: Sustainability-Linked Bond: In response to Taiwan's Pathway to Net-Zero Emissions in 2050 and Sustainable Development Guidemap for TWSE- and TPEx-Listed Companies, in order to assist enterprises in achieving their sustainability goals, in moving towards net-zero carbon emissions and sustainable transformation, as well as to expand the scope of sustainable bonds in Taiwan, the TPEx has established the Sustainability-Linked Bond (SLB) mechanism, which has been implemented since 8 July 2022. SLB is one of the most popular new instruments in the international sustainable bond market. Its flexible use of funds can effectively assist a more diverse range of issuers to raise funds from the sustainable financial market and provide investors with more choices for responsible investment. Following the launch of the SLB mechanism, Far East New Century and CHIMEI Corporation were the first SLB issuers in Taiwan. Both of their key sustainability indicators (KPIs) selected for the SLB framework include greenhouse gas reduction. Since SLB is a bond that links corporate sustainability objectives to bond principal and interest payment terms, investing in SLB is not only a demonstration of responsible investment, but also a concrete action to directly support the sustainable transformation of the real economy.

Outlook: Looking ahead, TPEx will focus on two aspects of the sustainable bond market. The first is to promote new instruments for issuers and investors, and the second is to continuously improve the transparency of information disclosure. To increase information disclosure, TPEx has created a website[1] for sustainable bonds which includes sustainable bond information, statistics data, the latest news and issuance process, etc.

In the future, TPEx will continue to strengthen the sustainable bond market and keep striving to encourage both development and environmental conservation among enterprises. We look forward to seeing the issuance amount of sustainable bonds increase in the future and to contribute to global sustainable development, in the hope that sustainability becomes a new Taiwan value.

1. TPEx Sustainable Bond Market (tpex.org.tw)

FinTech and Digitalisation



by **Georgina Jarratt[1], Gabriel Callsen and Rowan Varrall**

CDM for repo and bonds

Promoting common and open standards is one of ICMA's key objectives with a view to supporting automation and interoperability in repo and bond markets and beyond. Following the RFP launched in May, ICMA, ISDA and ISLA jointly appointed in Q3 the FinTech Open Source Foundation (FINOS) to provide a repository for the Common Domain Model (CDM).

In the RFP, the associations invited potential host organisations to provide a service proposal to meet the requirements of providing such a repository for the open-source CDM, which establishes a single, common digital representation of trade events and actions across the lifecycle of financial products. The requirements included maintenance of the CDM code, facilitating the growth of a community to contribute to the development of the CDM, allowing for governance of the contributions to be overseen by the associations, and assisting in building awareness of the CDM.

The appointment of FINOS marks a milestone and will advance the development and increase the speed of adoption and distribution of the CDM. As a cross-industry initiative, the CDM plays a key role in supporting the digital transformation of capital markets, fostering interoperability and cohesiveness through FINOS's open-source framework. It is planned to migrate the CDM to FINOS by the start of 2023.

Phase 2 of the CDM development for repo and bonds continues to progress as planned. Following completion of the first modelling stage in July 2022, ICMA has been working with REGnosys, a technology firm, to translate repo workflows into code since August. The aim is to support market participants to streamline and automate trading and post-trade processing of open repos, floating-rate repos and associated lifecycle events.

Since September, ICMA and its CDM Steering Committee have focused on agreeing a standardised representation of repos with an extended notice period, known as "evergreens", as well as general collateral baskets, amongst others. The objective is to complete the CDM development by year-end and combine ICMA's CDM for repo and bonds with ISDA's version of the CDM by Q1 2023. Member firms who would like to become involved are welcome to get in touch. Further information can be found on ICMA's CDM webpage.

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BCBS consultation on crypto assets

ICMA co-signed a joint trade association response to the *BCBS's second consultation on the prudential treatment of crypto-assets exposure*. The consultation raises fundamental questions which have implications for issuance, trading, and custody services, amongst other activities, of DLT bonds. The joint response includes a number of proposals aiming to support a technology neutral approach of prudential regulation, a level playing field between traditional instruments and DLT-based instruments, as well as consistency between prudential regulation and operational risk frameworks. The joint response, which was submitted on 30 September 2022, can be found here.

