Assessment of Market Practice & Regulatory Policy
11 October 2023 | Fourth Quarter
Issue 71 | Editor: Paul Richards

ICMA Quarterly Report

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ICMA
International Capital Market Association

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

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

ICMA currently has over 600 members in 66 jurisdictions worldwide. ICMA brings together members from all segments of the wholesale and retail debt securities markets, through regional and sectoral member committees, and focuses on a comprehensive range of market practice and regulatory issues which impact all aspects of international market functioning. ICMA prioritises three core areas – primary markets, secondary markets, repo and collateral: with two cross-cutting themes of sustainable finance and FinTech.

Published by: Corporate Communications, International Capital Market Association Limited, 110 Cannon Street, London EC4N 6EU Phone: + 44 207 213 0310 info@icmagroup.org

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Resilience the watchword

By **Bryan Pascoe**

Entering the final quarter of the year we can reflect on a relatively stable post-summer period for bond markets with healthy levels of new issuance and reasonable performance across most asset classes. Of late, however, vulnerabilities have again become more evident. As government bond yields across most major jurisdictions have crept towards multi-year highs and central bank rates are broadly considered to be at or close to their terminal rates, the risk of either higher and persistent inflation on the one hand or recession on the other remain finely balanced, underpinning the broadly defensive market tone and a focus on guarding against any form of complacency emanating from market participants and regulatory authorities alike.

Rightly so, market resilience continues to be broadly scrutinised against the backdrop of concerns centred particularly around the combination of leverage, concentration and associated margin requirements in the less regulated sectors. This was a central theme to the numerous discussions we held recently around the Eurofi financial regulation conference, and the regulatory agenda and priorities across all jurisdictions in which we operate certainly reflect that. Trade associations have a critical role to play in facilitating market stability and best outcomes, and that is why our current work in areas such as assessing risks and building liquidity across the entire bond and repo ecosystem (via our Bond Market Liquidity Taskforce work), internationalising best practice in the repo markets (through the Global Repo and Collateral Forum), using our convening power in the digitalisation space to drive harmonisation and consistency of standards (Common Domain Model, Bond Data Taxonomy and GMRA Clause Library) and playing a central role in the discussions around settlement efficiency and accelerated settlement, is so important. On the last point the implications of the move to T+1 settlement in the US (alongside Canada and Mexico) in May 2024 are far-reaching and impact all areas of market activity. As the EU, UK and other global authorities assess the impact on their own markets and how (or when) to follow suit, it is essential that a measured approach is taken to ensure all of the issues, risks and opportunities are fully considered.

Looking at building resilience through a different lens, the recent climate-related disasters we have witnessed should only redouble our focus on the critical role the capital markets must play in climate mitigation and adaptation. ICMA's work through the Principles in the recently updated version of the Climate Transition Financing Handbook as well as our paper on greenwashing just released both help to provide clarity for approaching these challenges optimally with rigour and ambition. Other associated initiatives such as the ICMA Climate Resilient Debt Clauses (CRDCs), released late last year for inclusion in the term sheets of sovereign issuers and which can defer a country's debt repayments in the event of a pre-defined, severe climate shock or natural disaster, are equally important in this regard and we would encourage broad adoption where relevant.

Turning to membership, I am very pleased to report that we have strong momentum with excellent engagement from existing members, new jurisdictions added this year and a solid pipeline. On behalf of all ICMA staff I would like to thank you for your ongoing support and involvement. The overhaul of our membership management system and infrastructure is now under way and we hope that this will be very additive to the way members can assess, access and utilise our service and activities once we start the roll-out towards the middle of next year. Progress in education and training has been strong in recent months with new programmes added and an uptick in delegates particularly in our online self-study and in-house courses. We are grateful to both the Board and the CRR for their valuable input and focus to help expand the impact of our programmes. Finally, on networking and events, the calendar running into the end of the year is very active. In addition to a number of regional events, including our Women's Network and Future Leaders groups, we have our flagship events across primary markets, secondary markets, repo, asset management and FinTech and digitalisation. The details for all of these events are on our website and I very much hope to see many of you there.

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Synthetic US dollar LIBOR: the remaining task in the bond market

by **Paul Richards**

Summary

Panel bank US dollar LIBOR ceased publication in all five remaining settings – overnight, one month, three months, six months and twelve months – on 30 June 2023, as planned. As regulator of LIBOR, the FCA determined that, from that date, the composition of US dollar LIBOR should change from panel bank to synthetic US dollar LIBOR for all legacy contracts in one, three and six-month settings until a deadline of 30 September 2024.

This Quarterly Assessment reviews the remaining task in the bond market to complete preparations in time for the FCA's proposed deadline. The assessment should be read in conjunction with the ICMA podcast on *The Transition from Legacy US Dollar LIBOR in the Bond Market,* which was recorded by ICMA with four leading law firms – Allen & Overy, Clifford Chance, Freshfields and Linklaters – on 17 July 2023.[1]

The assessment is set out in six main sections: the background; the task of transitioning the legacy US dollar LIBOR bond market under English law; the relationship between the US LIBOR Act, English law and other foreign laws; the methodology for synthetic US dollar LIBOR, based on the sterling model; the rationale for synthetic US dollar LIBOR in the legacy bond market; and the FCA's proposed cessation date of 30 September 2024. The concluding section provides a reminder of the key steps in the long journey away from LIBOR in the bond market from start to completion.

The background

1 For some time, the authorities globally have 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. Instead, the authorities have encouraged the market to adopt near risk-free rates.[2]

2 As the US dollar risk-free rate, the authorities have encouraged the market to adopt the secured overnight funding rate (SOFR) in new US dollar financial contracts:[3]

- Overnight risk-free rates compounded in arrears are the most robust rates, which can be measured by the volume of overnight transactions, and which do not depend on any use of expert judgment.

1. This Quarterly Assessment and the ICMA podcast do not represent legal advice.

2. Global coordination has been overseen by the FSB Official Sector Steering Group, which is chaired by John Williams, President and CEO 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. ICMA chairs the RFR Bond Market Sub-Group in the UK, working with the FCA and the Bank of England.

3. The use of US dollar LIBOR in new financial contracts was effectively prohibited by the authorities, with very limited exceptions, at the end of 2021. In the other four LIBOR currencies, the risk-free rates are SONIA in sterling, €STR in euro, SARON in Swiss francs and TONA in Japanese yen.

- Forward-looking term rates are also used in limited cases (eg to provide certainty for calculating interest payments in advance for some products).[4] The authorities have warned against over-reliance on RFR-based term rates outside of these limited cases to avoid undermining the robustness of these rates.
- The authorities have also been critical of the use of credit sensitive rates, on the grounds that they recreate the same risks as LIBOR.
- They have encouraged all market participants to learn from the experience of LIBOR transition and to adopt robust fallbacks in all new contracts.[5]

In their joint article on 17 August 2023 on the lessons learned from the US$400 trillion LIBOR transition, the Federal Reserve Bank of New York and the FCA stated that "transitioning away from LIBOR has been one of the largest financial transformation projects we have seen and an undertaking we do not wish to repeat."[6]

3 In the run-up to the cessation of panel bank US dollar LIBOR on 30 June 2023, many legacy US dollar LIBOR contracts maturing beyond 30 June were converted to SOFR. The vast majority of legacy US dollar LIBOR contracts outstanding (over 90% by notional value) related to derivatives. Cleared derivatives were converted through a series of conversion weekends organised by LCH, Eurex and CME; and other derivatives were converted through the ISDA IBOR Fallbacks Protocol.[7]

The task of transitioning legacy US dollar LIBOR bonds under English law

4 Following the cessation of panel bank US dollar LIBOR on 30 June 2023, the remaining task in the bond market is to complete preparations in time for the FCA's proposed deadline of 30 September 2024 for the cessation of synthetic US dollar LIBOR. Transition away from LIBOR to SOFR is a key element in the preparations. But whereas derivatives can be transitioned *en bloc*, legacy US dollar LIBOR bonds under English law can only be transitioned to SOFR by agreement between issuers and investors, bond by bond, normally through consent solicitation.

Consent solicitation

5 In a consent solicitation, the issuer seeks the agreement of bondholders by a vote to vary the contractual terms of the bonds, in this case by consenting to a proposed change in the interest rate from LIBOR to a risk-free rate. Under English law, the quorum required for a meeting to vote on this change is typically 66% to 75% of which, typically, 75% need to vote in favour of the resolution amending the contractual terms of the bonds. If the quorum is not reached, the initial meeting can be adjourned for a subsequent vote at a later date where a lower quorum will usually apply. So the process of consent solicitation takes time and a successful outcome is not guaranteed.

FRN fallbacks

6 Legacy US dollar LIBOR interest rate fallbacks on FRN contracts under English law tend to fall into three main categories. These categories are for convenience only and do not describe every case. The specific provisions in each contract need to be checked case by case:

- *Type 1* fallbacks were drafted before the permanent cessation of LIBOR was contemplated. They are intended to take account of temporary cessation only, and they are triggered on the non-availability of the rate on a screen on the relevant interest determination date. On permanent cessation, the final fallback is typically to the rate which applied to the previous interest period, and which would then apply for the remaining life of the bond. As a result, the floating rate on the bond becomes a fixed rate until maturity.
- *Type 2* fallbacks were drafted more recently and were designed to take account of the permanent cessation of LIBOR. They are triggered on permanent cessation. Once triggered, they require the issuer or the issuer's appointee to determine the applicable rate and adjustment spread on the basis set out in the contract (eg a statement by a nominating body or the prevailing approach in the market). The determination is likely to result in a floating rate based on the relevant risk-free rate.
- *Type 3* fallbacks are similar to Type 2 fallbacks, but include a pre-cessation trigger, with the effect that the fallback is triggered when the benchmark is no longer representative.

4. Term rates are based on futures and other derivatives that reference the risk-free rates, rather than directly referencing the risk-free rates themselves.

5. In connection with use of term rates and credit sensitive rates, see, for example, the IOSCO statement on 3 July 2023 on *Alternatives to US Dollar LIBOR* and the FSB statement on *Final Reflections on the LIBOR Transition* on 28 July 2023.

6. John Williams, President and CEO of the Federal Reserve Bank of New York, and Nikhil Rathi, Chief Executive of the FCA: *Innovating for the Future, Heeding Lessons from the Past:* The Teller Window, 17 August 2023.

7. See statements by the FCA and the Bank of England, *Are You Ready?* 12 April 2023, followed by the *Joint Statement on Completing the LIBOR Transition,* 26 April 2023, by the Federal Reserve System and other US agencies; and the Financial Stability Board *Statement to Encourage Final Preparations for the US Dollar LIBOR Transition,* 27 April 2023.

Securitisations

7 In the traditional RMBS/ABS securitisation market under English law, Type 1 fallbacks work in much the same way as FRNs, though there can be some additional complications. A change in the interest rate could affect the cashflows generally in the structure. So where there are multiple tranches or classes of bonds, the terms of the bonds may require the issuer to obtain the consent of all classes of bonds, including classes which reference a different benchmark. It may be challenging to engage those bondholders who do not appear to be directly affected by the proposed change to the benchmark relating to another class of bonds in the structure.

8 Type 2 and 3 fallbacks are not common in the securitisation market. Instead, once the permanent cessation of LIBOR was contemplated, "negative consent" language for amending the benchmark rate began in some cases to be included alongside a standard Type 1 fallback. Where provision is made for negative consent, a full consent solicitation to modify the benchmark rate is not required so long as certain conditions are satisfied. The issuer has to notify bondholders that its proposed change will go ahead so long as the trustee does not receive objections from 10% or more of the bondholders within a prescribed period. If 10% or more do object, then a full consent solicitation (as with FRNs) is required.

Operational issues

9 In the case of Type 1 fallbacks, the use of dealer polls – under which reference banks provide quotations from which a fallback rate can be calculated – were designed for temporary rather than the permanent cessation of LIBOR. As a result, they are often not drafted with the degree of completeness needed to operate them at a practical level. It is understood that the FCA has encouraged banks to put policies and mechanics in place to ensure that Type 1 fallbacks operate smoothly.

10 In the case of Type 2 and 3 fallbacks, account needs to be taken of any operational issues arising as a result of the change from a forward-looking rate determination process (for LIBOR) to a backward-looking process for the new risk-free rate. In particular, agents need to be confident that the relevant provisions can be operated in practice, and that there is sufficient time to reconcile calculations. Care also needs to be taken to avoid a potential mismatch between bonds and related swap transactions.

The relationship between the US LIBOR Act, English law and other foreign laws

11 While the authorities have a shared objective in common to end the market's dependence on US dollar LIBOR as soon as practicable, the approach to achieving this objective taken in the US and the approach taken by the FCA as regulator of LIBOR outside the US are not the same.

12 US dollar LIBOR bonds governed by US law are difficult to transition by way of consent solicitation because they typically require unanimous consent from bondholders to amend the terms and conditions. US federal legislation was enacted in March 2022 ("the US LIBOR Act") to provide a "contract override" for legacy contracts governed by US law that reference US dollar LIBOR and contain no, or unworkable, fallbacks in overnight, one, three, six and twelve-month US dollar LIBOR settings. In the case of these contracts, references to US dollar LIBOR are replaced permanently with the benchmark replacement rate selected by the US Federal Reserve Board under a Final Rule. The US LIBOR Act is not subject to a time limit.

13 The Final Rule became effective on 27 February 2023 and sets out replacement rates for different categories of LIBOR contracts governed by US law. In the case of FRNs, the replacement rate is the same as synthetic US dollar LIBOR. The US LIBOR Act provides a "safe harbour" against liability for contracts which move by operation of law to the statutory replacement rate. The safe harbour also covers conforming changes to the terms of the LIBOR contract under the US LIBOR Act.[8]

14 Outside the US, the FCA as regulator of LIBOR announced on 3 April 2023 that it had instructed the IBA as the administrator of LIBOR to publish synthetic US dollar LIBOR in one, three and six-month settings on a non-representative basis as a temporary bridge for a short period from the cessation of panel bank US dollar LIBOR on 30 June 2023 until 30 September 2024 for all outstanding legacy contracts (except cleared derivatives, which have already been converted).[9] This involves a change in the composition of US dollar LIBOR for legacy contracts instead of "contract override".

15 In the case of other foreign laws, and in the absence of a trigger event based on the unrepresentativeness of US dollar LIBOR, a reference to US dollar LIBOR in any contract typically means synthetic US dollar LIBOR, subject to the application of any statutory override such as the US LIBOR Act. In the case

8. The US LIBOR Act does not apply where a contract has clearly defined and workable fallbacks providing for a replacement rate: eg the rate recommended by the US Alternative Reference Rates Committee (ARRC) or a rate selected by a determining person, who can select the Board's replacement rate, bringing the contract within the scope of the Act, including its safe harbour. Where a rate has not been selected by a determining person by 30 June 2023, the statutory replacement rate under the US LIBOR Act also applies.

9. FCA decision on synthetic US dollar LIBOR, 3 April 2023.

of the EU, it is understood that the European Commission does not intend to use the statutory replacement power under the EU Benchmarks Regulation in view of the decision of the FCA to compel the publication of synthetic US dollar LIBOR settings until 30 September 2024.

The methodology for synthetic US dollar LIBOR

16 Synthetic US dollar LIBOR has the following characteristics:

- *International consistency:* The synthetic rate is aligned with the US rate proposed by the Federal Reserve under the US LIBOR Act for as long as synthetic LIBOR is published: CME term SOFR plus a fixed ISDA adjustment spread. In its Feedback Statement in May 2023, the FCA stated that "we agree with respondents on the importance of maintaining international consistency to avoid market fragmentation or unwanted risk."[10]
- *Continuity of contract:* There is continuity of contract under English law by way of the Critical Benchmarks Act between the panel bank rate and the synthetic rate.
- *Similar structure:* The CME term SOFR reference rate has been chosen as it has a similar forward-looking structure to panel bank LIBOR. This minimises the need for consequential changes (including in systems) to ensure contracts can continue to operate after the end of the LIBOR panel.
- *The same screen:* The FCA has also received confirmation from Bloomberg and Refinitiv that the three US dollar LIBOR settings will continue to be available on the same screens in synthetic form as in panel bank form, as required in many bond contracts.

17 The FCA has stated that synthetic US dollar LIBOR is unrepresentative, and its use is prohibited under the UK Benchmarks Regulation unless expressly permitted. Use has been permitted for all one, three and six-month legacy US dollar LIBOR contracts other than cleared derivatives until 30 September 2024.

18 The provisions of the UK Benchmarks Regulation, as amended by the Critical Benchmarks Act, empower the FCA to direct the publication of synthetic LIBOR and support contractual continuity for legacy contracts under English law. They are benchmark and currency agnostic and so are intended to apply to US dollar LIBOR in the same way as for sterling and yen LIBOR. However, they apply only to contracts under English law.

Synthetic sterling LIBOR

The model for synthetic US dollar LIBOR is similar to the model already adopted by the FCA for synthetic sterling LIBOR.[11] Following the cessation of panel bank sterling LIBOR at the end of 2021, outstanding legacy LIBOR contracts, including bonds, in one, three and six-month settings, referenced synthetic sterling LIBOR until the end of March 2023 in the case of one and six-month settings. In the case of the three-month setting, synthetic sterling LIBOR will continue until 28 March 2024. The Critical Benchmarks Act introduced by HM Treasury in 2021 has provided continuity of contract between panel bank sterling LIBOR and synthetic sterling LIBOR under English law.

It is important to note that, whereas the bulk of the transition in legacy sterling LIBOR bonds to SONIA took place against a background of historically very low short-term interest rates, the transition in legacy US dollar LIBOR bonds in prospect is due to take place against a background of much higher short-term interest rates.

The rationale for synthetic US dollar LIBOR in the legacy bond market

19 As consent thresholds for agreement to changes in bond conditions by investors under English law are commonly significantly less than 100%, unlike US law, active transition under English law should be feasible (eg through consent solicitation) in many cases, though the process takes time and success is not guaranteed.

20 The rationale for synthetic US dollar LIBOR in the legacy bond market is that it provides more time for legacy US dollar LIBOR bonds to mature, and that the FCA's deadline of 30 September 2024 should encourage the active transition of legacy bonds in the meantime, where feasible. As most FRNs pay interest every three months, the first interest payment due after 30 September 2024 in those cases can be expected to be made by the end of December 2024.

