ICMA

International Capital Market Association

QUARTERLY REPORT

ASSESSMENT OF MARKET PRACTICE AND REGULATORY POLICY

INSIDE:

COVID-19: THE IMPACT ON CAPITAL MARKETS AND THE RESPONSE

6 April 2020

Second Quarter. Issue 57. Editor: Paul Richards

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 some 600 members in more than 60 countries.

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 four core areas – primary markets, secondary markets, repo and collateral markets, and the green, social and sustainability markets.

FEATURE:

COVID-19: the impact on capital markets and the response

CONTENTS

COVID-19: impact on capital markets

By Martin Scheck

The current situation with the escalation of the Coronavirus (COVID-19) is dominating every aspect of financial markets and the day-to-day lives of all of us. It is impacting ICMA on a number of different levels. In this Foreword I will describe the measures that we have taken to remain efficient and operational and how, during the crisis, ICMA is contributing.

You will notice that this edition of the Quarterly Report is largely devoted to the impact on the capital markets of COVID-19. In addition we have developed a COVID-19 resource page on our website, providing market-focused information, ranging from a summary of the monetary and fiscal policy responses of nations around the world, through the responses of regulators and supervisors, to market practice initiatives and summaries of the conditions in each of the markets segments in which ICMA operates.

An important initiative has been to review the timetables of consultation papers and regulatory implementation that were already in progress and to work with our members and with the appropriate authorities to have these effectively postponed. This was particularly important with the looming SFTR implementation deadline, and we are pleased that following our intervention ESMA has provided three months of forbearance on the implementation date. Similarly, the ESMA MiFID II/R consultation is postponed by 4 weeks – this is a welcome step but of course it is unlikely that the crisis will have abated that quickly. Discussions are continuing in respect of the timelines of these and other consultation papers and future implementation dates.

ICMA has provided its members with standard form ECP documentation for many years, and following confirmation from the Bank of England that it would accept CP with documentation based on ICMA's ECP standard, for the period of the crisis we have chosen to make this documentation available to all participants whether or not they are ICMA members. (It is also available on the COVID-19 market practice webpage.)

From a markets perspective, as we are all painfully aware, the virus has caused enormous volatility and provided the ultimate test of the resilience of primary, secondary and repo markets. In early March, there were days when the normally robust primary markets were simply shut for business and when secondary bond market liquidity evaporated in both the credit and rates segments. On those days, for anything but the most liquid bonds, dealer bids were scarce (particularly in size) and offers in short supply unless the dealer already owned inventory. The situation was exacerbated by many regulated entities getting to grips with operating from split locations as they moved part of their critical teams to disaster recovery sites to protect their business continuity.

Coincidentally this scenario occurred shortly after the publication of ICMA's latest study on secondary markets, *Time to Act,* which highlighted the fact that, despite the changes in market structure and the move towards electronic trading, the secondary markets remain dealer-centric and moves to further limit the ability of dealers to assume risk positions will only contribute to the fragility of liquidity in stressed markets.

Whilst primary market issuing opportunities have become more "window" driven than formerly, the response to those issuers which have braved the conditions indicate that investors remain keen to put money to work for the right names. Whenever there has been a period of market consolidation and stability, issuers have returned and new issues have been executed. So far, issuance has largely been investment grade, but with more sustained consolidation, issuing opportunities for a broader range of credits are returning.

The repo market is a critical funding tool, particularly in times of stress, and has been arguably the most robust element of the market, operational throughout.

Of course, our priority is to ensure that our staff remain in good health. We have been following all appropriate government, health authority and official sector guidance in our four offices in respect of quarantine arrangements, hygiene and behaviour. None of our staff has been diagnosed with the virus at the time of writing, but we have had individuals who have self-isolated following travel to affected areas. In Hong Kong, where the virus was roughly two months in advance of its growth in Europe and the US, and our Hong Kong based team worked from home for four weeks prior to returning to the office in early March. In Zurich, London and Paris all our staff are working from home. Across the Association we have curtailed all travel.

Our business involves a huge amount of critical interaction with our members on committees, councils and working groups, and generally we find that face-to-face meetings are most productive. However, during this period our guidance has been to hold these meetings (including our latest Board meeting on 20 March) using conference calls or webinar facilities – not as good but a serviceable solution. Similarly, our many interactions with the official sector have shifted to dial-in or webinar arrangements rather than physical attendance.