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F FinTech regulatory developments

ESMA: report on DLT pilot regime call for evidence

On 27 September 2022, ESMA published its report on the *Call for Evidence on the DLT Pilot Regime and Compensatory Measures on Supervisory Data*. The report follows its consultation and seeks feedback on the need to amend the RTS on transparency and data reporting requirements. (ICMA's response is available here). Based on the feedback received, ESMA does not consider it necessary to amend the RTS on transparency and data reporting requirements for the purpose of the DLT Pilot. However, ESMA recognises that for certain technical elements guidance on ESMA's expectations would contribute to a consistent application of the DLT Pilot. ESMA intends to issue such guidance either before the application of the DLT Pilot, or based on first experiences of the Pilot, as appropriate.

EESC: opinion on the challenges and opportunities of crypto assets

On 26 September 2022, the European Economic and Social Committee published its opinion on the challenges and opportunities of crypto assets. The EESC takes a balanced but measured view in relation to crypto assets and notes some of the opportunities that could arise in the future, particularly due to technological developments; strongly supports the European Commission's proposal for a Regulation on Markets in Crypto Assets (MiCA) which is aimed at regulating crypto assets within the EU; and fully supports the role played by the ECB in monitoring developments in crypto assets and their potential implications for monetary policy and the risks crypto assets may pose to the smooth functioning of market infrastructures and payments, as well as for the stability of the financial system.

BIS: paper on cyber risk in central banking

On 14 September 2022, BIS published its paper on *Cyber Risk in Central Banking*. The rising number of cyber attacks in the financial sector poses a threat to financial stability and makes cyber risk a key concern for policy makers. The paper presents the results of a survey among members of the Global Cyber Resilience Group on cyber risk and its challenges for central banks. The survey reveals that central banks have notably increased their cyber security-related investments since 2020, giving technical security control and resiliency priority. Generally, respondents judge the preparedness of the financial sector for cyber attacks to be inadequate. Cooperation among public authorities, especially in the international context, could improve central banks' ability to respond to cyber attacks.

BIS: paper on big techs vs banks

On 31 August 2022, BIS published its working paper on *Big Techs vs Banks*. The paper studies the lending business model of big techs, comparing it with the traditional bank intermediation process based on collecting deposits at cheaper rates but making do with more limited information on clients. In particular, the paper develops a theoretical model to study an economy in which big techs compete with traditional banks by lending to firms that operate on their platforms. The paper focuses on two advantages that big techs have with respect to banks: better information on their clients and better enforcement of credit repayment, since big techs can exclude a defaulting firm from their ecosystem. For their part, banks have more varied and cheaper forms of funding.

ECB: paper on the economics of CBDC

On 10 August 2022, the ECB published its working paper on *The Economics of Central Bank Digital Currency*. The paper provides an overview of the burgeoning literature on the economics of CBDC. The paper documents the economic forces that shape the rise of digital money and reviews motives for the issuance of CBDC. The paper then studies the implications for the financial system and discusses a number of policy issues and challenges. While the academic literature broadly echoes policy makers' concerns about bank disintermediation and financial stability risks, it also provides conditions under which such adverse effects may not materialise. We also point to several knowledge gaps that merit further work, including data privacy and the study of end-user preferences for attributes of digital payment methods.

ECB: paper on the future of cross-border payments

On 1 August 2022, the ECB published its paper *Towards the Holy Grail of Cross-Border Payments*. The review of various visions as to how to achieve the holy grail suggests that Bitcoin is least credible; stablecoins, traditional correspondent banking, and cross-border FinTechs take an intermediary place, but may all contribute to improvement over the next years. From a public policy perspective, stablecoins appear somewhat more problematic than the other two options as they aim at deep closed loop solutions, market power and fragmentation. Two solutions – the interlinking of domestic instant payment systems and future CBDCs, both with a competitive FX conversion layer – may have the highest potential to deliver the holy grail for larger cross border payment corridors as they combine: (i) technical feasibility; (ii) relative simplicity; and (iii) maintaining a competitive and open architecture. Moreover, (iv) monetary sovereignty is preserved, and (v) the crowding out of local currencies is avoided.

EU Parliament: DORA and amending Directive texts

On 28 July 2022, the EU Parliament made available texts of the provisional agreement on the Digital Operational Resilience Act (DORA) and DORA Amending Directive. The Regulation aims first at consolidating and upgrading the ICT risk requirements as part of the operational risk requirements addressed so far separately in the different Regulations and Directives. While those Union legal acts covered the main categories of financial risk (eg credit risk, market risk, counterparty credit risk and liquidity risk, market conduct risk), they could not comprehensively tackle, at the time of their adoption, all components of operational resilience. Through this exercise, which consolidates and updates rules on ICT risk, all provisions addressing digital risk in finance would for the first time be brought together in a consistent manner in a single legislative act.