21 There are still a large number of legacy US dollar LIBOR bonds with maturities beyond 30 September 2024 outstanding under English law and other non-US laws. The active transition of some of these (eg private placements) should be relatively straightforward. In the case of the remainder (eg public issues):

10. FCA Feedback Statement (FS23/2) on CP22/21 and Announcement, 31 May 2023.

11. In other LIBOR currencies, panel bank euro and Swiss franc LIBOR ceased permanently at the end of 2021. In the case of Japanese yen, panel bank LIBOR also ceased at the end of 2021, but synthetic yen LIBOR succeeded panel bank LIBOR until the end of 2022.

- the focus of active transition should be on legacy LIBOR bonds with problematic fallbacks: in particular, bonds with Type 1 fallbacks which fall back – on permanent cessation of synthetic US dollar LIBOR – from a floating rate to a fixed rate (ie the last available LIBOR rate) for the remaining life of the bond, which was not the original intention when the bonds were issued;
- legacy LIBOR bonds with Type 2 fallbacks should in many cases, under the terms of their contracts, fall back on permanent cessation to a floating rate; and
- legacy LIBOR bonds with Type 3 fallbacks (which like bonds with Type 2 fallbacks are expected to fall back to a floating rate) should already have been triggered at pre-cessation, when LIBOR was declared unrepresentative by the FCA (ie in response to the cessation of panel bank LIBOR on 30 June).

22 In each case, the terms of the contract need to be checked. This should help determine whether active transition is needed (eg through a consent solicitation). The terms may also provide an opportunity for issuers with call options to redeem their bonds.

The proposed cessation of synthetic US dollar LIBOR on 30 September 2024

23 In commenting on the cessation of synthetic US dollar LIBOR, the FCA stated on 3 April 2023 that: "We intend that publication of the one, three and six-month synthetic US dollar LIBOR settings will cease on 30 September 2024. We will review our decision in line with the requirements of the Benchmarks Regulation. However, unless unforeseen and material events were to happen, we expect to follow the direction and timelines we have indicated. We consider providing early notice of this is helpful for market participants. Firms must therefore continue to actively transition contracts that reference US dollar LIBOR."[12]

24 The reasons for the FCA's decision are set out in its Feedback Statement on 31 May 2023 (FS23/2 on CP22/21):

- "Our current assessment that end-September 2024 provides sufficient time for cessation to be orderly is based on the information available to us, including information provided by firms in consultation responses and other engagement with us. We consider the evidence base for our assessment to be robust. Therefore, unless unforeseen and material events were to occur which significantly change the information and circumstances on which our assessment was based, we expect that our reviews will come to the same conclusion as our initial assessment. We therefore expect to follow the timeline we have indicated." (2.17)
- "We consider that it is possible for cessation to be orderly even if not every contract has transitioned away or been equipped with a workable fallback, provided there is not sufficient scale of un-remediated contracts to pose a threat either to market integrity or to an appropriate degree of protection for consumers. Based on evidence currently available to us, we do not believe this will be the case at end-September 2024." (2.18)
- "We have not identified any single issuer with such a large volume of non-US law governed bond exposures that we consider it to be impossible for them to attempt consent solicitations on all such bonds within the extra time provided. This assessment is based on the estimates that have been provided to us by industry of the typical time required for this process. We do not agree that every exposure needs to transition in order for cessation to be orderly." (2.21)
- "Where consent solicitations are attempted but fail, parties are choosing to remain linked to a ceasing benchmark, and we expect that they have considered the implications of doing so, as we have been clear about the temporary nature of any synthetic rate from the outset." (2.21).

25 It is also understood that bank supervisors are monitoring bank exposure to legacy US dollar LIBOR and can be expected to question banks on the steps they are taking to reduce their exposure in time, where necessary.

Conclusion

26 The transition from LIBOR to risk-free rates in the US dollar LIBOR bond market under English law, as in the case of the sterling LIBOR bond market, has required five key steps during the long journey from start to completion:

- first, making sure that new issues, which at that stage were still referencing LIBOR, would fall back to a risk-free rate rather than a fixed rate;
- second, encouraging the development of the new issue market referencing risk-free rates instead of LIBOR;
- third, on the cessation of panel bank LIBOR, providing synthetic LIBOR for a period in order to give more time for legacy LIBOR bonds to mature and for active transition from LIBOR to risk-free rates;
- fourth, introducing the Critical Benchmarks Act to provide continuity of contract between panel bank LIBOR and synthetic LIBOR under English law; and
- fifth, completing preparations in the bond market in time for the permanent cessation of synthetic LIBOR. This is the final task in the bond market under English law·

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12. FCA statement announcing its decision on synthetic US dollar LIBOR, 3 April 2023.

Market integrity and greenwashing risks in sustainable finance

By **Nicholas Pfaff**

Since the release of the Green Bond Principles in 2014, ICMA and its members have played a central role in nurturing and promoting best practice in sustainable finance. As such, we have felt a particular responsibility to engage with the debate on greenwashing and market integrity in addition to our contribution to the development of global product standards for sustainable bonds, and debt capital market products more broadly, and our existing dialogue with the regulatory community.

In 2022, we launched a podcast series on market integrity in sustainable finance inviting leading market practitioners and stakeholders to discuss greenwashing openly. There are four episodes available online: (i) greenwashing risks and remedies in the sustainable bond market; (ii) materiality and ambition of sustainability-linked bonds; (iii) sustainable bonds and their real world impact; and (iv) greenwashing risks and sustainable funds.

Building on the feedback from this podcast series and following ICMA's response to the call for evidence on greenwashing from the European Supervisory Agencies (ESAs) earlier this year, we have now published a dedicated paper, *Market Integrity and Greenwashing Risks in Sustainable Finance*.

The ambition of this paper is to promote a constructive dialogue between the market, civil society and regulators on addressing greenwashing risks while avoiding the twin risks of market complacency and regulatory overshoot.

Exhaustive definitions of greenwashing can create more issues than they solve as they risk market paralysis or regression because of excessive reputational or litigation fears. We propose a focused definition of greenwashing in the paper for financial regulatory purposes while also noting that regulators are demonstrating that existing laws and regulations can address any serious misrepresentation in sustainable finance.

Reviewing existing data and studies on potential greenwashing, we find that greenwashing is not prevalent in the green bond market, but that ambition and materiality in the early development of the new sustainability-linked bond market may have been insufficient. Market feedback and our research based on reported controversies and Science Based Targets initiative (SBTi) alignment points however to a positive trend in the sustainability-linked bond market in the last 12 months. We concur that wider concerns in the sustainable fund industry exist regarding, for example, investment methodologies and fund naming.

Looking to solutions, we propose that unpacking greenwashing into areas of actual concern in sustainable finance is more actionable than further expanding current definitions. For sustainable bonds, these areas of concern are: (i) lack of ambition, (ii) strategic inconsistency, (iii) mismanagement of wider sustainability risks and (iv) actual deception. For sustainable funds, they are: (i) vague or ambiguous responsible investment methodologies, (ii) unclear or misleading fund labelling and naming and (iii) actual deception.

For the sustainable bond market, we argue that the *de facto* global standard, represented by the Principles, is actively mitigating the areas of concern. Similarly existing or pending sustainable finance regulations in many jurisdictions are highly relevant with, among other things, taxonomies available for setting and benchmarking ambition, new corporate sustainable reporting soon providing transparency on strategic consistency and Do No Significant Harm (DNSH) methodologies potentially addressing wider sustainability risks. We underline, however, the importance of ensuring the usability and the international operability of these regulations.

For the sustainable fund market, market best practice has not led to international agreement on industry standards.

There are, however, several regulatory initiatives under way, such as on disclosures for investment methodologies and proposals for fund naming to support market integrity.

In both cases, there are implementation and usability challenges that regulators will need to address with the benefit of market input. In the annexes, we summarise the areas of concern with selected examples and official and market-based mitigants, as well as provide an international overview of official definitions and references to greenwashing. We conclude our paper by making the following recommendations to policy makers and regulators:

(1) Concentrate on actionable areas of concern in sustainable finance.
(2) Help improve the availability of data on market integrity in relation to these areas.
(3) Reference existing legislation where enforcement may be needed.
(4) Implement current regulatory initiatives with a focus on international interoperability and usability.
(5) Continue to leverage the positive contribution of market best practice.

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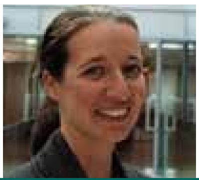
Shortening the settlement cycle to T+1

By **Alexander Westphal**
and **Nina Suhaib-Wolf**

Background

On 15 February 2023, the SEC published its final rule on the shortening of the settlement cycle in the US securities market by one day to T+1. This will apply to all US securities, including corporate bonds, equities and mutual funds, while US Treasuries already settle on a T+1 basis today. The implementation date for the rule was confirmed as 28 May 2024, four months earlier than suggested by the industry.[1] Subsequently, Canada and Mexico announced that they will align their settlement cycle with the US, moving to T+1 on 27 May 2024.

A move to T+1 will be a major industry transformation which will require significant investment to upgrade post-trade systems and processes as well as related technology and will have important implications from a trading, funding and market liquidity perspective. The US decision also creates important challenges for market participants around the world given the interconnectedness of today's financial system and the importance of the US market in a global context. Furthermore, it has triggered a discussion in Europe and other parts of the world on the need to follow suit and work towards a T+1 settlement cycle. ICMA is actively involved in these discussions.

T+1 discussion in Europe: state of play

UK: In December 2022, in light of the US decision, the UK Chancellor announced the launch of an industry taskforce, the UK Accelerated Settlement Taskforce (AST), which is mandated to "explore the case for moving to an accelerated settlement cycle, such as T+1, in the UK, and outline how this could be implemented". ICMA is represented on the AST, which is tasked to produce an interim report with initial recommendations by the end of 2023.

The work has been progressing relatively quickly, led by a core group of the AST and the appointed chair of the group, Charlie Geffen. A first phase of the work focused on describing today's post-trade process and identifying a number of key areas that are currently being further assessed. A first full draft of the report is expected shortly, including an assessment of benefits and costs of a move to T+1, key challenges to overcome and proposed recommendations in terms of scope and a timeline for a potential move of the UK to T+1. This is expected to trigger a broader industry discussion.

EU: On the EU side, the discussion on T+1 is gaining some traction as well, although it is clear to all stakeholders that the undertaking is more challenging in the EU (compared to the US and UK). This is mainly due to the more complex and fragmented EU market, including its underlying market infrastructure. Compounding this, the scope of a move to T+1 in the EU would also be broader than the US and UK given that all securities, including government bonds, are currently settling on a T+2 basis, while T+1 settlement is already the market standard for US Treasuries and gilts in the UK. As a result, there seems to be little appetite to rush a move to T+1, also taking into account a continued focus on settlement discipline and existing concerns with fails in the current T+2 environment. That said, the ongoing review of CSDR ("CSDR Refit"), which is currently awaiting final approval by EU co-legislators, will include a mandate for ESMA to produce a report by the end of 2024 assessing the costs and benefits of a shorter settlement cycle in the EU. As an important first step in the related consultation process, on 5 October ESMA issued a call for evidence on shortening the settlement cycle for comments by 15 December.

In anticipation of ESMA's work, a number of major industry bodies, including ICMA, have come together to form a cross-

1. In the US, the T+1 implementation process is coordinated by an industry alliance around the DTCC, SIFMA and ICI, which have published a detailed *T+1 Securities Settlement Industry Implementation Playbook.*

industry taskforce on EU T+1 which seeks to develop a common position on the issue and related recommendations. The aim has been to produce a report by the end of this year in order to inform ESMA's work, although this may have to be reassessed in light of the release of ESMA's call for evidence.

Other jurisdictions: Outside North America and Europe there is still relatively little focus on T+1, though with a few notable exceptions. In fact, India was the first major market to move to a T+1 settlement cycle in a phased migration that concluded in January 2023. Parts of China's securities market already operate on a T+0 settlement cycle, although in a very specific set-up which is difficult to compare in terms of global integration.

ICMA involvement and the way forward

Given its remit, ICMA is well placed to play a leading role in the T+1 discussions from a fixed income perspective, considering also the importance of global alignment:

- On the UK side, ICMA is an active participant in the AST core group and has been co-leading the workstream on inventory management which has focused on repo and securities lending impacts. Another key question is around the treatment of Eurobonds, which includes most UK corporate bonds.
- On the EU side, ICMA is an active member in the EU cross-industry Taskforce on T+1, co-leading workstreams on (i) trading and (ii) securities financing. We are working with members on an ICMA response to ESMA's call for evidence.
- Within ICMA, the work is being coordinated through the Secondary Market Practices Committee (SMPC), European Repo and Collateral Council (ERCC) and Market Infrastructure Advisory Group (MIAG). An ICMA-wide T+1 workshop was held on 5 July which was attended by over 80 participants.
- On the back of the workshop, ICMA established an ICMA-wide distribution list on T+1 to share material from the Taskforce discussions and encourage member feedback.

The benefits of a shorter settlement cycle have been described in a number of reports, focusing mainly on the expected reduction in counterparty risk and related costs, including lower margin and collateral requirements. A migration to T+1 has also been described as a necessary trigger for investment and innovation in the post-trade space and it is hoped to foster global alignment in the longer term. However, it is important not to underestimate the scale of the necessary transition of a move to T+1, which would compress the effective window from trade execution to settlement by over 80% compared to T+2.[2] A move to T+1 will have important implications from a trading, funding and market liquidity perspective, all of which needs to be properly assessed and understood. Furthermore, the investment required by the industry to upgrade post-trade systems and automate processes would be substantial. Given the scale of those investments and the potential risks involved in terms of increased settlement fails and reduced market liquidity, it is important that any decision on a shortening of the settlement cycle is based on a solid analysis of the related costs and benefits, including a proper quantification. The US move to T+1 in May 2024 will provide some helpful and important lessons for Europe in this regard that need to be taken into account before any decision is made. In this spirit, ICMA will continue actively and constructively to contribute to the discussion on T+1 and invites members to get involved on this important issue.

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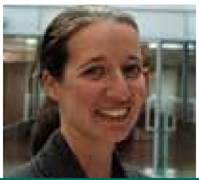
2. As further explained in AFME's report *T+1 Settlement in Europe: Potential Benefits and Challenges,* September 2022.

European secondary bond market data report


By **Andy Hill, Nina Suhaib-Wolf** and **Simone Bruno**

On 27 September 2023, ICMA published its third semi-annual *European Secondary Bond Market Data Report*, covering the period from January 2022 through June 2023. An initiative of the ICMA Secondary Market Practices Committee (SMPC), the report compiles and analyses EU and UK secondary bond market data published under the MiFIR/MiFID II RTS 2 requirement, using Propellant.digital software. The data and analysis cover both sovereign and corporate bond markets.

The latest report has allowed ICMA to begin identifying patterns in the data since H1 2022, and to draw conclusions on potential trends.

Summary of observations from the data

- Traded volume for sovereign bonds in H1 2023 has increased by 2.7% compared to H1 2022, representing 53.8% of total traded volume in the full year of 2022.
- In both sovereign and corporate bonds, a decrease in average and median trade sizes is observed.
- For sovereign bonds, the average trade size decrease varies between 10% and 37%, depending on the underlying issuing country.
- For corporate bonds, the average trade size decrease from H1 2022 to H1 2023 ranges between 3% and 19%, depending on currency.
- The only sub-classes where the average trade size seems to have increased are US-issued sovereign debt as well as USD-denominated corporate debt.
- In terms of the number of trades, it is worth noting that trade counts have increased 21% for sovereign bonds and 8% for corporate bonds.
- In both segments, bonds are mainly traded via systematic internalisers (59% for sovereign bonds and 56% for corporate bonds, respectively). ICMA also analysed traded notional and trade count across different trade size bins, observing an increase in the proportion of systematic internaliser trades as trade size increases.
- Contrary to observations on the sovereign bond side, there is an increase in on-venue dealer-to-client (D2C) transactions for corporate bonds, relative to H1 2022.

Future reports

Working with Propellant, ICMA believes that this latest data set is also a more accurate reflection than the previous reports, and the expectation is that future reports will see continued improvements in both the depth and quality of the underlying data.

ICMA would welcome feedback on the report and suggestions to develop and enhance the analysis going forward.