March, April, May and June are very active months for ICMA conferences and events, and this is a particular challenge. All have been cancelled or postponed during this period which is disappointing but inevitable. In particular we have had to take the significant decision to rearrange this year's AGM and Conference in Vienna, moving to holding the AGM only in June this year (if this proves possible) and postponing the Conference element to be held alongside the 2021 AGM, again choosing Vienna as the host city.

It has been very difficult to navigate the recent developments and we are looking forward to emerging from the crisis over the next few months and hopefully resuming normal practices and service.

The longer-term macroeconomic impact of the virus is yet to manifest itself, but we have seen a mixture of monetary policy responses from central banks, including more QE, and fiscal measures from governments to ensure that there is sufficient liquidity available in the real economy, initially with SMEs, to bridge temporary cash flow issues of otherwise healthy companies, minimise unemployment and support individuals. As the crisis has become deeper and more prolonged the clamour of larger companies in hard-hit sectors for government support has intensified and support forthcoming. One problem has been that, until very recently, there was not a globally coordinated response to the crisis, and the piecemeal policy responses increased participants' nervousness and likely contributed to the volatility. The economic impacts are now beginning to become evident – the main question being just how severely growth will be damaged and the related social impact. One can certainly expect rates to remain lower for even longer and economic activity to decline, increasing the challenge for our buy and sell-side members, who have a critical role to play in ensuring liquidity reaches those most in need. By contrast increased volatility may bolster certain market participants' results. Overall, it is simply too early to assess the longer-term impacts but certainly overall this will be negative.

Despite the pandemic our staff have been working hard with our members on the on-going regulatory and market practice initiatives.

The MiFID II workstream has accelerated with a number of important consultations emanating from ESMA and the European Commission as part of the overall review of the legislation this year. We are pleased to see that this legislative package is being reviewed since as outlined in the *MiFID II and the Bond Markets: the Second Year* review published late last year, it has not (yet) achieved what it set out to do. There is also intense dialogue with both private and public sector on our recommendations to create a bond post-trade consolidated tape in Europe.

For repo, a major milestone was the publication of ICMA *Recommendations for Reporting under SFTR* in preparation for the phased implementation of SFTR this year with its extremely granular daily reporting requirements for repos. This extensive guide offers help to interpret the regulatory reporting framework specified by ESMA and sets out best practice recommendations to provide additional clarity and address ambiguities in the official guidance. It is supplemented by a suite of sample reports and an overview of repo life-cycle event reporting.

Two further items I would draw your attention to, and which are discussed in more detail in this QR. Firstly the work we are doing on CSDR and in particular the mandatory buy in regime. This is a mixture of advocacy – we continue to recommend postponing implementation until a full impact assessment has been undertaken – and practical work to try to mitigate some of the worst deficiencies in this legislation to ensure bond market liquidity is not further compromised. The second is the report published recently and referred to above regarding the state of the secondary bond markets.

Sustainability remains an intense focus and occupies more and more of our time, both for our offices in Europe and Asia. We are a member of the European Commission Technical Expert Group and have contributed to the recent advice published by this group on the new EU Taxonomy and the usability of the new EU Green Bond Standard. Future ESG reporting under a range of different regulations is complex and far reaching, impacting most of our member categories and is a topic of increasing focus for ICMA during 2020 and probably beyond.

In conclusion, despite the enormous challenges thrown at us by the coronavirus, which has reminded us of the fragility of markets in times of great stress, ICMA has remained operational throughout and is committed to serving its members with practical guidance and solutions to help the markets function as well as possible. The capital markets have a vital role to play in facilitating the flow of liquidity during these trying times and it is important that they remain open for business.

We are looking forward to putting the current crisis behind us and we hope that you and your families remain safe and well.

Martin Scheck
martin.scheck@icmagroup.org

Post-Brexit: should the transition period be extended?

By Paul Richards

Summary

This Quarterly Assessment considers the prospects for the negotiation of a financial services partnership between the EU and the UK during the transition period post-Brexit, and discusses in particular: the timing and scope of a possible future trade agreement between the EU and the UK; market access for financial services in both directions between the EU and the UK; EU regulatory equivalence; and supervisory cooperation. It is not yet clear whether the COVID-19 pandemic will have an impact on the post-Brexit timetable for the transition period.