IOSCO: recommendations on use of innovation facilitators

On 14 July 2022, IOSCO's Growth and Emerging Markets Committee issued its recommendations related to the use of innovation facilitators in growth and emerging markets. Recommendations include: (i) the relevant authorities should develop effective frameworks to support financial innovation, including innovation facilitators; (ii) the objectives and functions of innovation facilitators should be clearly defined and should be made public; (iii) the scope of eligible entities and the criteria for application and selection should be clearly defined, transparent, and made public; (iv) the relevant authorities should have in place mechanisms for cooperation and exchange of information with both local and foreign relevant authorities.

BIS and Bank Indonesia: G20 TechSprint CBDC finalists announced

On 14 July 2022, BIS and Bank Indonesia announced the shortlisted finalists for the G20 TechSprint CBDC challenge. Winners will be announced in October 2022. The problem statements prompted participants to develop solutions to build effective and robust means to issue, distribute and transfer CBDCs; to enable financial inclusion; and to improve interoperability and better connect payment systems. Winners for each of the three categories will be announced in October ahead of the G20 Summit.

BIS CPMI and IOSCO: guidance on stablecoin arrangements

On 13 July 2022, BIS Committee on Payments and Market Infrastructures (CPMI) and the Board of IOSCO published their final guidance on the application of Principles for Financial Market Infrastructures to stablecoin arrangements (SAs) that are considered systemically important financial market infrastructures (FMIs), including the entities integral to such arrangements. The report is not intended to create additional standards for SAs but rather to provide more clarity to systemically important SAs and relevant authorities as those SAs seek to observe the PFMI. Although the report provides guidance on only a sub-set of principles, a systemically important SA primarily used for making payments would be expected to observe all of the relevant principles including those principles for which no further guidance is provided in the report.

FSB: regulation and supervision of crypto-asset activities

On 11 July 2022, FSB issued its statement on the international regulation and supervision of crypto-asset activities. Crypto assets, including so-called stablecoins, are fast-evolving. Crypto assets and markets must be subject to effective regulation and oversight commensurate to the risks they pose, both at the domestic and international level. The recent turmoil in crypto-asset markets highlights the importance of progressing ongoing work of the FSB and the international standard-setting bodies to address the potential financial stability risks posed by crypto assets, including so-called stablecoins. The FSB is working to ensure that crypto assets are subject to robust regulation and supervision. The FSB will report to the G20 Finance Ministers and Central Bank Governors in October on regulatory and supervisory approaches to stablecoins and other crypto assets.

BIS CPMI, BISIH, IMF, World Bank: access to and interoperability of CBDCs

On 11 July 2022, BIS CPMI, BIS Innovation Hub, IMF and the World Bank published a joint report on *Options for Access to and Interoperability of CBDCs for Cross-Border Payments.* The report identifies and analyses options for access to CBDCs and their interoperability that could improve cross-border payments, including how they can interconnect with non-CBDC payment arrangements. Each option has different implications, for example for efficiency, resilience and financial inclusion. The report also discusses the implementation challenges of each of the options. There is no "one size fits all" model for access to and interoperability of CBDCs. Accordingly, the report serves as a tool for central banks to assess how best to leverage CBDCs to enhance cross-border payments in the context of their own objectives.

IOSCO: crypto-asset roadmap for 2022-2023

On 11 July 2022, IOSCO published its *Crypto-Asset Roadmap for 2022-2023*. The work will be initially divided into two workstreams, the first, covering Crypto and Digital Assets (CDA), while the second covers Decentralised Finance (DeFi). Both workstreams will primarily focus on analysing and responding to market integrity and investor protection concerns within the crypto-asset space. The need to address these concerns is evident from many events affecting the crypto asset space, such as the recent Terra/Luna episode and ensuing market turmoil involving crypto-asset trading, lending and borrowing platforms and other market participants, resulting in significant losses and risks to investors due to inadequate protections and safeguards.