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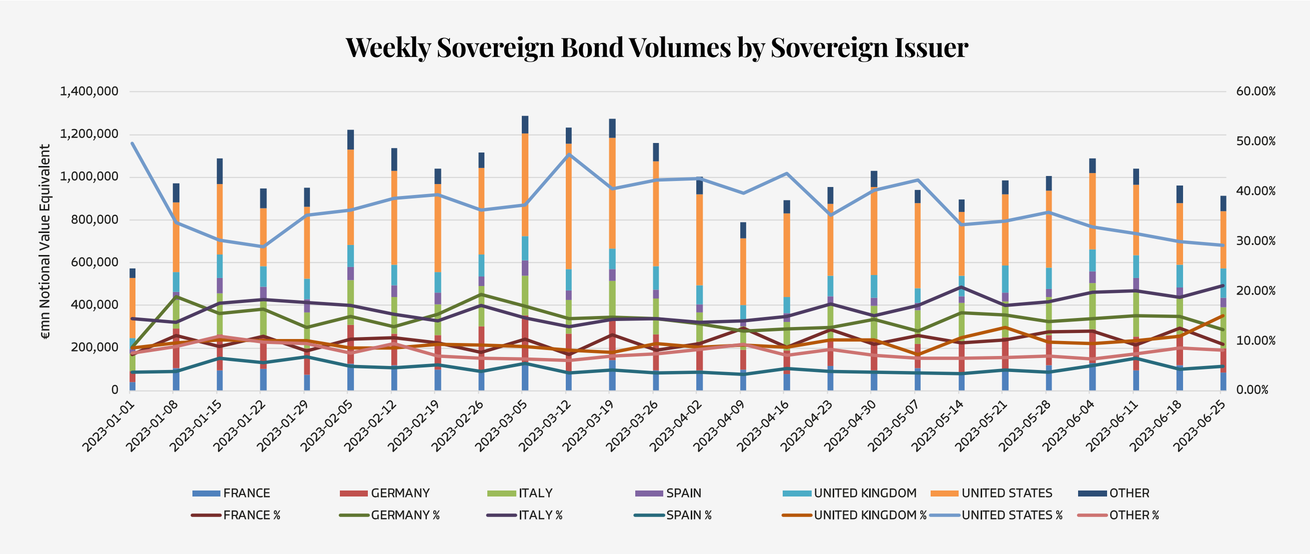
Weekly Sovereign Bond Volumes by Sovereign Issuer
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FRANCE
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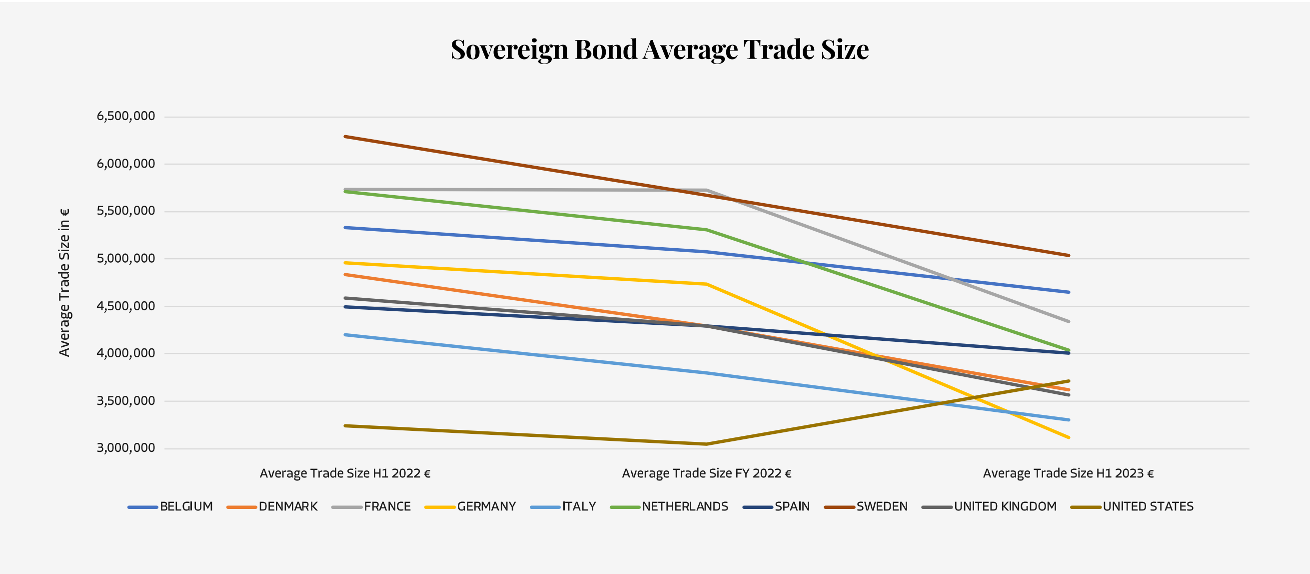
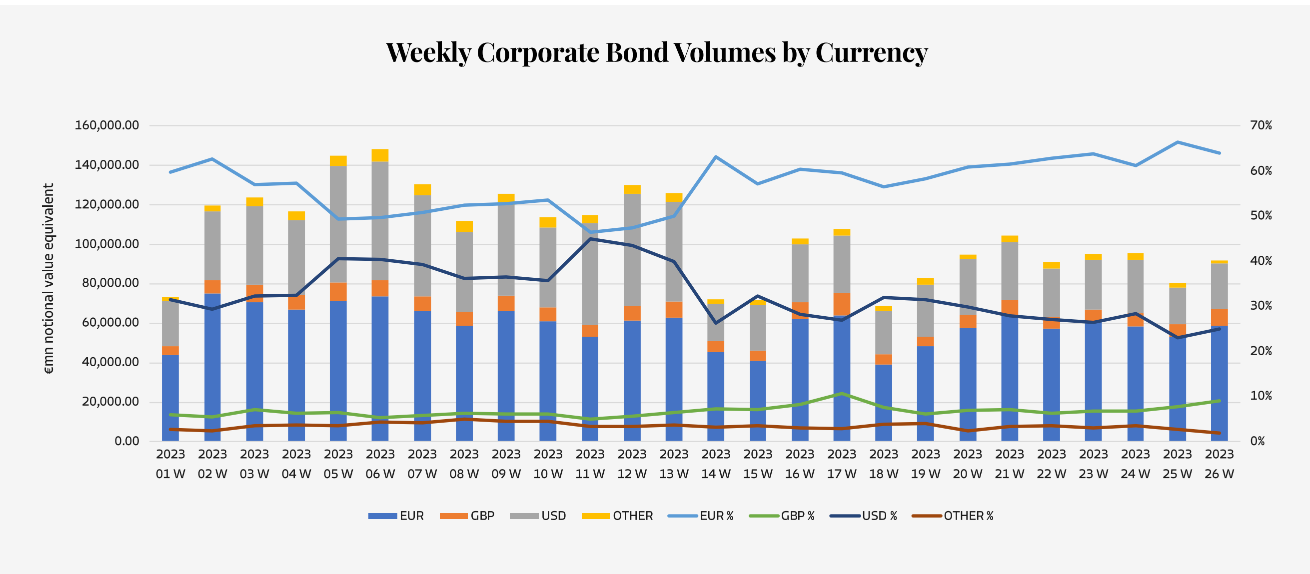

Sovereign Bond Average Trade Size
Average Trade Size in €
Average Trade Size H1 2022 €
Average Trade Size FY 2022 €
Average Trade Size H1 2023 €
BELGIUM
DENMARK
FRANCE
GERMANY
ITALY
NETHERLANDS
SPAIN
SWEDEN
UNITED KINGDOM
UNITED STATES


Weekly Corporate Bond Volumes by Currency
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Reflections on capital markets and gender equality

In this article, **Nathalie Masset,** Deputy Director at Euronext, reflects on her career and her interactions with ICMA on a technical, working level and as Chair of the ICMA Women's Network.

As I embark upon end of career leave, now seems the perfect opportunity to reflect both on my career in fixed income markets, and on my interaction with ICMA. In doing so, I would like to focus on some key milestones in my career.

It all started in 2009 after an internal move at Euronext in the recently-created Fixed Income Department, with an initiative on fixed income market models and platforms led by stock exchanges. Coming from a background in financial markets consultancy around organisation and IT, project and customer management, settlement workflows and derivatives markets, the bond markets were new to me, but from my first discussions with industry stakeholders on both buy and sell sides, it soon became clear that a complex and captivating world was starting to evolve.

My career to date in consultancy having prepared me for changes and challenges, I was able to fully immerse myself in this area, taking on a management role in early 2011. I designed, implemented and developed trading platforms and new market models, as well as partnerships with industry stakeholders. There were challenges along the way, including internal constraints and market conditions, which derailed some initiatives, but importantly I developed Euronext's footprint, network, visibility, credibility and business in the fixed income space.

On-exchange trading has never been a natural home for bonds, but the electronic, transparent and cleared models offered by stock exchanges like Euronext are complementary to "dark" and institutional platforms, and help networks of banks and brokers execute their small and mid-size order flows. In the complex post-MiFID II environment, with its changing liquidity and transparency criteria, and with the on-going automation of trading workflows, on-exchange trading definitely offers added value for parts of the flows. So I developed Euronext's fixed income markets from local retail brokerage activity to a wider business covering larger sizes, new liquidity provision and distribution schemes, and new types of participants from several European countries.

More recently, the acquisition of the Borsa Italiana Group and, specifically, the migration of its fixed income retail markets onto Euronext technology, is a key move which could trigger exciting growth of Euronext's bond business in the future, notably when post-trade workflows are harmonised and a global strategy leveraging Euronext, Borsa Italiana Group and MTS markets is defined. I am proud to have participated in this venture and am confident that my fixed income colleagues will further develop the markets.

None of this would have been possible without the regular and multiple interactions and reflections I had with key industry stakeholders and professional associations, whether during formal conferences and workshops or during informal bilateral meetings.

A defining moment for me was my first ICMA AGM and Conference in Brussels in 2010. The quality of the discussions, the high level of attendance, the openness of market participants to exchange views, and the general atmosphere combining a high level of professionalism as well as less formal gatherings, left quite an impression on me and prompted my future involvement in ICMA. The Association's wide reach, from sell side, buy side as well as to stock exchanges and platforms, enabled me to engage with all sides of the market, as well helping me develop my own network, and that of Euronext.

The ICMA AGM and Conference has now become a permanent and important fixture for myself and colleagues. Euronext Group is now well-represented at ICMA events by several fixed income product, market and sales managers, and the outcome of our participation is always extremely positive.

I have also participated in many ICMA working groups, including those related to regulatory and infrastructure evolutions, and colleagues now participate in relevant ESG working groups. Although it can be challenging to agree consensus positions, we always managed to find common ground and an appropriate way to present different requirements, and with opportunities to moderate or speak on various panels, I was able to use that platform to increase the industry's understanding of the role of stock exchanges within the bond markets.

Throughout the years, I have seen the industry evolve dramatically: new workflows, new platforms, new regulations, new automation, new stakeholders, new initiatives, all of which has been fascinating. But work is still in progress, and fragmentation, transparency, platforms interconnection, regulation and post-trade issues still need to be fine-tuned.

Elsewhere, as a woman working in a largely male-driven environment, I have always observed different gender-related behaviours in the workplace, and am pleased to see that diversity, equity and inclusion now feature heavily on the agenda of all market participants. So, when in 2015 ICMA asked me to manage and support the ICMA Women's Network (IWN) for the French region, I was delighted to accept. This involved implementing a team-work approach: setting up a local committee with individuals from ICMA's network and my own to engage in regular meetings, leading to creative brainstorming sessions and resulting in interesting, topical events. It also required being as inclusive as possible, to ensure that men were included in IWN reflections and events, and that original keynote speakers from other industries contributed to the debate.

With the active support of the ICMA Paris office, the IWN French region organised many successful events, securing high attendance rates and the participation of speakers from multiple backgrounds. We also expanded the network to new joiners and the ICMA Future Leaders through informal after-work gatherings, which have become an important feature of the IWN's offerings in the region.

As a legacy of COVID-19, the IWN moved to an international model. In 2021 ICMA asked me to chair the resulting IWN International Steering Committee – another thrilling experience allowing me to engage with inspiring women from different ICMA regions to discuss gender equality topics, understand cultural differences in the regions and grow the IWN network both in terms of number of people and geographical coverage. I also enjoyed being instrumental in the network in other ways, such as developing the IWN's profile and using my own channels to promote the IWN where possible.

While it is fair to say that gender equality has come a long way, we should not be complacent: there remains a lot to do, and it is important not to undermine what has been achieved already. For my part, I am honoured to pass on the baton in these efforts to Caroline Derocle, Euroclear, the incoming IWN International Steering Committee member for the French region, and to Angela Brusas, Nordic Investment Bank, who will chair the overall IWN International Steering Committee. Their respective contributions to the IWN, the French region and the International Steering Committee thus far has been key, and I am confident that they will continue to support women at all stages of their careers in furtherance of ensuring gender equality within the bond markets.

I would like to thank ICMA for having entrusted me with the development of the IWN through these important positions over the years. Although I will not be active in the markets from October 2023, I hope to continue attending ICMA events, including IWN events and the AGM and Conference, so that I can follow the evolution of the industry and the success of the IWN's ambitions.

Summary of practical initiatives by ICMA

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

Regulatory policy

1 *ICMA RPC:* ICMA's Regulatory Policy Committee (RPC) met the Spanish Treasury, ahead of Spain's EU Presidency, and the IOSCO Secretary General, on 8 June 2023 in Madrid, and met the AMF in Paris on 6 October.

2 *UK regulatory framework:* HM Treasury's Regulatory Framework Industry Engagement Group, on which ICMA is represented, met on 3 August to discuss progress on the UK Government's initiative to replace retained EU law with legislation designed specifically for UK financial services and markets.

Primary markets

3 *ICMA PSIF:* ICMA's Public Sector Issuer Forum (PSIF) met at EBRD in London on 19 June 2023 and is due to meet again at the IMF and World Bank Annual Meetings on 12 October, where the PSIF agenda will focus on the implications of FinTech for issuers in international capital markets.

4 *EU and UK regulatory regimes:* ICMA continues to engage with policy makers on proposals to reform the regulatory regimes in the EU and UK. In the case of the UK's replacement prospectus regime, ICMA commented on HM Government's proposed Statutory Instrument on 21 August and submitted written comments on the FCA's engagement papers on 29 September. In the case of the EU's prospectus regime, ICMA gave informal feedback to MEPs on the Listing Act. ICMA also responded to the European Commission's consultation on retail investment strategy (notably covering the PRIIPs and MiFID product governance and inducement regimes) on 28 August and responded to ESMA on the ESG aspects of MiFID product governance on 15 September.

5 *Singapore MAS notice on corporate finance adviser conduct:* ICMA facilitated industry deliberations regarding implementation of the MAS notice on corporate finance adviser conduct.

6 *Commercial paper:* ICMA is liaising with the FSB, IOSCO and the FCA on measures to enhance the resilience of the commercial paper market.

7 *Primary Market Forum and European Primary Bond Markets Regulation Conference:* ICMA is planning its annual Primary Market Forum on 22 November at Clifford Chance in London and European Primary Bond Markets Regulation Conference on 30 January 2024 at Allen & Overy in London.

Secondary markets

8 *Bond market liquidity:* ICMA's Bond Market Liquidity Taskforce (BMLT) brings together market experts from different ICMA Committees to recommend improvements in the functioning of markets, both in terms of market practice and regulation. The BMLT's initial focus is on core sovereign bond markets.

9 *Bond market transparency:* ICMA has continued to engage with the EU authorities on bond market transparency as part of the MiFIR Review and has flagged the importance of aligning price and volume deferrals and outstanding bond issuance as a determinant of liquidity classification. ICMA is also engaging in the UK with the FCA on the UK's bond market transparency framework and responded to the FCA consultation on the UK consolidated tape on 15 September 2023.

10 *Shortening the settlement cycle to T+1:* ICMA is part of a UK Taskforce on Accelerated Settlement launched by HM Treasury and, on the EU side, is part of a cross-industry Taskforce on proposals to shorten the settlement cycle to T+1.

11 *Secondary bond market data:* ICMA has published its third semi-annual report on European secondary bond market data, with data support from Propellant.

12 *Pre-hedging:* ICMA is consulting members on developing a potential position paper on pre-hedging in wholesale bond markets, in anticipation of the development of IOSCO principles in this area.

13 *ICMA Secondary Market Forum:* ICMA is planning its annual Secondary Market Forum on 17 November at ING in Amsterdam.

Repo and collateral markets

14 *ICMA GRCF and ERCC:* ICMA's new Global Repo and Collateral Forum (GRCF) held its second quarterly meeting on 29 June 2023 and established a working group on repo in new and emerging markets. The ICMA European Repo and Collateral Council (ERCC) Committee met on 11 September and the ERCC will hold its Annual General Meeting on 6 December in London.

15 *Settlement efficiency:* Improving settlement efficiency is a key priority for the ICMA ERCC, in particular in relation to the EU CSDR Refit. Besides its work on best practices, ICMA is actively contributing on the subject to the work of the authorities, including the ECB in the context of AMI-SeCo as well as ESMA, which held a workshop on settlement efficiency on 26 September in Paris.

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

17 *SFTR reporting:* ICMA continues to work with members of the ERCC's SFTR Taskforce to help firms improve the quality of SFTR reporting and address related issues. In this context, ICMA is in close contact with authorities, submitting regular comments to ESMA and the FCA, most recently responding to a consultation on amendments to the UK validation rules.

18 *GMRA Clause Library and Taxonomy:* On 31 August, ICMA announced the launch of its Global Master Repurchase Agreement (GMRA) Clause Library and Taxonomy, which will help facilitate standardisation and improve efficiencies in the process of negotiating and managing GMRAs. A number of other ICMA projects are under way to enhance the use of the GMRA, including work on Digital Assets under the GMRA as well as a Master Confirmation Annex and template notices.

Asset management

19 *ICMA AMIC:* The ICMA Asset Management and Investors Council (AMIC) Committee met in Brussels on 20 September 2023 with DG FISMA as discussant. An AMIC event on asset management is also planned on 24 November at Swiss Re in Zurich, and will involve ICMA's private banking members, among others.

20 *EU regulation:* In addition to engagement by the AMIC Committee on the EU AIFMD, where political agreement has now been reached, the AMIC responded to ESMA on 24 August on the draft Regulatory Technical Standards on the revised ELTIF Regulation and wrote to IOSCO and the FSB by the deadline of 4 September on liquidity in open-ended funds.

Sustainable finance

21 *Practical Guide for Blue Finance:* On 6 September 2023, the *Practical Guide to Finance the Sustainable Blue Economy* was published by ICMA, together with the Asian Development Bank (ADB), the International Finance Corporation (IFC), the UNEP Finance Initiative (UNEP FI) and the UN Global Compact (UNGP).

22 *Sustainability-linked bond (SLB) Q&A:* On 26 September, ICMA and the Executive Committee of the Principles published the updated SLB Q&As, which serve as additional guidance that illustrates and complements the Sustainability-Linked Bond Principles (SLBP).

23 *Market Integrity and Greenwashing Risks in Sustainable Finance:* On 10 October 2023, ICMA published a paper titled *Market Integrity and Greenwashing Risks in Sustainable Finance.* The paper discusses integrity and greenwashing risks in sustainable finance from a best practice and regulatory perspective and provides recommendations for policy makers and regulators.

FinTech and digitalisation

24 *FinTech Advisory Committee (FinAC):* ICMA's FinAC held its third meeting on 12 September 2023 to discuss latest developments in capital markets in APAC, as well as ICMA documentation and digital assets.

25 *DLT bonds:* The Legal Sub-Group of ICMA's DLT Bonds Working Group held meetings in July, August and September to conduct an analysis of risk factors and disclosure in DLT-based bond offering documents. The meeting on 25 September focused on progress on priorities and deliverables.

26 *Bond Data Taxonomy (BDT):* ICMA's BDT Working Group and DLT Bonds Working Group held meetings in August and September to review a potential extension to capture DLT-related information.

27 *Common Domain Model (CDM):* ICMA held a virtual workshop on 26 September on how to leverage the CDM for regulatory reporting in light of the proposed reporting regimes by the OFR for bilateral repos and by the SEC for securities lending in the US, as well as potential future amendments of SFTR in the EU and UK. ICMA's CDM Implementation Working Group held meetings in July and August.

28 *UK Digital Securities Sandbox:* ICMA responded to HM Treasury's consultation on a Digital Securities Sandbox on 22 August.

29 *Wholesale CBDC:* ICMA participated in meetings of the Eurosystem's New Technologies for Wholesale settlement Contact Group held in July and September.

30 *Post-trade harmonisation:* ICMA attended the first meeting of the ECB's AMI-SeCo Securities Group (SEG), which focused on remaining barriers to post-trade integration and the EC's proposal for a Directive on withholding tax procedures.

31 *Data collection and reporting:* ICMA attended meetings of the Data Standards Committee in July, August and September, which is part of the Bank of England and FCA's transforming data collection from the UK financial sector programme.

LIBOR transition in the bond market

32 *LIBOR transition:* ICMA has continued to chair the RFR Bond Market Sub-Group (BMSG) at the request of the FCA and Bank of England. Following the cessation of panel bank US dollar LIBOR on 30 June 2023, the BMSG is focusing on completing preparations in time for the cessation of synthetic US dollar LIBOR due on 30 September 2024, including by transitioning legacy US dollar LIBOR bonds outstanding to SOFR under English law. On 17 July 2023, ICMA published a joint podcast with Allen & Overy, Clifford Chance, Freshfields and Linklaters on the *Transition from Legacy US Dollar LIBOR in the Bond Market*.

Key ICMA regulatory policy messages

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EU and UK prospectus regimes: reviews

ICMA's key message is that the reasonably efficient functioning of wholesale bond markets in Europe under the current EU and UK Prospectus Regulations must be preserved.

EU: The European Commission's (EC) proposals appear broadly consistent with ICMA's key message. However: (i) the *status quo* should remain for fungible issuance exemptions; (ii) it should be clear that future financial statements can indeed be incorporated by reference into base prospectuses; (iii) incorporation by reference should not be mandatory; (iv) "tripartite" prospectuses should benefit from the same alleviations as other prospectuses; (v) there should not be restrictions (such as page limits and mandatory formats) on an issuer's ability to include material information in a prospectus; and (vi) it is important to avoid pre-empting at Level 1 the consideration of ESG disclosure that should be left to the technical Level 2 process (given the significant volume of new corporate ESG disclosure requirements that have been adopted and are still coming into force at EU or other regional or national levels).

UK: The substantive intention of the UK authorities (HM Government, Financial Conduct Authority) also appears broadly consistent with ICMA's key message in wholesale bond markets. But many aspects will require clarification given the significant change in format being pursued. Generally, in relation to retail bond markets and small and medium sized (SME) enterprise bond markets, the prospectus regime is only one factor among various other regulatory, commercial and market drivers (internationally as well as domestically). Constructing an appropriate regulatory regime in this respect requires holistic consideration of various regulatory tools and incentives.

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EU and UK PRIIPs regimes

EU: The product scope of the regime should clearly exclude mainstream bonds. In this respect, the limited clarification proposal is incrementally welcome even though it seems unlikely to materially impact bond market practices and promote retail bond supply (proposed draft Regulation).

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

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EU Market Abuse Regulation (MAR): market sounding

ICMA is advocating for an appropriately calibrated market sounding regime helping borrowers to avoid undermining market confidence and resilience by launching and then cancelling bond issues due to terms that do not fit market dynamics.

The incidence of market sounding is substantially reduced since the introduction of the MAR sounding regime in 2016, as the provisions were considered to be too onerous. The EC's proposal to confirm the regime as just providing a safe harbour for sharing inside information within its defined limits is welcome and should be adopted.

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EU MiFID investor protection

In relation to the current EC proposals, ICMA is advocating for appropriately distinguishing vanilla, commoditised instruments from asset management industry products in calibrating the investor protection requirements. In particular: (i) generally avoid disrupting the institutional/wholesale bond markets; (ii) the product governance proposals are not expected to impact the current bond market ICMA1/ICMA2 approaches, but the regime remains conceptually flawed regarding commoditised instruments such as bonds that should be excluded from the regime altogether; (iii) the underwriting & placing exemption from the proposed retail execution-only inducement ban is essential and welcome; (iv) the costs & charges proposals need correcting to clearly preserve the CMRP alleviations concerning professional investors and eligible counterparties; and (v) there is already substantive compliance with the proposed new marketing communication requirements, as the Prospectus Regulation already regulates advertisements.

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EU CSDR review: mandatory buy-in regime

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

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EU MiFIR and UK wholesale markets reviews

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

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

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EU Alternative Investment Fund Managers Directive (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 European Parliament's proposals for recognising the critical risk management responsibilities that should remain with Alternative Investment Fund (AIF) managers. However, the final political agreement has several concerning new provisions on undue costs and fees as well as on fund labels.

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EU Green Bond Standard (EU GBS)

ICMA welcomes the voluntary nature of the EU GBS and of wider disclosures templates for certain sustainable bonds (ie green use of proceeds bonds and environmental sustainability-linked bonds). ICMA will continue to make recommendations to ensure, among other things, that the proposed voluntary disclosure templates minimise duplication or inconsistencies across other EU sustainable finance legislation. The future uptake of the EU GBS will be closely correlated with the resolution of the considerable usability challenges of the EU Taxonomy identified in the extensive report of the EC's Platform on Sustainable Finance (PSF) as well as ICMA's earlier report (eg widespread data unavailability, heavy reliance on EU legislation and criteria (hindering the assessment of non-EU projects), and lack of assessment of proportionality for smaller projects and SMEs). (See ICMA's previous papers.)

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Wholesale Central Bank Digital Currency (wCBDC)

ICMA advocates for a wholesale digital euro (wCBDC) to unlock the benefits of DLT-based securities at scale, enabling next-level automation, more efficient securities settlement and post-trade processing, and increasing the attractiveness of capital markets as a source of funding for the real economy.

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Primary Markets



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

UK prospectus regime: ICMA comments on near-final statutory instrument

On 21 August 2023, ICMA submitted technical comments to HM Treasury (HMT) on its 11 July near-final version of a statutory instrument (SI) on the new UK prospectus regime. This follows ICMA's 14 February comments on HMT's prior 1 December 2022 illustrative version of the SI published as part of the UK's Edinburgh Reforms (which was reported on at page 35 of the Second Quarter 2023 edition of this Quarterly Report).

ICMA welcomed several changes effected by HMT from the illustrative SI to the near-final SI: (i) the simplification of the definition "relevant securities"; (ii) clarification that, for debt securities, the necessary information test's reference to an issuer's "prospects" is to be read as a reference to "creditworthiness" (although ICMA queried the reasoning for some seemingly divergent treatment for bonds convertible into shares/equivalents issued by an entity outside the bond issuer's group); and (iii) the provision that the liability alleviation relating to "protected forward-looking statements" will also apply to persons (such as bond underwriters) who are not formally responsible for a prospectus but who might otherwise face such liability. ICMA however queried the reasoning for some seemingly divergent treatment for bonds convertible into shares/equivalents issued by an entity outside the bond issuer's group.

ICMA suggested a few discrete changes to the near-final SI: (i) some clarification in the grandfathering provision; (ii) the correction of two apparent typographic errors; and notably (iii) a correction in the definition of "non-equity securities". The latter suggestion is designed to avoid some definitional circularity and to reference a wider underlying concept of "transferable securities" compared with the narrower "relevant securities" used in the near-final SI. The wider definition is more appropriate in the regulated market/MTF admission context because it is subject to further regulatory provision by the Financial Conduct Authority (FCA). The narrower underlying concept ("relevant securities") is used in the public offer context, which is being regulated in the SI itself. ICMA also suggested that HMT engage with the London Stock Exchange regarding any additional challenges for its International Securities Market arising from the SI's primary MTF qualified investor condition.

ICMA highlighted several points of ongoing ICMA engagement with the FCA's rulemaking work consequent to the SI (see the next article in this Quarterly Report relating to the FCA engagement papers): (i) applying the "advertisement" definition to address challenges arising from a previous change of underlying reference (from "communication" to "announcement"); (ii) limiting application of any MTF admission advertisement rules to the context of retail MTFs only; (iii) voluntary prospectuses being "approved" rather than "validated" (ICMA queried whether HMT intended the "validation" provision to relate to such prospectuses or to another document); and (iv) exempting money market instruments from FCA admission prospectus requirements.

ICMA lastly noted its presumption that HMT will provide appropriate advance notice of the SI coming into force.

ICMA will continue to liaise with its members as the SI is finalised. In this respect, HMT's policy note accompanying the near-final SI referenced HMT's Smarter Financial Services Regulatory delivery plan that states (at page 10) an intention to lay the SI before the UK's Parliament before the end of the year. ICMA's current expectation is that the SI will not come into force before 2025 (bearing in mind also the FCA's rulemaking work consequent to the SI).

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UK prospectus regime: ICMA response to FCA engagement papers

On 29 September 2023, ICMA submitted a response to the FCA on the engagement papers that it had published in May and July 2023 on the new UK prospectus regime. HM Treasury had published a near final version on 11 July of a draft statutory instrument (SI), The Financial Services and Markets Public Offers and Admissions to Trading Regulations 2023 (11 July near-final version), which sets out a new regime for public offers and admissions to trading on UK public markets, including for when a prospectus will be required in the UK. ICMA submitted technical comments on the draft SI on 21 August (see above article). For more on the FCA's engagement process with market participants on the new prospectus regime as set out in the draft SI (ahead of it being finalised), see the previous report on the FCA engagement process on the proposed new prospectus regime on page 26 of the Third Quarter 2023 edition of this Quarterly Report.

The FCA has published six engagement papers on:

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

In its response on the engagement papers, ICMA focussed on:

- institutional offerings of non-equity securities on regulated markets;
- sustainable finance;
- Protected forward-looking statements;
- primary MTFs; and
- retail offerings of non-equity securities.

Overview of ICMA response

ICMA welcomed the opportunity to engage with the FCA in advance of a formal consultation on the new rules expected in 2024. ICMA has appreciated the FCA's openness to hearing feedback from the market as a part of this engagement process.

The FCA noted in its papers that the current UK debt capital market regime works well and does not need a major overhaul. In the new regime, the FCA intends to maintain the *status quo* but look for opportunities to make improvements. Ensuring no new burdens but only improvements are added to the UK debt capital market regime will help to facilitate the international competitiveness of the UK economy (including in particular the financial services sector), which is one of the FCA's new objectives under section 25 of the Financial Services and Markets Act 2023.

Institutional offerings of non-equity securities on regulated markets

ICMA supports the FCA's objective of maintaining the *status quo* or making incremental changes that would help facilitate the efficient issuance and documentation of institutional bond offerings. In light of that, ICMA made comments, including on:

- *Scope:* Technical comments given to ensure that money market instruments are exempted from admission prospectus requirements (as is currently the case), and that the SSA admission carve-outs are not limited to UK entities only.
- *Single standard of disclosure for bonds:* Welcoming the proposal to adopt one standard of bond disclosure in the prospectus regime which is based on the existing wholesale disclosure annexes. Summary sections should not be mandatory but remain voluntary, as they are under the current wholesale disclosure regime.
- *Incorporation by reference:* Supporting permitting the incorporation by reference of future information into base prospectuses. However, incorporation by reference (of past or future information) should not be made mandatory.
- *Base prospectus supplement regime:* Base prospectus supplement regime should be more flexible in terms of the types of changes that can be made via a supplement.
- *Withdrawal rights:* Urging the FCA to maintain the *status quo* in relation to withdrawal rights not arising in the context of admission-only prospectuses for wholesale non-equity securities in the new prospectus regime. ICMA gave some technical comments as to how this could be achieved in the new regime.
- *Validity and public availability of prospectus:* Keeping the length of validity for a prospectus at maximum 12 months and changing the current 10-year public availability requirement to the shorter of 10 years or redemption.
- *Financial information requirements in prospectus:* Reiterating points made previously that some financial statement requirements are too prescriptive or onerous. See Annexe A of the response for further detail.
- *Voluntary prospectuses:* Supporting issuers retaining the right to publish a voluntary prospectus, which should be approved by the FCA to give them official status as prospectuses.
- *Annexes subject to necessary information test:* advocating that information items in the disclosure annexes only need to be disclosed to the extent they meet the necessary information test.
- *Follow-on issuances:* advocating keeping to the UK prospectus regime *status quo*, but the FCA should continue to monitor potential EU changes to fungible issuance thresholds in case an alignment of the relevant thresholds may be desirable if the EU thresholds were to change in the future. ICMA also queried whether a simplified prospectus for follow-on offerings would be

used much due to the relative ease of issuing follow-on debt under final terms under a base prospectus or doing a repeat stand-alone offering after first issuance.

- *Exemption from disclosure:* FCA rules should reflect the current omission from disclosure exemptions in the UK Prospectus Regulation (Article 18).
- *Equivalence/approval for regulated market admission prospectuses:* The FCA should provide a process for non-UK prospectuses to be approved or deemed equivalent.
- *Universal Registration Documents (URDs):* Supporting keeping the URD as it is used by some EU issuers to issue retail and wholesale debt in the UK.
- *Responsibility for prospectus:* supporting keeping the current statutory liability regime in respect of responsibility for prospectuses.
- *Structured finance:* no further differentiation between types of non-equity is needed other than what is already in PR Annex 17, which is based on whether debt is linked to an underlying asset.
- *Professional Securities Market (PSM):* No objection to the PSM being closed to new listings; support existing securities remaining listed under transitional provisions.

Sustainable finance

In terms of the questions posed by the FCA in relation to sustainable finance, highlights of ICMA's comments include:

- *ESG disclosures:*
- Currently, ICMA does not advocate alignment of ESG debt prospectus disclosure with future UK corporate reporting requirements as the current necessary information test for determining what is disclosed in a prospectus works well and requires relevant ESG disclosure to be included when appropriate.
- Certain aspects of UK corporate reporting apply only to equity and should not be extended to debt as this would likely impact the attractiveness of the UK as a listing venue for debt securities. (See *ESG Disclosure for New Bond Issues*, ICMA Quarterly Report article, July 2021.*)*
- In the future, it may be appropriate to consider aligning prospectus disclosure with future annual report disclosure, when the issuer's applicable corporate reporting regime has been amended to require sustainability/ESG reporting, and the systems and data which enable such reporting are well-established. This area is evolving, so the FCA should wait to make changes to disclosure requirements.
- *No mandatory inclusion of sustainable framework:* ICMA strongly advocates that there be no requirement for the mandatory inclusion of an issuer's sustainable finance framework in a prospectus (nor mandatory references to such framework or hyperlinks to it) for issuances of sustainable bonds. Issuers should retain the flexibility to include summary information about or from a framework in the prospectus as necessary on each transaction in accordance with existing disclosure requirements. (For a summary of current practice, see ICMA Quarterly Report article: *European Prospectus Disclosure for Green, Social and Sustainability Bonds*.)
- *Use of proceeds bonds disclosure standard:* For Use of proceeds bonds, ICMA supports following option 2 (fuller disclosure, as described in FCA Paper 4, paragraph 61), so long as the list of disclosure requirements is not too prescriptive.
- *Sustainability-linked bonds (SLBs) disclosure standard:* For SLBs, ICMA supports following the option 1 standard (as described in FCA Paper 4, paragraph 59) for now. The list of disclosure items proposed in option 2 (FCA Paper 4, paragraph 62) is more subjective and may be challenging for issuers to prepare. This area is evolving, and as ESG transition plans become more prevalent, some of this information may become more appropriate to include in the future.

Protected forward-looking statements

The new UK prospectus regime will have a concept of protected forward-looking statements (PFLS) to encourage issuers to include forward-looking statements in their prospectuses. This regime will be more relevant in the equity context, but in the debt context it could be relevant for sustainability/climate related information and particularly for the disclosure requirements that may be developed for SLBs. ICMA's comments included:

- *Alignment with US forward-looking statement safe harbour:* ICMA urged the FCA to adopt a PFLS regime that is as similar as possible to the US forward-looking statement safe harbour regime which has been in place for some time and is well understood by the market.
- *Recklessness standard provides sufficient limits:* ICMA considers that the recklessness standard set out in the draft SI itself (ie no false or reckless statements allowed as a condition of the reduced liability regime) provides sufficient limits to the regime while allowing it to remain flexible and not unduly prescriptive.
- *Location of legend for PFLS:* In terms of administrative burden, it would be preferable to have just a legend upfront in the disclosure document without having to denote something as a PFLS every time it appears in a document. It would be preferable not to have to include all the PFLS in one section, but to have the PFLS be included where appropriate in the prospectus which would aid overall comprehension.
- *Historical estimates:* ICMA requested that the FCA extend PFLS status to historical as well as forward-looking estimates. See Annexe B of the response for more detail.

Primary MTFs

As the International Securities Market (ISM) is the only primary MTF that is commonly used for admission of institutional debt securities in the UK**,** ICMA limited its response to issues relevant to the ISM/non-retail MTFs.

- *Withdrawal rights:* ICMA requested that the FCA maintain the *status quo* of withdrawal rights not applying to exempt offerings on primary MTFs, or at the very least, withdrawal rights should not be extended to Qualified Investor (QI)-only MTFs where wholesale debt is listed.
- *Advertising regime*: ICMA has previously noted its concerns about difficulties with the current advertising regime. ICMA strongly urged the FCA not to extend the advertising regime to MTFs, or at the least not to non-retail MTFs. (See ICMA's comments on near-final HMT SI (21 August 2023), paras 8(A)-(B)).

Retail offerings of non-equity securities

Although ICMA's main response is focused on institutional debt offerings, Annexe C to the response sets out some comments about the FCA's retail offering proposals as they relate to debt offerings. Annexe C discusses, among other things:

- Historic drivers that have disincentivised retail bond supply.
- Three possible contexts that might arise for potential retail investor participation.
- Potential transactional approaches to retail inclusion.
- Proposed UK prospectus regime characteristics relevant to retail inclusion.

ICMA looks forward to engaging further with the FCA about the comments in the response.

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EU Listing Act: prospectus and market abuse regimes

Following publication of the European Parliament's ECON Committee 14 June draft report (containing amendments 1 to 110) and 13 July further individual MEP amendments (containing amendments 111 to 338) on the European Commission's (EC's) proposed Listing Act Regulation (LAR), ICMA provided informal feedback to several MEPs.

Regarding the draft report, ICMA welcomed several amendments that seem to help address some prior ICMA concerns with the EC proposals, notably:

(a) restricting the proposed widening of the "40%" and "18-month" secondary issuance exemption – noting the limitation of the 40% threshold to 30% only appears in Recital 11 and not in the actual operative provisions; and

(b) deleting the proposed mandatory incorporation by reference as well as the proposed (equity) prospectus length cap.

Beyond some amendments diverging from ICMA's prior comments on the EC proposals, ICMA also noted it was distinctly trying to understand three other suggested amendments:

(a) changing "working day" to "business day" to align with relevant NCA open days and explicitly include Saturdays;

(b) requiring proportions on taxonomy alignment and on coal/oil/gas in *non*-follow-on/growth prospectus summaries, which seems to be suggested-even for instruments that are not held out as accounting for/ pursuing sustainability goals (rather than aligning any requirements for sustainability disclosure in the summary with sustainability disclosure requirements in the prospectus); and

(c) Corporate Sustainability Reporting Directive (CSRD) consistency and requiring coordination with the EU Green Bond Standard – it being important to avoid burdening issuers with overlapping disclosure requirements and bearing in mind other disclosure requirements outside of the Prospectus Regulation (such as the CSRD) will ensure availability of this information to investors (not all of this information need/should be included directly within a prospectus itself).