BIS FSI: report on Big Tech interdependencies

On 5 July 2022, BIS Financial Stability Institute (FSI) published its report on *Big Tech Interdependencies – a Key Policy Blind Spot*. The increasingly prominent role of large technology firms (big techs) in the financial sector has raised questions about their inner workings and regulation. Big tech business models are characterised by strong internal and external interdependencies. The paper assesses the interdependencies inherent in big tech business models based on publicly available information on Alibaba, Amazon, Grab, Jumia, Mercado Libre and Rakuten. It outlines the regulatory implications of how big techs provide financial services and the tools financial authorities have at their disposal now to address related risks.

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ICMA FinTech Newsletter

F*inTech Newsletters* in the third quarter noted updates to ICMA's FinTech regulatory roadmap, highlighting relevant developments over the coming years, and recent DLT guidance, legislative initiatives, and publication updates covered by the DLT regulatory directory. In July, Bill 8055 was submitted to Luxembourg Parliament to implement the EU DLT Pilot Regime (Regulation (EU) 2022/858). In September, the Korean Financial Services Commission (FSC) announced its intention to prepare Security Token Guidelines in Q4 2022 and revise the Electronic Securities Act and Capital Markets Act from 2023 to enable the use of blockchain technologies for the issuance and distribution of security tokens in capital markets. A sandbox is also expected to be established in the meantime for testing.

To receive future editions of the FinTech Newsletter, please subscribe or update your mailing preferences and select FinTech.

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ICMA Capital Market Research

ICMA Capital Market Research

Frequently Asked Questions on DLT and Blockchain in Bond Markets
Published: 22 September 2022
Author: Gabriel Callsen, ICMA

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

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

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

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

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

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

ICMA Position Paper: Proposal for a New Post-Trade Transparency Regime for the EU Corporate Bond Market
Published: 8 December 2021
Author: Elizabeth Callaghan, ICMA

Bonds to Bridge the Gender Gap: A Practitioner's Guide to Using Sustainable Debt for Gender Equality
Published: 16 November 2021
Author: ICMA/UN Women/IFC Joint Report

ICMA CPC White Paper: The European Commercial Paper and Certificates of Deposit Market
Published: 29 September 2021
Author: Andy Hill, ICMA

The First Year of SFTR Public Data on Repo
Published: 28 September 2021
Author: Richard Comotto

Investing in China's Interbank Bond Market: A Handbook
Published: September 2021
Authors: Ricco Zhang and Yanqing Jia, ICMA; Jianjian Yang and Fangzhu Li, NAFMII

The Sustainability Disclosure Regime of the European Union
Published: 22 September 2021
Authors: Nicholas Pfaff, Simone Utermarck, Arthur Carabia, and Ozgur Altun, ICMA

ICMA ERCC Consultation on the Role of Repo in Green and Sustainable Finance: Summary Report
Published: 20 September 2021
Author: Zhan Chen, ICMA

Guide to Tough Legacy Bonds in Asia-Pacific
Published: 25 May 2021
Authors: Mushtaq Kapasi and Katie Kelly, ICMA; Justin Kesheneff and Dennis To, Bloomberg

Overview and Recommendations for Sustainable Finance Taxonomies
Published: 18 May 2021
Authors: Nicholas Pfaff, Ozgur Altun, and Yanqing Jia, ICMA

ICMA AMIC Discussion Paper: ESG KPIs for Auto-loans/leases ABS
Published: 17 May 2021
Author: Arthur Carabia, ICMA

Industry Guide to Definitions and Best Practice for Bond Pricing Distribution
Published: 17 May 2021
Author: Elizabeth Callaghan, ICMA

ICMA ERCC Consultation Paper: Green and Sustainable Finance: What is the Role of the Repo Market?
Published: 22 April 2021
Author: Zhan Chen, ICMA

The Asian International Bond Markets: Development and Trends
Published: 3 March 2021
Authors: Andy Hill, Mushtaq Kapasi, Yanqing Jia, and Keiko Nakada, ICMA, supported by the Hong Kong Monetary Authority (HKMA)

The Internationalization of the China Corporate Bond Market
Published: 14 January 2021
Authors: Andy Hill and Yanqing Jia, ICMA

ICMA Events and Education

SPOTLIGHT – European Repo and Collateral Council (ERCC) General Meeting

The ICMA ERCC's autumn General Meeting was held in Luxembourg: On 14 September, ERCC members gathered in Luxembourg for the first in-person ERCC General Meeting since November 2019. The event was kindly hosted by Deutsche Börse in the framework of the GFF Summit 2022. The meeting was opened by ICMA's CEO, Bryan Pascoe. The event featured a panel of four members of the ERCC Committee, who discussed with moderator Godfried De Vidts the current state of the repo market, including the latest market turmoil. This was followed by a second panel, featuring ICMA experts who provided updates on a selection of key topics and initiatives that the ERCC has been working on in 2022. Details of the spring 2023 meeting will be announced in due course.