Regarding the further individual MEP amendments, ICMA further noted:

(a) *PR/ESG disclosure:* comments seemingly looking to pre-empt detailed sustainability focus scheduled for later subsidiary technical work (given the significant volume of new corporate ESG disclosure requirements still coming into force at EU or other national or regional levels, it should be left to the technical process to properly review what corporate ESG disclosures be reflected in the prospectus regime);

(b) *PR/fungible issuance exemption ceilings:* comments suggesting ceilings between 25% and 50%;

(c) *PR/risk factor ranking:* comment that the legacy requirement for risk factor ranking *"comes with a high degree of uncertainty"*, which is consistent with ICMA's stated views;

(d) *PR/mandatory presentation requirements and page limits:* comment that any standardisation follow *"international market practices"*, which ICMA agrees with;

(e) *PR/alleviation of supplement "new security type" content restriction:* comment that supplements be allowed to introduce a new type of security where *"required by legal necessities"*, which ICMA agrees with.

(f) *PR/mandatory incorporation by reference:* comments that incorporation by reference should not be mandated, which is consistent with ICMA's stated views.

(g) *PR/future incorporation by reference (into base prospectuses):* comment that (in the absence of a supplement) "updated financial information is not part of the prospectus and the prospectus' liability regime does not apply", which ICMA considers to be technically incorrect; and

(h) *MAR/sounding as a safe harbour:* comment that the sounding regime be compulsory rather than a safe harbour, which counters ICMA's stated views.

ICMA will continue monitor these Parliament deliberations (the remaining piece ahead of later inter-institutional trialogue) for any significant new developments (and seek to engage accordingly).

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EU retail investment strategy (MiFID investor protection and PRIIPs): ICMA feedback

On 28 August, ICMA submitted its feedback on the European Commission's (EC's) proposals for a Regulation amending the PRIIPs Regulation (RIS-R) and a Directive amending the investor protection aspects of MiFID (RIS-D).

ICMA's feedback noted:

(1) *generally*, that the retail investment strategy should avoid disrupting the institutional/wholesale bond markets;

(2) on *PRIIPs,* that the limited clarification proposal for product scope is incrementally welcome even though it seems unlikely to materially impact bond market practices and promote retail bond supply (the feedback cited ICMA's prior scope clarification suggestions);

(3) on *MiFID product governance,* that the proposals are not expected to impact the current bond market ICMA1/ICMA2 approaches – but that the regime remains conceptually flawed regarding commoditised instruments such as bonds, which should be excluded from the regime altogether (at least in a professional investor context);

(4) on *MiFID inducements,* that the underwriting & placing exemption from the proposed retail execution-only inducement ban is essential and welcome (even if it is questionable to what extent a MiFID "service" is being provided to investors as "clients");

(5) on *MiFID costs & charges,* that the proposals need correcting to clearly preserve the CMRP alleviations concerning professional investors and eligible counterparties;

(6) on *MiFID marketing communications,* that there is substantive existing compliance with the proposed new requirements as the Prospectus Regulation already regulates advertisements; and

(7) on *MiFID client categorisation*, that the elective professional criteria widening (rather than creation of an entirely new client category) is welcome.

ICMA will continue to liaise with its members as the retail investment strategy dossier progresses, notably regarding the European Parliament rapporteur's 2 October RIS-R draft report and 2 October RIS-D draft report.

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MiFID product governance: ESMA call for evidence on sustainability preferences

On 14 September 2023, ICMA submitted a response to an ESMA call for evidence on the integration of sustainability preferences in the suitability assessment and product governance arrangements under MiFID.

ICMA's response related to integration in the bond markets of sustainability preferences into product governance arrangements only and, in this respect, simply referred to ICMA's expectations regarding practical compliance approaches set out in ICMA's October 2022 response to ESMA's consultation on the review of ESMA's product governance guidelines (reported at pages 31-32 the First Quarter 2023 edition of this Quarterly Report). The response added ICMA's understanding that such compliance approaches are being generally followed in the bond markets.

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Resilience of the commercial paper market

The ICMA Commercial Paper and Certificates of Deposit Committee (CPC) released a report on the European Commercial Paper and Certificates of Deposit Market in the wake of the global pandemic. A lack of liquidity in the commercial paper market at that time led to issuers having difficulty issuing commercial paper, while banks reined in their balance sheets and investors turned to high-rated credits, SSA issuers and shorter durations. In spite of this, the US commercial paper market remained open and with the intervention of European central banks, money market funds (MMFs) did not need to introduce redemption fees or gates, or suspend redemptions, and a crisis was averted.

Notwithstanding that outcome, regulators have been considering ways to increase the resilience of MMFs against future shocks, including looking at the Money Market Fund Regulations (MMFR) and money market instruments themselves. For instance, a recent report on the MMFR from the European Commission to the European Parliament concluded that: (i) the MMFR passed the liquidity stress test of COVID-19, but there is scope to further increase the resilience of MMFs (such as decoupling liquidity management tools from regulatory liquidity thresholds), and (ii) there is scope to increase the resilience of short-term markets generally.

A functioning capital market depends on liquidity; in commercial paper, liquidity is adequate but thin. In primary terms, although it is an oft-used funding tool, there are a limited number of dealers involved in commercial paper programmes, it is not significantly profitable, and dealers are subject to regulatory constraints (Liquidity Coverage Ratio) and risk limits which affect their ability to make a market. Secondary trading is very limited, and with short-term maturities, most investors are buy-to-hold, so liquidity is largely provided by dealer banks buying back previously-placed paper.

With a view to enhancing liquidity in commercial paper, the FSB and FCA have been undertaking a series of targeted roundtables, including an issuer roundtable, in which ICMA was invited to participate. This resulted in a good understanding of the importance of commercial paper as a funding tool, and a rich discussion on measures to increase liquidity in the secondary markets. The outcome of this work is at an exploratory stage for the moment, with potential output expected later in the year. Initial suggestions have included more and better transparency on commercial paper issuances, potential use of all-to-all platforms (mindful that issuers rely on dealers – especially in times of stress – for market colour, so it is very much an intermediated market, and platforms would not *per se* be a source of liquidity) and diversifying the commercial paper investor base to encourage corporate issuers to become liquidity providers.

With respect to transparency, a survey conducted by ICMA of the CPC concluded that, although more and better transparency would be helpful, it would not revolutionise primary issuance and could in fact be inadvertently detrimental, and it would not necessarily catalyse any further secondary market activity. As for extending the pool of liquidity providers to corporates, a short survey of the ICMA Corporate Issuer Forum concluded that corporates might be encouraged to invest directly and trade in and out of commercial paper, rather than through MMFs, if there were better liquidity which would allow divestment at all times, direct investment yields out-performed MMFs, and there was better price visibility. Therein lies the obvious conundrum that the regulators are grappling with.

Elsewhere, ESMA in its paper *Regulatory Constraints and Money Market Funds Reforms* has also suggested reforms related to market structure and transparency, including incentives for dealers to provide liquidity in time of stress. ESMA has also proposed that improvement in liquidity of money markets could come from other sources, including external support from MMF sponsors (mindful of creating contagion between the MMF and its wider banking group), a liquidity exchange bank, or central banks (although this might encourage MMF managers to take more risks, and might lend MMFs a more cash-like veneer due to a public backstop). Finally, it suggests setting a limit on possible sales by MMFs by type of instrument.

Standardisation of documentation has also been mooted as a possible liquidity enhancement measure; but it is unlikely that this alone would revolutionise the market, or increase liquidity. Documentation is generally well established in larger markets, such as US commercial paper, STEP and NeuCP, and elsewhere is subject to local domestic nuances. So standardisation of documentation is more likely to be effective only as one of a series of incremental steps, if the correct balance is struck between a potentially global effort and certainty of a successful outcome.

Whatever the result of the regulatory deliberations, ICMA stands ready and well-placed with the CPC to assist with the delivery of any agreed mandate on commercial paper. Any members who are interested in our work on commercial paper and certificates of deposits are encouraged to join the CPC.

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ICMA Primary Market Handbook: pending changes

A couple of amendments are currently waiting for formal inclusion into the ICMA Primary Market Handbook:

- pricing references for new sterling Eurobonds: an update is pending further to ICMA's 21 June notice (reported in the Third Quarter 2023 edition of this Quarterly Report);
- Singapore selling restrictions: the ICMA form of Singapore selling restrictions is currently expected to be revised further to the Singapore MAS 23 February notice on corporate finance advisers' business conduct (which was issued following a prior consultation that ICMA responded to, as reported at page 30 of the Second Quarter 2022 edition of this Quarterly Report).

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Secondary Markets




by **Andy Hill,**
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ICMA Bond Market Liquidity Taskforce

Background

At a meeting of ICMA's Committee of Regional Representatives (CRR) in November 2022, it was suggested that ICMA leverage its various initiatives related to fixed income market structure and liquidity to take a more holistic market view of bond market liquidity, looking also at the inter-dependencies of different markets, to identify potential risks and vulnerabilities. This would include an analysis of the impacts and interplay of prudential, market and fund regulation. This multi-dimensional perspective is intended to inform recommendations to improve overall market resilience and liquidity.

In response to the suggestion, ICMA created and mobilised a Bond Market Liquidity Taskforce ("the Taskforce") to drive this initiative. The Taskforce is made up of interested ICMA members, representing sovereign, corporate, short-term or repo markets, including the sell side, buy side and relevant financial market infrastructures.

Intended output

The output of the initiative will be a report summarising the analysis and findings, as well as providing recommendations to enhance market liquidity and improve resilience. Likely recipients and interested stakeholders include international and national policy makers and regulators as well as market participants.

Phase 1: core European sovereign bond markets

ICMA established a small advisory group of members in early 2023 to discuss and agree the potential approach for the work and how the Taskforce could best be formed and mobilised.

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

The initial stage of this work was for the ICMA Secretariat to undertake an extensive desk study on these markets, attempting to map market structure, participants and dynamics. This was supported by a data gathering and analysis, including the use of machine learning, intended to highlight potential vulnerabilities, particularly in stressed scenarios.

In August, this preliminary analysis was shared with Taskforce members for review and initial feedback on how to advance the work and areas for further qualitative and quantitative exploration.

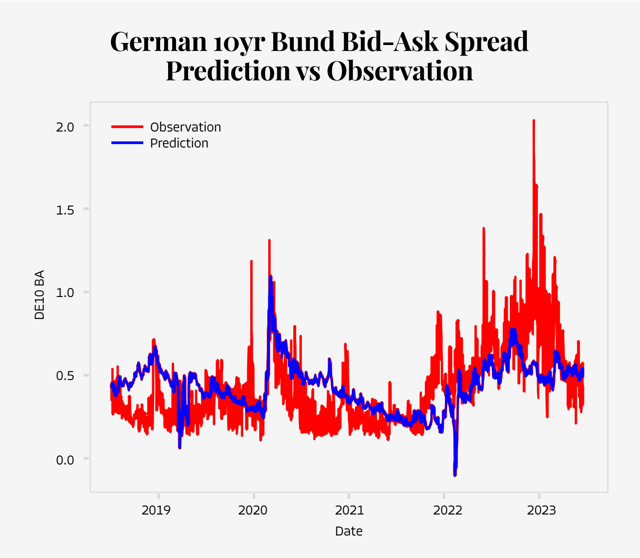
Preliminary results of Phase 1

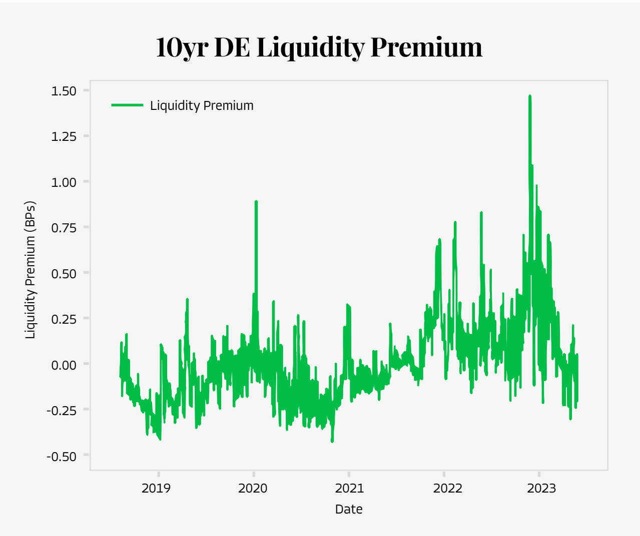
The first part of the ICMA research is a desk study on the five core market structures. This outlines and analyses issuance structures across the different Debt Management Offices (DMOs). Common features that emerge are an obligation for all primary dealers to bid for a minimum amount (different for each country) in primary issuances and to provide continuous bid and ask quotation and/or support a minimum share of total traded volumes in secondary markets.

The desk study also provides statistics on issuance activity by tenor, tap issuance, and commentary on yields, volatility, and volumes for each country. It furthermore attempts to identify the main holders of sovereign debt (noting that central banks currently hold the majority share in most markets).

From a quantitative perspective the analysis also attempts to model bid-ask spreads using machine learning. Here the concept is to adjust observed bid-ask spreads for drivers such as volatility, in order to isolate pure "liquidity premia".

From our modelling we observe that the liquidity premium increases during market shocks such as the COVID outbreak, the Ukraine invasion, the Silicon Valley Bank collapse, as well as uncertainty ahead of central bank policy meetings. There are also prominent spikes in illiquidity over year-end and certain quarter-end reporting periods.





Interviews

The ICMA Secretariat is currently in the process of conducting semi-structured interviews with BMLT members and other ICMA member firms to obtain qualitative feedback. Targeted interviewees represent sell-side and buy-side firms, as well as relevant financial market infrastructures, active in the core sovereign bond markets. This anonymised and synthesised information will be used to verify and explain the quantitative analysis and observations and to form the basis for potential recommendations to improve market liquidity and resilience.

Member firms active in the core European sovereign bond markets are encouraged to participate in the interviews as this will be critical in ensuring the intended outcome and success of the initiative. ICMA is particularly keen to involve more buy-side firms in this process, who are best placed to provide qualitative feedback on how they experience and manage liquidity conditions.

Phase 1 report and future phases

ICMA is planning to complete Phase 1 and publish a final report by the end of 2023.

ICMA will then begin Phase 2, which is likely to focus on the European investment grade credit market, in early 2024.

The BMLT initiative is being coordinated by Andy Hill and Nicolette Moser from the ICMA Secretariat, with support from MPRP colleagues.

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MiFIR Review and EU bond market transparency

As this Quarterly Report goes to press, the EU co-legislators are in the process of finalising the technical details of the MiFIR/MiFID II Review, which reached political agreement in June 2023.

The following is a summary of what ICMA understands to be the final provisions agreed by the co-legislators with respect to the consolidated tape for bonds and the related transparency framework. Note that this is still subject to final approval by the Council and the Parliament Plenary.

Deferral regime: The co-legislators have settled on the following deferral framework for bond market transparency, which is largely consistent with the proposals put forward by the European Council and European Parliament.

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

ICMA members are particularly disappointed by the calibration of Category 4 (large transactions in illiquid bonds), given that it is relatively easy for market participants to infer detailed information about these trades based on the publication of the price alone, thereby creating additional risk for liquidity providers.

Sovereign bond deferrals: The co-legislators agreed on the EP proposal allowing for Member State NCAs, with respect to their own debt, to elect for (a) the omission of the publication of the volume of an individual transaction for an extended time period not exceeding six months; or (b) the deferral of the publication of the details of several transactions in an aggregated form for an extended time period not exceeding six months. In the case of sovereign debt not issued by a Member State, ESMA will decide on the appropriate deferral.

Systematic internaliser pre-trade requirement: The co-legislators have agreed to the Council's proposal to remove the systematic internaliser pre-trade reporting requirement. This was a key advocacy point for ICMA and alleviates the overly onerous burden on systematic internalisers.

Duplicated deferrals: The co-legislators have deleted the EP proposal for deferrals to be applied by the CTP, which is in line with the view of the majority of ICMA members.

CTP connectivity: The co-legislators have revised the text to allow for the consolidated tape provider to select from the types of connection and protocols that the market data contributors offer to other users, which connection and protocol it wishes is to be used for the provision of the relevant data.

DPE regime: The proposed requirement regarding designated publishing entities (DPEs) now appears to have been fully amended to separate the systematic internaliser and DPE regimes, in line with the recommendation from ICMA.

Exemption for ESCB policy transactions: The co-legislators have taken on board a proposal from the ECB to extend the reporting exemption for transactions with ESCB members.

Next steps: Over the coming weeks we should see progress towards the finalisation of the MiFIR text, along with the inclusion of recitals as well as the MiFID text. ICMA currently expects the final text to be signed off in November 2023, and published in the EU *Official Journal* by the end of the year, after which it will come into law.

In the meantime, it is likely that ESMA will begin to focus on the Level 2 process of drafting the relevant delegated acts for the regulatory technical and implementation standards. Working closely with its members, ICMA's looks forward to engaging with ESMA to provide constructive feedback to help shape the Level 2 to ensure the success of the EU's bond transparency framework and the consolidated tape.

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UK consolidated tape: ICMA response to the FCA

Introduction

On 5 July 2023, the FCA published a consultation paper on its proposed *Framework for a UK Consolidated Tape*, to which ICMA responded on behalf of its members on 15 September 2023.

ICMA has long advocated on the benefits of a single, low-cost, "golden" source of bond market data, helping to improve bond market transparency, thereby supporting investors to make more informed and timely decisions. Given the fragmented nature of the bond market, and hence the difficulty in obtaining data on a harmonised basis, it is hoped that the implementation of a well-designed and appropriately calibrated consolidated tape for bonds will foster greater market participation, improving overall liquidity and market efficiency, and ultimately strengthening the UK's position in the international wholesale debt capital markets.

Emergence of a CTP

There are certain factors which are to be taken into consideration when establishing reasons why so far no consolidated tape provider (CTP) has emerged "naturally" within the UK and EU in recent years. Such considerations would include, for example, current high costs for a potential CTP to obtain market data from the various data providers, as well as not sufficiently harmonised data reports to allow for a cost-efficient consolidation. In summary, there seem not to be sufficient commercial incentives for candidates to apply for authorisation as a CTP. ICMA therefore welcomes the efforts of the FCA through its various proposals in its consultation paper to remove market-entry barriers and to incentivise the emergence of a CTP in the UK.

At the same time, ICMA highlights the importance of competitive elements and a level playing field for market participants to ensure that the emerging CTP is not able to exercise any monopolistic powers. It is therefore important to ensure that competitive elements are maintained and that necessary controls and procedures around the governance of the CTP are put in place. One specific area of focus should be the design of the auction and tender process.

High quality data at affordable prices for a high number of market participants sits at the heart of the discussion around the consolidated tape. As such, ICMA members would like to emphasise the importance of these factors sufficiently being taken into account in the CTP tender and bidding process. Based on the auction process outlined in the FCA consultation paper, ICMA sees a potential danger that a final round of the bidding that focuses purely on pricing could undermine this objective. Instead, ICMA suggests that the bidding process as a whole should be more value-driven rather than being only focussed on pricing. The best possible way to conduct the auction might therefore consist of constructing the bidding process around both price and quality factors.

Governance of the CTP

ICMA sees strong and robust governance as a key element for the CTP to function well and as such welcomes the FCA's suggestion to establish a consultative committee. In this regard, it will be important to introduce a mechanism to ensure that recommendations are considered and, where appropriate, acted upon. While it is understood that the FCA is not part of the consultative committee, it might consider serving as an escalation point in the event of any dispute.

CTP licence system

ICMA would like to stress the need for a simple, easily manageable licence system, which could be applicable without rising legal and audit cost, especially for smaller market participants, and which takes into account the more automated use of data in the world of today. ICMA therefore advocates for an enterprise-wide (entity-based) licence system, which could be based on the size of the entity (such as, for example, the number of employees or annual turnover).

ICMA's response to the FCA consultation paper reflects the views of ICMA's MIFID Working Group, notably secondary trading desks, investors, exchanges and data providers across the international bond markets.

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CSDR Refit: mandatory buy-ins and settlement efficiency

At the time of going to press, the CSDR Refit was reaching its final stages, with the text of the revised Level 1 largely agreed.

While this is still subject to final approval, ICMA understands that the following provisions have been settled upon with respect to mandatory buy-ins (MBIs).

The "two-step" approach

The two-step approach for determining whether for a particular instrument MBIs constitute a necessary, appropriate and proportionate means to address the level of settlement fails in the EU requires the consideration of the following:

- the possible impact of the MBI on the market;
- the number, volume, and duration of fails, including those still outstanding at the end of the extension period;
- whether the instrument or transaction type is already subject to existing contractual buy-ins.

And both of these conditions must be met:

- cash penalties have not resulted in a long-term, sustainable reduction in or in maintaining a reduced level of settlement fails, even after a review of the level of penalties; and
- the level of settlement fails has or is likely to have a negative effect on financial stability.

Scope

MBIs shall not apply to:

- securities financing transactions;
- settlement fails whose underlying cause in not attributable to the participants to the transactions;
- transactions that are not considered as trading.

Additional features

- Symmetrical payments of the buy-in price differential (in the right direction), and scope for symmetrical payments in the case of cash compensation.
- The possibility for pass-ons.
- An extension period of five days (the time after which a fail triggers the buy-in), which can be increased to seven days, based on asset type and liquidity of the instruments.
- ESMA to consider alternative tools to improve settlement efficiency, including: shaping of transactions; partial settlement of failing trades; and the use of auto-lend/borrow programmes.

Next steps

In terms of next steps, following approval of the linguistic changes (expected in early October), the text will only await final sign-off at Ministerial level in Council and from the Plenary in the EP, which we expect to occur in the course of November 2023, with the Plenary approval of the text now indicatively foreseen for 8 November. Following that, the package can be officially published in the EU *Official Journal*, which is expected by end-2023.

Level 2

In terms of the Level 2, ESMA is mandated to submit draft regulatory technical standards (RTS) to the Commission one year after entry into force of the amending Regulation (therefore, around the end of 2024). With respect to MBIs, ESMA is responsible for determining:

- the buy-in process, including time-frames based on the liquidity of the financial instrument;
- the circumstances under which the extension period can be prolonged;
- details of the pass-on mechanism;
- other types of transactions that render a buy-in unnecessary;

- the methodology for calculating cash compensation;
- how to take into account the specificities of retail investors.

In preparation for this, ESMA held its first workshop focused on settlement efficiency on 25 September 2023 in Paris, in which ICMA participated. During the workshop, ESMA and the ECB provided helpful updates on the latest settlement efficiency trends, setting the scene for a constructive discussion with industry participants on a range of other tools and solutions to improve settlement efficiency in Europe, including ICMA's recent work in relation to settlement optimisation tools. Furthermore, ICMA, working with the members of its CSDR Settlement Discipline Working Group, intends to submit industry recommendations to ESMA to help shape the Level 2 drafting and to ensure that, should MBIs ever be implemented in the bond markets, this is as least disruptive as possible and consistent with conventional buy-in practices.

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ICMA buy-in webinar

On 28 September, ICMA held a webinar explaining the context and process for buy-ins under the ICMA Secondary Market Rules & Recommendations.

The buy-in rules are available to ICMA members active in the international bond markets, and are often used by traders to manage settlement and counterparty risk. The webinar is intended to help provide practical context around the rules, and to support traders, risk managers, legal and operations experts in managing the buy-in process, whether initiating or receiving buy-in notices.

The webinar covers key considerations in the buy-in process, including the timing and content of the buy-in notice, best execution requirements, guaranteed delivery, managing pass-ons, accepting partial deliveries, and settlement of the buy-in proceeds. It also highlights areas where disputes may arise and how these can potentially be resolved.

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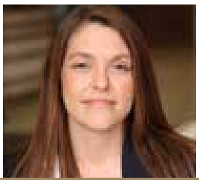
Repo and Collateral Markets






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

ICMA's Global Repo and Collateral Forum

Next GRCF meeting: ICMA's Global Repo and Collateral Forum (GRCF), which was established earlier in 2023, is meeting on a quarterly basis. The next virtual meeting, which will be the third time the group comes together, will be held on 9 November. As in previous meetings, the group will discuss recent repo market developments across the different ICMA regions as well as the latest updates on the various ongoing ICMA initiatives in relation to repo and collateral. The GRCF is open to all ICMA members globally with an interest in cross-border repo and collateral markets. To sign up for the GRCF, please e-mail us and we will add you to the distribution list.

GRCF Working Group on New and Emerging Markets: Based on feedback from members, ICMA decided to launch a separate working group under the GRCF to focus on repo in new and emerging markets. This will be an opportunity to provide a dedicated forum to discuss the important challenges and opportunities related to the development of well-functioning repo markets in emerging and frontier markets. The aim is to bring together local market participants, international institutions as well as other interested stakeholders to exchange experiences and best practices. To sign up to the GRCF Working Group on New and Emerging Markets, please send us an e-mail.

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ICMA's European Repo and Collateral Council

ERCC Committee: On 11 September 2023, the European Repo and Collateral Council (ERCC) Committee came together for its fifth regular meeting in 2023, the first meeting after the summer recess. The meeting was hosted by Scotiabank in London. Minutes of the meeting will be made available to ICMA members in the usual way and can be accessed on the ERCC member page, once approved in the next meeting, which will be held in early December.

Register for the ERCC AGM 2023: The ERCC will hold its Annual General Meeting 2023 on 6 December at the Painter's Hall in London. ERCC members and any other stakeholders with an interest in the European repo market are welcome to join us for this afternoon event kindly hosted by the CME Group. Registrations for the event are now open and further details on the agenda will be announced in due course. As in previous years, the AGM will be a good opportunity to meet peers and catch up on the latest repo market developments and related ERCC initiatives.

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EBA Q&A on LCR treatment of open reverse repos

On 28 September 2023, the ERCC wrote to the EBA regarding the Q&A published by the EBA in October 2022 on the LCR treatment of open maturity reverse repos which can be terminated at any point in time. This follows a letter that the ERCC sent to the ECB and EBA in January 2022 which anticipated the possibility of an EBA interpretation that open reverse repos could no longer be counted as inflows for the purposes of the LCR calculation. The latest letter follows discussions between the ERCC Prudential Working Group and the EBA and highlights the contractual construct underpinning open reverse repos that is consistent with a short-dated reverse repo, as well as the divergence of the EBA's interpretation and treatment from that of other major jurisdictions. The letter points to the most significant outcome of the Q&A being increased operational risk and cost, as well as certain SFT activity moving outside of the EU.

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EMIR 3.0: repo clearing

The ERCC is following closely the ongoing discussions in relation to EMIR 3.0, focusing particularly on proposals made in this context to remove certain barriers for the buy side to access repo clearing. More specifically, amendments to the MMF Regulation (MMFR) and the UCITS Directive have been put on the table that would exclude CCP-cleared trades from the counterparty limits imposed on funds in relation to derivatives and repo exposures. While the ERCC is supportive of excluding CCP-cleared repo from these limits, there is a concern that the proposals that are currently being considered in the European Parliament may further constrain funds' access to bilateral repo. Given the heavy reliance of funds on bilateral repo for funding purposes, this would be highly problematic. The ERCC is reaching out to the relevant policy makers in order to raise these concerns.

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SFTR reporting

FCA updated validation rules and schemas: On 1 August 2023, the FCA published the draft amended Validation Rules and XML schemas for UK SFTR. These documents are not the final versions but have been made available for consultation. The FCA will consider all feedback received and release the final versions afterwards. The proposed go-live date for the updated rules and schemas is 4 November 2024. ICMA assessed the changes with its SFTR Taskforce members and submitted its feedback to the FCA on 15 September 2023.

ESMA data strategy for the next five years: On 15 June, ESMA launched its *Data Strategy for 2023-2028*. Over the next five years, ESMA will focus on facilitating the use of new data-related technologies, reducing reporting compliance costs, enabling effective use of data at both EU and national level, and increasing data accessibility to the public. The strategy includes several key objectives, such as strengthening its role as a central data hub for EU securities markets, delivering easily accessible market information in user-friendly formats, supporting smart supervision through advanced technologies, and promoting greater collaboration and data standardisation.

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Global Master Repurchase Agreement updates

ICMA GMRA Clause Library and Taxonomy

On 31 August 2023, ICMA was pleased to announce the launch of its Global Master Repurchase Agreement (GMRA) Clause Library and Taxonomy, an additional valuable service for ICMA members that will help facilitate standardisation and improve efficiencies in the process of negotiating and managing GMRAs.

Developed by ICMA, working with D2 Legal Technology (D2LT), and in collaboration with ICMA members, the GMRA Clause Library and Taxonomy is a catalogue of GMRA clauses and their negotiated business outcomes, along with a library of model wordings that could be used to draft such outcomes in a standardised manner across market participants.

For each clause in the 2000 and 2011 GMRA, a list of the negotiated commercial and operational positions that parties might wish to achieve has been compiled. With 40 clauses, over 100 variants and hundreds of identified variables, it is a current and comprehensive list of negotiable outcomes which includes guidance notes around its applications.

The primary objective of the ICMA GMRA Clause Library and Taxonomy is to eliminate or reduce the need to negotiate and the considerable time spent debating the form of GMRA clauses that achieve the same business outcomes. The ICMA GMRA Clause Library and Taxonomy will facilitate more efficient negotiations and help to reduce legal risk by allowing lawyers and negotiators to focus on the most substantive and consequential clauses and issues, introducing industry validated clauses and allowing for greater visibility in meeting business, regulatory and operational requirements for legal data as and when they arise.

The ICMA GMRA Clause Library and Taxonomy is a living document and will continue to develop with the market as new clauses, variants or variables are utilised by our members and new standards established.

GMRA Digital Assets Annex

ICMA, working in collaboration with ISLA, has appointed Clifford Chance to consider and produce additional GMRA terms to facilitate where a repo is collateralised by, or has the (re)purchase paid in, digital cash, tokenised traditional securities or asset-backed digital assets. The working group is currently considering a list of discussion points collated from initial member feedback on use cases and digital assets more generally, with a view to producing first drafts for the working group to review.

Members are encouraged to participate actively in the working group and continue to contribute to this project to ensure that it is as representative of our members' business needs and goals as possible.

GMRA annual legal opinion update

ICMA will begin the 2024 annual legal opinion update exercise shortly. The ICMA legal opinions cover almost 70 jurisdictions and provide members with access to a substantive body of legal know-how covering both the enforceability of the netting provisions of the GMRA as well as the validity of the GMRA as a whole.

GMRA Master Confirmation Annex and Template Notices

ICMA appointed Linklaters to produce template forms of default notice, mini close-out notice, termination notice and amendment agreement and a template master confirmation annex, which would provide standard terms for documenting evergreen and extendible repo transactions.

The Legal Working Group has reviewed the draft form default notice, mini close-out notice, termination notice and amendment agreement, which are now in the process of being finalised. The working group has also met to discuss initial comments on the draft master confirmation annex, following which a revised draft will be circulated for final comments shortly.

Once all forms of template agreement and the master confirmation are finalised, these will be made available exclusively to ICMA members on our website.

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

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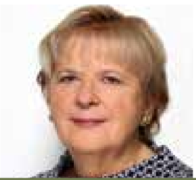
Asset Management




by **Nicolette Moser**
and **Irene Rey**

Liquidity mismatch in open-ended funds: AMIC response to the FSB

On 4 September 2023, ICMA's Asset Management and Investors Council (AMIC) submitted its response to the FSB's consultation addressing *Vulnerabilities from Liquidity Mismatch in Open-Ended Funds*.

AMIC welcomed the coordination of the FSB recommendations with the International Organization of Securities Commissions (IOSCO) consultation report on *Anti-Dilution Liquidity Management Tools*, to which AMIC also responded.

AMIC highlighted that, while in recent FSB reports on non-bank financial intermediation (NBFI), the Archegos case was often provided as an example of a NBFI which had failed, a clear distinction was not being made between non-regulated funds/asset managers and regulated funds/asset managers.

AMIC was not supportive of the recommendation of funds being categorised into three main categories or "buckets" with the use of specific thresholds to implement the bucketing approach. AMIC is concerned that this bucketing approach is an attempt to lock in an essentially static view of liquidity. Liquidity risk management is a dynamic concept and therefore rigid definitions that underpin a liquidity bucketing framework would not be appropriate.

The FSB's final report, which will incorporate feedback from the consultation, will be published in late 2023.

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Anti-dilution liquidity management tools: AMIC response to IOSCO

On 4 September 2023, ICMA's AMIC responded to IOSCO's consultation report on *Anti-Dilution Liquidity Management Tools*.

AMIC highlighted that asset managers have a fiduciary duty to treat all investors fairly. Having a liquidity management framework in place is part of that responsibility. Therefore, AMIC supports the promotion by IOSCO of anti-dilution liquidity management tools (LMTs) as part of that framework in order that the estimated cost of liquidity associated with redemptions may be passed to the redeeming investors, not disadvantaging the remaining investors.

AMIC is supportive of investment managers being offered the choice of five suggested LMTs, as investment manager/fund boards are best placed to take the decision regarding the most appropriate LMT, taking into consideration the specificities of the fund and the relevant jurisdiction. AMIC members are strong proponents of swing pricing in the EU for the majority of open-ended funds. However, they also recognise that there are fundamental infrastructure issues in other jurisdictions, for example the US and Japan, which could prevent swing pricing being introduced with other price-based tools being more appropriate.

The proposed guidance suggests that anti-dilution LMTs should impose the estimated cost of liquidity on subscribing and redeeming investors. Given that the cost of liquidity depends on a number of factors, it is unlikely that a more consistent approach to calibrating anti-dilution LMTs for similar funds could be established. As part of its response and looking at calibration of liquidity costs, AMIC prepared and shared analysis that suggested that traded volumes alone did not provide a complete overview of market liquidity and that, during times of stress or heightened volatility, the cost of trading could increase.

Following this public consultation, it is expected that IOSCO will develop a final report for publication in late 2023.

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Draft RTS under the revised ELTIF Regulation: AMIC response to ESMA

On 24 August 2023, ICMA's AMIC submitted its response to the ESMA consultation on the draft regulatory technical standards (RTS) under the revised ELTIF Regulation.

This consultation was a result of the Level 2 measures[1] which were agreed under the revised ELTIF Regulation (ELTIF 2.0). ELTIF 2.0 was published in the *Official Journal* on 20 March 2023. It is effective as of 9 April 2023, but the revised ELTIF regime under the 2023 ELTIF Regulation will apply only from 10 January 2024.

AMIC recommended a number of considerations to be taken into account in the final RTS in order to ensure the success of ELTIF 2.0 and preserve the improvements agreed at Level 1:

Building on the success of Level 1 and considering the wider regulatory landscape impacting ELTIFs: It is important for the final RTS to consider the wider ongoing workstreams on cost disclosures, liquidity management tools (LMTs) and redemption policies and not to go beyond the specific mandate which was given at Level 1.[2] This will also ensure that the final ELTIF Level 2 measures will not generate conflicting requirements with any forthcoming updated requirements which will impact ELTIFs, such as AIFMD and the RIS, to ensure that there is a consistent approach across different regulations. This consistency will also help distributors' and retail investors' understanding of the ELTIF framework and liquidity management and redemption policies, which will facilitate their uptake of the ELTIF.

*The format of the Annex regarding the proposal on cost disclosures should not differ from the one of PRIIPs***,** applicable to all EU retail funds, as ELTIFs are part of EU AIF retail funds to which the PRIIPs' KID applies**.**

Liquidity management tools and redemption policies need to be considered holistically: minimum holding periods, notice periods and redemption frequencies interact with one another and cannot be seen in isolation when assessing the liquidity profile of an ELTIF. If parameters are set too restrictively, the expected success of ELTIF 2.0 is likely to be adversely impacted. As ELTIFs are AIFs, they will also be subject to the future AIFMD Level 2 provisions, which it is anticipated that ESMA will begin work on shortly, as well as the wider global considerations on LMTs and redemption policies in light of the recent IOSCO and FSB consultations.