Autumn 2022

ICMA's autumn calendar will see the return of a number of our in-person flagship events in Europe and Asia focusing on key industry topics including the MiFID II/MiFiR Review, sustainability, primary debt capital market developments as well as the latest on fintech initiatives in the bond markets.

We are also pleased to resume our Professional Repo and Collateral Management Workshop, the definitive workshop for repo market participants where they can learn about this market from leading repo practitioners.

Among ICMA's forthcoming virtual and in-person events

Further details available at **www.icmagroup.org/events**

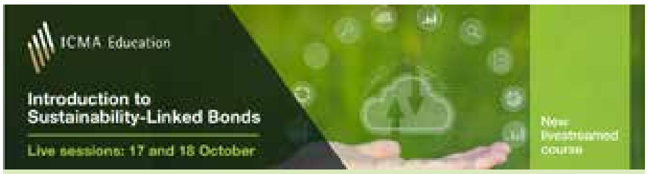
13 October 2022, Frankfurt	**Annual bwf and ICMA Capital Markets Conference**
13 October, Washington DC	**Quantifying the Investment Gap: Opportunities for the Financial Industry in Greening the Global Economy**
20 October, Hong Kong	**ICMA Women's Network and APLMA WILMA Joint Roundtable on Key Trends in the Debt Capital Markets**
31 October & 1, 7 and 8 November, *Virtual*	**ERCC Professional Repo & Collateral Management Workshop**
8 November, London	**European Primary Market Forum**
17 November, Paris	**Digitalisation of Debt Capital Markets: CBDC & Blockchain**
18 November, Tokyo	**Decarbonised and Fair Society through Sustainable Bonds**

2022

ICMA Events and Education

If you would like to enquire about sponsoring a future ICMA event, contact: shannelle.rose@icmagroup.org

Recordings of many of our virtual events are available in the ICMA Webinars and Podcasts section of our website along with more than 200 episodes of the ICMA podcast, featuring interviews with market stakeholders on a range of current issues.



New Sustainability-Linked Bonds course

ICMA is pleased to announce our inaugural course dedicated to Sustainability-Linked Bonds, the non-use of proceeds instruments first introduced to the markets in 2019 and an increasingly large part of the global sustainable bond market

Developed and delivered by a combination of leading market practitioners and ICMA's sustainable bond experts, the Introduction to Sustainability-Linked Bonds introduces the underlying market drivers, evolving regulatory framework and the main features of the SLB product and market based on the Sustainability-Linked Bond Principles (SLBP), including essential definitions of what constitutes an SLB issue and a detailed review of how the SLBP work. The course also looks at developments in the green and sustainability bond market and ICMA's guidance on climate transition finance.

The *Introduction to Sustainability-Linked Bonds* is the latest course in our growing portfolio of sustainable bond-themed courses, which also includes the Introduction to Green, Social and Sustainability Bonds – our introductory course on use of proceeds instruments – and the Sustainable Bond Certificate, our advanced course on use of proceeds and non-use of proceeds instruments for market practitioners that looks at the market, regulatory environment and upcoming initiatives in more detail.

Register now by clicking on the following link Introduction to Sustainability-Linked Bonds – 17-18 October 2022.

Upcoming courses in October and November 2022

Sustainable Finance
- Introduction to Green, Social and Sustainability Bonds **– 20-21 October**
- Sustainable Bond Certificate **– 14-29 November**

Fixed Income Trading & Strategies
- Financial Markets Foundation Qualification **– 27 October-4 November**
- Introduction to Bond Market Qualification **– 14-22 November**
- Fixed Income Certificate **– 17 October-7 November**
- Fixed Income Portfolio Management & Construction **– 30 November-7 December**

Debt Capital Markets
- Primary Market Certificate **– 14 November-5 December**

Repo & Collateral Markets
- Introduction to Repo **– 27 October - 4 November**
- Understanding the GMRA – **17 -24 November**
- Collateral Management **– 17-25 November**
- Securities Lending **– 24 November-2 December**

Securities Operations
- Corporate Actions - Operational Challenges **– 9-18 November**

ICMA Education & Training – the training provider for professionals in the capital markets