ELTIF managers are ultimately responsible for the LRM: AIFMs are best placed to choose the most appropriate liquidity management tools and parameters to manage the ELTIF. Flexibility must be preserved in this Level 2 legislative framework to facilitate the ELTIF manager to act in the best interest of investors in line with its fiduciary duty and take into consideration their specific profiles and needs. More specifically we advise that:

- *Minimum holding period***:** the ELTIF manager should determine the minimum holding period on a case-by-case basis. If any holding period is to be set by the RTS, which would exceed the given Level 1 mandate, then it should be on a *recommended basis only* (in line with PRIIPs requirements) and not on a compulsory basis.
- *LMTs:* the ELTIF manager should continue to be permitted to choose to implement the most appropriate LMT, at the manager's discretion, depending on the fund's specificities and on a case-by-case basis. AMIC also strongly advises against strictly limiting redemption gates to "exceptional circumstances" as they are an important and commonly used tool, *ex-ante*, that fund managers opt to use in wider circumstances.
- *Redemption frequency:* AMIC considers setting a maximum redemption frequency as an inadequate option and advise against setting one in absolute terms: it should be at the fund manager's discretion to set the most appropriate redemption frequency in consistency with the rest of the fund parameters.
- *Notice period:* AMIC would advise against setting a minimum notice period. It is not necessary to set a mandatory minimum notice period when other provisions ensure a robust liquidity policy, and it would be operationally very complex to combine any set mandatory notice period with a prescribed redemption frequency as they may not be compatible. It could also prove to be a severe obstacle for efficient retail distribution.

Next steps: Based on the feedback received to this consultation, ESMA expects to publish a final report and submit the draft technical standards to the European Commission for endorsement by 10 January 2024.

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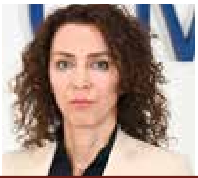
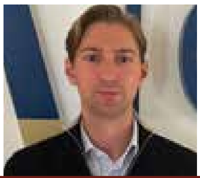
1. The RTS agreed to be developed are described in Annex II page 62 of the consultation paper.
2. In this case, specifically concerning the legislative mandate given for Article 18(6) as described in Annex II page 62 of the consultation paper.

Sustainable Finance

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





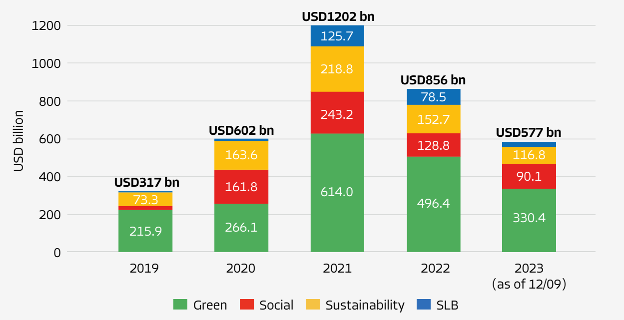


Introduction

We report on sustainable bond market developments in Q3 2023, while also covering additional recently released best practice for sustainability-linked bonds and blue bonds. We also highlight ICMA's new publication on the integrity of the sustainable bond market and greenwashing risks which is covered in detail in the thought leadership section of this Quarterly Report. We comment on the Commission's recent consultation on the implementation of the SFDR framework. Finally, we summarise other significant regulatory initiatives internationally.

S Sustainable bond market update

Global sustainable bond issuance per category (USDbn)



Overall sustainable bond issuance volume reached USD577 billion as of 12 September 2023. Green bond issuance surpassed USD330 billion, making it the most prevalent category of sustainable bonds, accounting for 57% of total issuance. Issuers entering the green bond market in Q3 2023 include DS Smith, a sustainable packaging company, raising EUR1.5 billion from a dual tranche transaction (EUR850 million 4-year and EUR650 7-year bonds). In addition, LG Energy Solution completed its first global green bond deal of USD1 billion (USD400 million 3-year and USD600 million 5-year). Water Services Corporation, a Maltese company, has taken the lead as the country's first green bond issuer, launching a EUR25 million 10-year bond. After this transaction, sustainable bonds have been sold by at least one issuer in 26 out of 27 EU Member States.

Social bond issuance reached USD90 billion, which is in line with the issuance over the same period in 2022. Notable transactions include Swedbank's inaugural EUR500 million 7-year social bond and Akbank's USD300 million 10-year gender bond.

Sustainability bond issuance at USD116 billion is very close to issuance of USD122 billion over the same period in 2022. New issuers selling sustainability bonds included Praemia Heathcare (EUR500 million 5-year) and a Spanish region of Castilla y Leon (EUR500 million 10-year). Moreover, Yapi Kredi, a Turkish commercial bank, issued its inaugural USD500 million 5-year sustainability bond.

Sustainability-linked bond issuance at USD40 billion represents 7% of total issuance to date signalling a relative decline compared to the 9% achieved in 2022. Issuers selling their debut SLBs in Q3 include REWE group and Orange issuing EUR900 million 7-year and EUR500 million 12-year bonds respectively. In addition, ELO has successfully placed a EUR750 million 5.5-year bond. Other notable sustainability-linked bond deals include Eni's EUR1 billion 7-year convertible bond and Heathrow's EUR650 million 10-year bond.

New best practice published for the sustainable bond market

Additional guidance for Sustainability-Linked Bonds

ICMA and the Executive Committee of the Principles published on 26 September the 2023 Q&As related to Sustainability-Linked Bonds. The Q&As are based on the inputs collected from members of the Sustainability-Linked Bonds Working Group. They are published in a form of a stand-alone document, replacing the 2022 version, and will be integrated at a later stage to the Guidance Handbook (a separate announcement will be made in due course).

This additional guidance illustrates and complements usefully the Sustainability-Linked Bond Principles (SLBP). As a growing number of issuers across different sectors and regions embrace this instrument and look at ways of demonstrating their ambition and increase their accountability, this resource provides additional guidance on key considerations that can help meet these objectives while strengthening the credibility of the SLB market. The document also includes references to sovereign issuers where appropriate following the June 2023 edition of the SLBP.

The document notably covers key questions, such as:

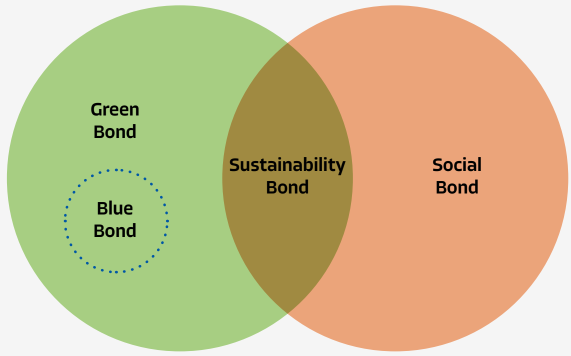
- How should the materiality of the KPIs be interpreted and what kind of KPIs could be selected?
- How can an issuer calibrate ambitious targets?
- What are the relevant changes in the bonds' characteristics as alternative to coupon step-ups?
- What specific requirements apply in case of a change of KPIs/STPs?
- What type of information should be disclosed?

Since the inaugural issuance in 2019, the SLB market has exceeded USD200 billion with over 90% issued from 2021 onwards. The appeal of SLBs is broad, with issuers from various sectors such as utilities, consumer goods as well as sovereign issuers entering the market, which underscores the universal recognition of the importance of sustainability across industries. The SLBP promote market integrity and transparency and are the *de facto* global issuance standard referenced by over 95% of SLB issuance internationally.

Practitioner's Guide on Bonds to Finance the Sustainable Blue Economy

On 6 September 2023, the *Practitioner's Guide on Bonds to Finance the Sustainable Blue Economy* was published by ICMA, together with the Asian Development Bank (ADB), the International Finance Corporation (IFC), the UNEP Finance Initiative (UNEP FI) and the UN Global Compact (UNGP). An initial draft had already been released for consultation on 28 June 2022 during the UN Ocean Conference in Lisbon, Portugal.

Figure 1: Types of Use-of-Proceeds Bonds



Source: Based on ICMA Principles.

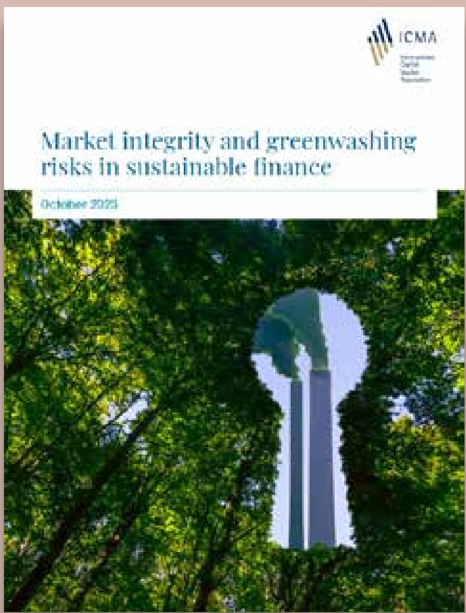
Like climate transition and gender equality, the blue economy is a growing theme that can be financed by issuing sustainable bonds. The paper therefore is intended to act as additional thematic guidance for issuers seeking to utilise use of proceeds (UOP) bonds to finance blue projects and can be used in conjunction with the Principles supported by ICMA. It also talks about the use of sustainability-linked bonds (SLBs) towards the achievement of an issuer's strategy incorporating blue key performance indicators (KPIs).

The Green Bond Principles (GBP) recognise "blue bonds" as bond issuances with the objective of emphasising the importance of the sustainable use of maritime resources and of the promotion of related sustainable economic activities. Such "blue bonds" are also green bonds as long as they align with the four core components of the GBP. Green bonds financing 100% of blue projects are often colloquially referred to or publicly labelled as "blue bonds".

Blue projects can also be financed under the Sustainability Bond Guidelines (SBG) for sustainability bonds that were designed to encompass both green (including blue in this case) and social. It is also understood that green (blue) projects can have social co-benefits and *vice versa*. Similarly, blue projects can contribute to a wider range of the sustainable development goals (SDGs).

For UOP bonds, the guide contains a table (Table 1 on page 6) which provides examples of ocean related projects that could be financed under the Green Bond Principles (GBP). The indicative blue project categories are drawn from MDB and UN guidance and put into context of the environmental objectives and (green) project categories of the GBP. For SLBs, ICMA's KPI registry also otherwise provides illustrative examples of blue KPIs.

Market integrity and greenwashing



Following ICMA's response to the call for evidence on greenwashing from the European Supervisory Agencies (ESAs) earlier this year and the podcast series on market integrity in sustainable finance launched in 2022, we have now released a dedicated paper on *Market integrity and Greenwashing Risks in Sustainable Finance*

We develop further in this publication our analysis of greenwashing concerns in the sustainable finance market from a global perspective, while adding references to external and in-house research. We have also sought to unpack greenwashing to identify the fundamental areas of concern and to describe the issues they raise. We have paired these areas as much as possible with actionable regulatory or market solutions, as well as providing five high-level recommendations to policy makers and regulators. The publication is covered in greater detail in the thought leadership section of this Quarterly Report.

Regulatory developments

The new EC consultation on the implementation of the SFDR

On 14 September 2023, the European Commission launched its much-awaited consultation on the implementation of the SFDR framework. The deadline to respond is 15 December.

The consultation document is structured mostly in a survey format with scoring and rating feedback sought around four main topics as per below. The first two sections aim to collect views on the SFDR as it is applied today, while the other two on the future direction of travel.

- *"Current requirements of the SFDR"* section covers how the SFDR works as of today, its effectiveness in achieving policy objectives, the application of PAIs, costs of compliance with the SFDR, and the data challenges in different areas, etc.
- *"Interaction with other SF rules"* section focuses on the consistency between different EU regulatory concepts and requirements (eg Taxonomy alignment, climate benchmarks, CSRD disclosures) and the SFDR.
- *Potential changes to disclosures:* While seeking feedback on both entity- and product-level disclosures, importantly, the EC also queries the introduction of uniform sustainability disclosures for all products regardless of their sustainability focus, and whether such should be subject to a threshold/criteria to accommodate proportionality or not. There are also questions on the adequate location and digitalisation of sustainability disclosures as well as whether the nature of investments (eg non-EU, EM, SMEs, etc.) should also be considered in determining the disclosure requirements.
- *Potential establishment of a categorisation system:* In this section, the EC aims to gather feedback on the potential advantages of, and the need for, a categorisation system. Importantly, the EC questions whether such a system should be based on different investment strategies or built on the existing Article 8/9 disclosures and concepts (eg "sustainable investments, DNSH, promotion of environmental and/or social characteristics). In case of the former, similar to the UK FCA's earlier proposals, the examples proposed by the EC are: (i) products offering sustainability solutions; (ii) products meeting credible standards or adhering to specific themes; (iii) products that exclude activities or investees with negative impacts; and (iv) products with transition focus.

Whether this proposal will replace or complement the existing Article 8/9 distinction or not, the EC seeks views on the minimum criteria for categorisation. This could for example include a certain degree of taxonomy alignment, engagement strategies, exclusions, pre-defined, positive ESG outcomes, etc. There are also questions on the need for additional disclosures for products falling under the categories. Finally, the categorisation system could be accompanied by specific rules on marketing and naming, which could for example restrict the use of sustainability terminology for products that do not qualify for any categories.

Other international regulatory developments

- *Transition-related guidance for FIs:* In August 2023, the Hong Kong Monetary Authority set high-level principles for banks' planning for net-zero transition. These include ensuring: (i) clear objectives and targets; (ii) robust governance and internal processes; (iii) appropriate initiatives and actions to achieve objectives; (iv) client engagement; (v) reviews and updates; and (vi) transparency. The HKMA states that the targets should be aligned with the Paris Agreement goals and science-based pathways.

Similarly, in September 2023, the US Treasury released its *Principles for Net-Zero Financing & Investment,* which focuses on FIs' financed and facilitated emissions. As voluntary guidance, the Principles aim to: underscore the importance and value of FIs' net-zero commitments; promote consistency and credibility in financial institutions' approaches to these commitments; and, highlight and encourage greater adoption of emerging best practices pertaining to these commitments. Among other things, they recommend alignment with 1.5°C and underscore the importance of transition finance, plans, and credible pathways.

- *Taxonomies:* On 30 June 2023, the Bank of Thailand (BOT) and the Securities and Exchange Commission (SEC) released Thailand Taxonomy Phase I which employs the "traffic light system" with green, amber and red categories. At this stage, the Taxonomy focuses on and provides criteria for the energy and transportation sector activities.

- *Recent developments for the investment industry:* On 31 July 2023, Japan FSA launched a consultation on *Draft Basic Guidelines on Impact Investment* which propose four key principles for impact investment: (i) intentionality; (ii) additionality; (iii) identification, measurement and management; and, (iv) innovation/transformation/acceleration. The consultation remained open until 10 October 2023.

On 20 September 2023, the US SEC adopted amendments to the Investment Company Act's "Names Rule" which addresses fund names that are likely to mislead investors about a fund's investments and risks. The amended rule ensures among other things that funds with ESG (or similar) terms would invest at least 80% of their assets in accordance with the investment focus that the fund's name suggests. The amendments also include a new requirement that a fund review its portfolio assets' treatment under its 80% investment policy at least quarterly and will include specific time frames – generally 90 days – for getting back into compliance if a fund departs from its 80% investment policy.

- *Disclosures:* Capital Markets Malaysia, an affiliate of the Securities Commission Malaysia consulted on the Simplified ESG Disclosure Guide for SMEs, which closed on 25 August 2023.

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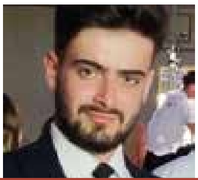
FinTech and Digitalisation





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

ICMA DLT Bonds Working Group

ICMA's DLT Bonds Working Group brings together a broad range of stakeholders across ICMA's diverse membership, including issuers, banks, investors, central banks, market infrastructures, law firms and technology providers.

The objective of the Working Group is to foster scalable, efficient and liquid cross-border DLT bond markets. Meetings of the Working Group are held on a quarterly basis, in addition to *ad hoc* meetings to respond to consultations, and with sub-groups focused on specific deliverables.

The latest meeting was held on 25 September 2023 to review and discuss progress on priorities and deliverables. The DLT Bonds Legal Sub-Group, led by Clifford Chance, presented a draft of the preliminary analysis of risk factors and disclosure in DLT bond offering documents. The purpose is to assist issuers and underwriters as they consider risk factors and other disclosures related to DLT, but deliberately it does not contain recommendations for the form of model documentation.

Further information can be found on ICMA's website. Please get in touch if you would like to become involved.

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Digital Securities Sandbox: ICMA response to HM Treasury

On 22 August 2023, ICMA submitted its response to HM Treasury's consultation on a UK Digital Securities Sandbox. ICMA's response reflects the views of a subset of its DLT Bonds Working Group, notably issuers, banks, investors, market infrastructures and law firms across the international debt capital markets.

Key points:

- ICMA welcomes HM Treasury's proposal for a Digital Securities Sandbox to support innovation in capital markets.
- A flexible approach for issuance and trading volumes of DLT-based securities is welcome. However, the methodology and process for applying limits needs to be transparent.
- Further guidance on settlement assets, notably tokenised commercial bank deposits, will be required in the absence of wholesale CBDC or compatible central bank money arrangements.
- Further clarification of the term "digitally native securities" would be helpful to make it clear that such securities may be in traditional registered form, digital bearer form and digital claim form as discussed in the UK Jurisdiction Taskforce's legal statement on digital securities.
- Members welcome HM Treasury's approach to make permanent changes to the UK legislative framework, which should take into consideration recommendations made in the Law Commission's final report on Digital Assets as and when appropriate.
- Common standards, notably ICMA's Bond Data Taxonomy and the Common Domain Model, play a critical role to enable interoperability and facilitate reporting across different jurisdictions.

ICMA's detailed response can be found here.

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Bond Data Taxonomy

Following the release of ICMA's Bond Data Taxonomy (BDT) in March 2023, ICMA has published a video tutorial which provides background on the BDT and how to use it. As a reminder, the BDT provides a common language, built on industry consensus, to represent key bond information in (i) a standardised and (ii) a machine-readable manner. The primary objective is to avoid market fragmentation, foster automation and promote interoperability.

The BDT comprises over 90 terms of a vanilla bond typically included within a term sheet. These are subdivided into various categories, including security-related information such as identifier(s), maturity date, form of note (eg bearer, registered), as well as parties involved in the process such as the issuer and if applicable guarantor, underwriters, investors, agents. Transaction-related information such as issue price, specified currency, settlement date, and governing law are also captured. Importantly, all this information is available in XML, a widely used machine-readable format.

The BDT being vendor and technology agnostic, ICMA's DLT Bonds Working Group endorsed using the BDT for securities in a DLT environment, in both "digitally native" and tokenised form. The second edition of the CAST Challenge, organised by Société Générale FORGE and held in Paris on 18-19 July 2023, demonstrated the ease of integrating the BDT into token standards such as ERC-20.

To facilitate further the issuance and trading of DLT-based securities, ICMA's BDT Working Group and DLT Bonds Working Group held meetings in August and September to review additional bond information to be included in the BDT. The initial review comprised prospectuses, final terms and related information of DLT-based bonds.

To become involved, please get in touch.

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F CDM for repo and bonds

The Common Domain Model (CDM) has been publicly available through FINOS (FinTech Open Source Foundation) since Q1 2023. As a reminder, the CDM as a common language facilitates end-to-end-automation of repo and securities lending as well as bond and derivative transactions. It is the result of a collaboration between ICMA, ISDA and ISLA.

To promote adoption of the CDM across the industry, ICMA launched a CDM Implementation Working Group. This group brings together IT experts, developers and product managers from ICMA's membership, including market participants and service providers. The aim is to assist firms in designing and implementing CDM-based applications for repo trading and post-trade.

Since its launch in June, the CDM Implementation Working Group held meetings in July and August. Issues covered include the fundamentals of creating CDM objects in Java, executing CDM functions, as well as collateral criteria and GC baskets, amongst others. The CDM for repo and bonds was leveraged at the Barclays "RepoHack 2023" on 27 and 28 September in London to explore novel industry architectures for repo post-trade services.

The regulatory environment for repos and securities lending keeps evolving. The US Treasury Department's Office of Financial Research (OFR) published a proposal to introduce new reporting requirements for bilateral repos and the SEC released a proposal to introduce a new reporting regime for securities lending transactions. The final rules are expected to be published in the near future. Reporting requirements under SFTR are due to be reviewed by legislators in 2024, although the scope of possible amendments remains uncertain.

In light of those developments, ICMA held a virtual workshop on how to leverage the CDM for regulatory reporting on 26 September. The aim was to explore the CDM's capabilities to help reduce the cost and complexity of compliance with different reporting regimes for securities financing transactions.

ICMA's *CDM Demo – Automating Repo Transactions* and other resources are available on the CDM webpage.

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

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F Eurosystem New Technologies for Wholesale Settlement Contact Group

Since its launch in Q2 2023, ICMA has attended the meetings of the Eurosystem's New Technologies for Wholesale Settlement Contact Group (NTW-CG) held in June, July and September. On the agenda in the September meeting were general business cases for DLT, ideas and proposals for PvP transaction settlement as well as updates on high-level and operational planning for the Eurosystem's exploratory work. Further information is available on the ECB's website.

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Bank of England and FCA Data Standards Review publication

The Bank of England and the FCA are leading a joint transformation programme with industry to transform data collection from the UK financial sector. The programme's vision is that "regulators get the data they need to fulfil their mission, at the lowest possible cost to industry". One of the programme's key reforms, central to achieving this vision, is the increased development and adoption of common data standards throughout the financial sector. On 1 August 2023, the Bank of England and FCA published the *Transforming Data Collection - Data Standards Review with Recommendations and Bank of England and FCA Response*. ICMA contributed to the recommendations produced by the Data Standards Committee.

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ICMA FinTech and Digitalisation Forum 2023

ICMA will be holding its 5th Annual FinTech & Digitalisation Conference on 5 December 2023 in London, a flagship event covering issues that will shape the future of the international bond markets.

Capital markets are evolving through innovation and digitalisation. This year, ICMA is proud to present a full-day, in-person conference that will help participants to connect, share insights, and explore the most critical topics driving this evolution.

The conference will delve into vital subjects, including the automation and digitalisation of the fixed income industry, the digitisation of bond issuance, market developments, barriers to adoption, and more. We will also discuss the impact of FinTech on sustainable finance and the role of standards in capital markets.

In addition to these engaging discussions, we have scheduled exciting sessions directly from vendors focusing on DCM and secondary fixed income trading/repo. These sessions enable technology providers to showcase their solutions to a receptive audience.

Please visit ICMA's events website to register. To find out more about sponsorship opportunities and pitch sessions, please contact ICMA events.

F FinTech regulatory developments

ESMA: focus on digital change and the green transition – work programme 2024

On 28 September 2023, ESMA published its work programme for 2024. Among other things ESMA will finalise technical standards for the European Single Access Point (ESAP) and continue preparatory work on the necessary IT infrastructure that will support it. In the digital finance area ESMA will conclude the work on technical standards and guidelines in relation to the Markets in Crypto-Assets Regulation (MiCA) and the Digital Operational Resilience Act (DORA).

IMF: a guide to central bank digital currency product development

On 8 September 2023, the IMF published its note on a guide to central bank digital currency product development. The paper developed a CBDC-specific project management methodology that established a common terminology and offered guidance to development teams on best practices for addressing the complex requirements and risks associated with CBDC. It is centred on an original five-step approach called the "5P Methodology": preparation, proof-of-concept, prototypes, pilots, and production. The methodology emphasised a phased approach to CBDC research and development, with strong focus on research preparation, experimentation and testing, risk management, stakeholder engagement, and cyber resilience.

BIS: the oracle problem and the future of DeFi

On 7 September 2023, the BIS published a bulletin on the oracle problem and the future of DeFi. Oracles are third parties that collect and disseminate data on real-world events. They store and transmit these data to the blockchain, enabling smart contracts to reference them in transactions. Whether oracles can truly adhere to the complete decentralisation ethos of crypto is debatable. Even if feasible in practice, striving for the ideal of full decentralisation leads to complex consensus protocols that further erode blockchain efficiency. While introducing some degree of centralisation in oracles might boost efficiency, it also means adding trusted parties to a system designed to be trustless. As a result, crypto-based DeFi is likely to remain the preserve of crypto-assets only, rather than being used for real-world assets.

IOSCO: consultation report on policy recommendations for decentralized finance (DeFi)

On 7 September 2023, IOSCO published a consultation report that proposes nine policy recommendations that it plans to finalise by the end of 2023 to address market integrity and investor protection concerns arising from DeFi by supporting greater consistency of regulatory frameworks and oversight in member jurisdictions. They are complementary to the *Policy Recommendations for Crypto and Digital Assets (CDA) Markets* issued for consultation in May 2023. The two sets of IOSCO recommendations have been developed in accordance with IOSCO's *Crypto-Asset Roadmap* published in July 2022. The deadline for comments on the consultation report is 19 October 2023.

BIS FSI: the financial stability risks of decentralised finance

On 31 August 2023, the BIS FSI published an executive summary on the financial stability risks of decentralised finance (DeFi). DeFi does not differ substantially from traditional finance (TradFi) in the functions it performs. In attempting to replicate some of the functions of the TradFi system, DeFi inherits and may amplify the vulnerabilities of that system. These include well-known vulnerabilities relating to operational fragilities, liquidity, maturity mismatches, leverage and interconnectedness. However, DeFi's specific features may result in these vulnerabilities sometimes playing out differently than in TradFi, for example as a result of spillover effects related to the automatic liquidation of collateral based on smart contracts or dependence on the underlying blockchain.

BIS FSI: central bank digital currencies

On 31 August 2023, the BIS FSI published an executive summary on central bank digital currencies. Highlighting the benefits and challenges of introducing retail and wholesale CBDC. The paper states that introducing CBDCs would require an adjusted division of labour between the central bank and providers of private money in respect of execution and recording of payments and client servicing. In that regard, three models were identified: "a one-tier system", "a pure two-tier system" and "a hybrid CBDC architecture". Cross-border aspects relating to CBDC have also been highlighted in the summary.

ECB: know your (holding) limits: CBDC, financial stability and central bank reliance

On 21 August 2023, the ECB published an occasional paper that examined how central bank digital currencies (CBDC) impact the balance sheets of banks and central banks. A constraint optimisation model was built that allowed for individual banks to choose how to respond to outflows of deposits, based on cost considerations and subject to the availability of reserves and collateral, within the individual banks and system wide, and for a given level of liquidity risk tolerance. The impact of a fictitious digital euro introduction in the third quarter of 2021, was simulated using data from over 2,000 euro-area banks. That impact depended on (i) the number of deposits withdrawn and the speed at which this occurred, (ii) the liquidity available within the banking system at the time of the digital euro introduction, (iii) the liquidity risk preferences of the markets and supervisors, (iv) the bank's business model, and (v) the functioning of the interbank market. Findings showed that a €3,000 digital euro holding limit per person, as suggested by Bindseil (2020) and Bindseil and Panetta (2020), would have been successful in containing the impact on bank liquidity risks and funding structures and on the euro system balance sheet, even in extremely pessimistic scenarios.

BIS: working paper on an impossibility theorem on truth-telling in fully decentralised systems

On 11 August 2023, the BIS published a working paper which considers a situation where multiple individuals seek to enter into agreements based on the outcome of a real-world event, but where there is no trusted party that can be used to determine payoffs. Smart contracts are self-executing programmable contracts between two or more parties. They do not require a vetting authority because their legitimacy relies on DLT. However, the implementation of many potentially useful smart contract applications depends upon verifying that some real-world event has taken place. Given its fully decentralised nature, how does a smart contract select what the true state of the world is? The general result, which applies to simultaneous voting games, is that the only way that individuals are willing to vote according to the true state is if they are completely indifferent as to what the true state should be. That is, their payoffs cannot depend on their actions or their individual reports. This general result suggests that, in the absence of some additional motivation (eg an inherent preference toward truth-telling) which links individual payoffs to the truth, there is no way to implement contracts that pay out based on an observed state without a trusted source.

BIS: working paper on absolute blockchain strength: evidence from the ABS market in China

On 9 August 2023, the BIS published a working paper which considers the emerging asset-backed security (ABS) market in China and its rapid adoption of blockchain technology. It investigates whether blockchain adoption improves ABS trading. Also examining if the effect varies across different underlying asset classes or institutional arrangements and if social factors, such as familiarity among key ABS market participants, may increase the benefit of adopting blockchain in ABS products. The paper finds that adopting blockchain has improved the efficiency and transparency of ABS trading in China. In particular, the cost of ABS issuance has fallen by around 25 basis points. This benefit is larger for ABS based on less standardised and more opaque assets, such as consumer loans or accounts receivable, than for residential mortgage-backed securities. Finally, there is evidence that market participants appreciate the benefit of using blockchain for certain types of ABS deals when key players in the deals are familiar with each other.

FSB: global regulatory framework for crypto-asset activities

On 17 July 2023, the FSB reported that it is finalising its global regulatory framework for crypto-asset activities to promote the comprehensiveness and international consistency of regulatory and supervisory approaches. It consists of high-level recommendations for the regulation, supervision and oversight of crypto-asset activities and markets (CA recommendations) as well as revised high-level recommendations for the regulation, supervision, and oversight of "global stablecoin" arrangements (GSC recommendations). The framework is based on the principle of "same activity, same risk, same regulation" and provides a strong basis for ensuring that crypto-asset activities and so-called stablecoins are subject to consistent and comprehensive regulation, commensurate to the risks they pose, while supporting responsible innovations potentially brought by the technological change. The recommendations focus on addressing risks to financial stability, and they do not comprehensively cover all specific risk categories related to crypto-asset activities. It takes account of lessons from recent events in crypto-asset markets. Central Bank Digital Currencies (CBDCs), envisaged as digitalised central bank liabilities, are not subject to these recommendations.

ECB: progress on the investigation phase of a digital euro

On 14 July 2023, the ECB published the fourth progress report on the investigation phase of a digital euro, explaining why a digital euro should be free of charge for basic use and how it could strengthen financial inclusion. The report also sets out key principles of a compensation model for the distribution of a digital euro and gives an update on other ongoing areas of work. In addition, it looks at the results of the prototyping exercise and the market research on technical solutions for a digital euro. The compensation model aims to create incentives for banks and payment service providers (PSPs) to distribute digital euro and to ensure that digital euro payments will be free of charge and widely accepted across the euro area.

OECD: regulatory sandboxes in artificial intelligence

On 13 July 2023, the OECD published a report focused on regulatory sandboxes in artificial intelligence (AI), where authorities engage firms to test innovative products or services that challenge existing legal frameworks. Participating firms obtain a waiver from specific legal provisions or compliance processes to innovate. It highlights positive impacts like increased venture capital investment in fintech start-ups. It points out challenges, risks, and policy considerations for AI sandboxes, emphasizing interdisciplinary cooperation, building AI expertise, regulatory interoperability, and trade policy. It also addresses the importance of comprehensive criteria for eligibility and assessing trials, as well as the impact on innovation and competition.

BIS: report on the crypto ecosystem: key elements and risks

On 11 July 2023, the BIS submitted a report to the G20 Finance Ministers and Central Bank Governors, reviewing the key elements of the crypto ecosystem and assessing its structural flaws. The report went over the risks posed and discussed options for addressing them. It also identified data gaps and discussed ways to alleviate them. There were three key takeaways. First, the crypto ecosystem is subject to a high degree of fragmentation and is characterised by congestion and high fees. Second, despite an original ethos of decentralisation, crypto and DeFi often feature substantial de facto centralisation, which introduce various pain points. A prime example concerns stablecoins, which piggyback on the credibility of the central bank's unit of account and may pose risks to monetary sovereignty. Third, while DeFi mostly replicates services offered by the traditional financial system, it does not finance any activity in the real economy but amplifies known risks. As growth is driven mainly by the speculative influx of new users hoping for high returns, crypto and DeFi pose substantial risks to (especially retail) investors. In sum, crypto's inherent structural flaws make it unsuitable to play a constructive role in the monetary system (BIS (2022)).

BIS Innovation Hub: report on lessons learnt on CBDCs

On 11 July 2023, the BIS Innovation Hub submitted a report to the G20 Finance Ministers and Central Bank Governors, showcasing its efforts in helping central banks on their CBDC journeys and discussing the lessons learnt so far. The Innovation Hub conducted 12 CBDC projects that covered retail and wholesale, both in a domestic and cross-border context. For domestic use cases, two projects investigated wholesale CBDC (wCBDC) and five looked at retail CBDC (rCBDC). Across borders, four experiments looked at wCBDC and one looked at rCBDC. For each category, the key insights and lessons learnt are presented from the perspectives of desirability, feasibility and viability. Among other things, the report stated that wholesale CBDCs will be driven by the public and private sector's quest to shape the future of trading and settlement.

BIS: results of the 2022 BIS survey on central bank digital currencies and crypto

On 10 July 2023, the BIS released a paper summarising the findings of the latest survey of central banks on their views and plans regarding CBDCs. Most central banks are exploring central bank digital currencies (CBDCs), and more than half of them are conducting concrete experiments or working on a pilot. The responses from 86 central banks showed that the proportion engaged in some form of CBDC work has risen to 93% and that the work on retail CBDC is more advanced than on wholesale CBDC. In addition, this paper showed that most central banks see potential value in having both a retail CBDC and a fast payment system, and that there could be 15 retail and nine wholesale CBDCs publicly circulating in 2030. The survey further showed that, to date, stablecoins and other crypto-assets are rarely used for payments outside the crypto ecosystem.

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2023

ICMA Capital Market Research

ICMA Capital Market Research

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ICMA Events and Education

Summer events spotlight

During the summer months we hosted a variety of events across Europe. For example, in July the ICMA Future Leaders met in Zurich where Dr. Martin Weder, Chief Economist from Zürcher Kantonalbank, led a debate on the issues facing central banks, as well as providing a broader global macroeconomic outlook. ICMA also co-hosted a seminar dedicated to Pearl bonds, also known as FTZ offshore bonds, which are an emerging fixed income security issued for the purposes of raising offshore funds in the China (Shanghai) Pilot Free Trade Zone.

Autumn 2023 events

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 across primary, secondary, repo and collateral markets and asset management as well as our cross-cutting FinTech theme.

Our flagship Primary Market Forum assembles issuers, investors, underwriting banks, and other market participants to consider how economic, regulatory and other exogenous influences are impacting the functioning and development of the primary bond markets. The ICMA Secondary Market Forum will focus on how to improve liquidity in sovereign and corporate bond markets and how can we ensure that market makers are able to fulfil their role as principal liquidity providers to the bond markets. We also look forward to hosting our next Asset Management Investment Council (AMIC) and ICMA's Fintech and Digitalisation Forum.

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

ICMA will be holding its 2024 Annual General Meeting (AGM) and Conference in Brussels.

The 2024 event will be the 56th edition of ICMA's flagship event which brings together its global membership. Last year's AGM in Paris attracted over 1,100 senior public sector officials, bankers and investors who are active in the cross-border bond markets, plus lawyers, academics and journalists, representing 427 institutions from 45 countries. We expect an even greater level of interest in 2024.

Many notable speakers have appeared at the event, including prime ministers, finance ministers and central bankers, and major industry figures. The 2024 programme will again feature a high-level line up, with insights on the current state and future prospects for capital markets, taking into account the geopolitical environment, focus on sustainability, regulatory change and FinTech developments.

Meet the international capital markets in Brussels at the 2024 ICMA AGM and Conference.

Sponsorship and exhibition opportunities

For the 2024 ICMA AGM, we have introduced a wider variety of sponsorship opportunities to include amongst others, private meeting and 'business lounges' to further facilitate your networking as well as more interactive exhibition ideas.

Download the 2024 ICMA AGM & Conference sponsorship pack **here**.

To discuss these sponsorship and exhibition opportunities or if you would like a more tailored option, please contact our Acting Head of Events, Ravina Patel.

The full 2024 Conference agenda will be announced in February 2024. Registrations will also open at this time. For speaking enquiries, please contact Managing Director, Membership & Communications, Allan Malvar.

ICMA’s forthcoming virtual and in-person events

17 November AMSTERDAM	**ICMA Secondary Market Forum** Bringing together stakeholders in the European bond markets to learn more about new developments and ICMA’s extensive work and initiatives in secondary markets.
22 November LONDON	**ICMA European Primary Market Forum** Join issuers, investors, underwriting banks, and other market participants to consider how economic conditions, regulatory policy and other global influences are impacting the functioning and development of the primary bond markets in Europe through various lenses.
24 November ZURICH	**The AMIC Forum: Investing for the longer-term through uncertain markets** An opportunity to hear from global and European policy makers, regulators and industry professionals discussing current investment market and regulatory topics.
5 December LONDON	**ICMA FinTech and Digitalisation Forum** A forum at which all of the industry’s participants can network and share insight and information on the most critical topics driving innovation and digitalisation of the capital markets.
6 December LONDON	**ICMA European Repo and Collateral Council (ERCC) Annual General Meeting** Open to ERCC members but also stakeholders with an interest in the European repo market. A good opportunity to meet your peers and catch up on the latest repo market developments and related ERCC initiatives.

MORE TO BE ANNOUNCED. FURTHER DETAILS AVAILABLE AT WWW.ICMAGROUP.ORG/EVENTS

Glossary

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

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