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 Directive	Alternative Investment Fund Managers
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
AMI-SeCo	Advisory Group on Market Infrastructure for Securities and Collateral
APA	Approved publication arrangements
APP	ECB Asset Purchase Programme
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BMR	EU Benchmarks Regulation
bp	Basis points
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBDC	Central bank digital currency
CBIC	ICMA Covered Bond Investor Council
CBIRC	China Banking and Insurance Regulatory Commission
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDM	Common Domain Model
CDS	Credit default swap
CIF	ICMA Corporate Issuer Forum
CMU	Capital Markets Union
CoCo	Contingent convertible
COREPER	Committee of Permanent Representatives (in the EU)
CPC	ICMA Commercial Paper Committee
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payments and Settlement Systems
CRA	Credit rating agency
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
CSPP	Corporate Sector Purchase Programme
CSRC	China Securities Regulatory Commission
CT	Consolidated tape
D&I	Diversity and inclusion
DCM	Debt Capital Markets
DLT	Distributed ledger technology
DMO	Debt Management Office
DNSH	Do no significant harm
DVP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council (of the EU)
ECON	Economic and Monetary Affairs Committee of the European Parliament
ECP	Euro Commercial Paper
EDDI	European Distribution of Debt Instruments
EDGAR	US Electronic Data Gathering, Analysis and Retrieval
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFC	Economic and Financial Committee (of the EU)
EFTA	European Free Trade Area
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMDE	Emerging market and developing economies
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
ESAP	European single access point
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	Environmental, social and governance
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
ETP	Electronic trading platform
EU27	European Union minus the UK
ESTER	Euro Short-Term Rate
ETD	Exchange-traded derivatives
EURIBOR	Euro Interbank Offered Rate
Eurosystem	ECB and participating national central banks in the euro area
FAQ	Frequently Asked Question
FASB	Financial Accounting Standards Board
FCA	UK Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FICC	Fixed income, currency and commodity markets
FIIF	ICMA Financial Institution Issuer Forum
FMI	Financial market infrastructure
FMSB	FICC Markets Standards Board
FPC	UK Financial Policy Committee
FRN	Floating-rate note
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FSC	Financial Services Committee (of the EU)
FSOC	Financial Stability Oversight Council (of the US)
FTT	Financial Transaction Tax
G20	Group of Twenty
GBP	Green Bond Principles
GDP	Gross Domestic Product
GFMA	Global Financial Markets Association
GHOS	Group of Central Bank Governors and Heads of Supervision
GMRA	Global Master Repurchase Agreement
G-SIBs	Global systemically important banks
G-SIFIs	Global systemically important financial institutions
G-SIIs	Global systemically important insurers
HFT	High frequency trading
HKMA	Hong Kong Monetary Authority
HMRC	HM Revenue and Customs
HMT	HM Treasury
HQLA	High Quality Liquid Assets
HY	High yield
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositories
IFRS	International Financial Reporting Standards
IG	Investment grade
IIF	Institute of International Finance
IMMFA	International Money Market Funds Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
ISSB	International Sustainability Standards Board
ITS	Implementing Technical Standards
KID	Key information document
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio (or Requirement)
L&DC	ICMA Legal & Documentation Committee
LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
LTRO	Longer-Term Refinancing Operation
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II/R	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
ML	Machine learning
MMF	Money market fund
MOU	Memorandum of Understanding
MREL	Minimum requirement for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NAFMII	National Association of Financial Market Institutional Investors
NAV	Net asset value
NCA	National competent authority
NCB	National central bank
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio (or Requirement)
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
OTC	Over-the-counter
OTF	Organised Trading Facility
PBOC	People's Bank of China
PCS	Prime Collateralised Securities
PEPP	Pandemic Emergency Purchase Programme
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RFRs	Near risk-free reference rates
RM	Regulated Market
RMB	Chinese renminbi
RMO	Recognised Market Operator (in Singapore)
RPC	ICMA Regulatory Policy Committee
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted asset
SBBS	Sovereign bond-backed securities
SEC	US Securities and Exchange Commission
SFC	Securities and Futures Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SLB	Sustainability-Linked Bond
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SARON	Swiss Average Rate Overnight
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
STS	Simple, transparent and standardised
T+2	Trade date plus two business days
T2S	TARGET2-Securities
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TONA	Tokyo Overnight Average rate
TR	Trade repository
VNAV	Variable net asset value

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