Introduction

1 The UK's Withdrawal Agreement with the EU, which took effect on Brexit day on 31 January 2020 and is binding, covers the UK's divorce payment, citizens' rights, and the avoidance of a hard border between Northern Ireland and the Republic. It does not cover financial services. The Political Declaration accompanying the Withdrawal Agreement refers to financial services only at a high level of generality and is not binding.[1]

2 But the Withdrawal Agreement does provide for a transition (or "implementation") period, which began on Brexit day on 31 January 2020. During the transition period, the UK is no longer involved in EU decision-making, but in other respects the *status quo* continues. Under the EU (Withdrawal Agreement) Act, law in the UK is subject to EU law, including for new EU legislation, until the end of the transition period. At that point, EU law is due to be "on-shored" into law in the UK.[2] During the transition period, it is intended that the EU and the UK should negotiate a free trade agreement.

Timing and scope of a possible future free trade agreement

3 The transition period is due to end on 31 December 2020. By historic standards, a period of 11 months (from 31 January to 31 December 2020) is a very short period in which to negotiate a comprehensive trade agreement:

- There is provision in the Withdrawal Agreement for the EU and the UK to agree by the end of June 2020 that the transition period can be extended from the end of 2020 until the end of 2022. But the British Government has stated that the transition period will not be extended and has written this provision into law in the UK.
- The Government hopes that by June the broad outline of an agreement will be clear and capable of being finalised by September; but if not, it will decide whether to focus solely on continuing domestic preparations to exit the transition period in an orderly fashion.[3]
- It is not yet clear whether the global coronavirus (COVID-19) pandemic will have an impact on the post-

1. The revised text of the Political Declaration sets out the framework for the future relationship between the EU and the UK on 17 October 2019: paragraphs 35-37.

2. The 2020 Withdrawal Act amends the 2018 Withdrawal Act so that the conversion of EU law into UK domestic law now takes place at the end of the transition period instead of on Brexit day. It is not yet clear how EU legislation "in flight" at the end of the transition period will be treated in the UK subsequently.

3. HM Government: *The Future Relationship with the EU: The UK's Approach to Negotiations*, February 2020.

Brexit timetable for the transition period and whether there are any lessons to learn from the authorities' response to the one for the other.

4 The scope of any future trade agreement may be limited by the time available to negotiate it:[4]

- The British Government has said that the UK is proposing to negotiate a Canada-style comprehensive trade agreement with the EU. But the EU has said that a comprehensive agreement cannot be negotiated in that time.[5] A comprehensive agreement would also involve difficult political trade-offs;[6] and it is important to note that EU trade agreements with third countries generally also include a prudential "carve-out". In addition to the scope and complexity of the issues to be addressed, a comprehensive agreement would normally need to be ratified by national and regional parliaments in EU Member States as well as by EU institutions. Precedent suggests that this could take a considerable period of time. The broader the scope of the agreement, the more likely is the need for ratification by national and regional parliaments as well as by EU institutions.
- By contrast, a "bare bones" trade agreement covering only goods – eg in the form of a tariff-free quota-free trade deal (though not necessarily removing regulatory barriers to trade in goods) – would be much less complex and could be agreed on the EU side by EU institutions only. Even so, a "bare bones" trade agreement before the end of 2020 would be consistent with a comprehensive trade agreement later if the approach adopted in the negotiations was to reach agreement in stages: ie agreement that issues not covered by the end of 2020 would be subject to further negotiation later.
- In any trade agreement, one of the outstanding questions is whether the EU and the UK will be able to agree on a chapter on financial services. There is a case for setting out the regulatory framework and supervisory arrangements within which both the EU and the UK will seek to cooperate in future.

5 In parallel with its negotiations with the EU, the UK is also seeking to negotiate a trade agreement with the US, and possibly with other third countries.[7] The impact of UK negotiations with the US on the EU and vice-versa will therefore also need to be considered, including on financial services. And within the UK, there are potential differences to consider between the regime in Britain and the regime in Northern Ireland, if Northern Ireland continues to be aligned on trade in goods with the EU, but not with the rest of the UK.

Market access for financial services

(i) UK access to the EU

6 How will market access for financial services be addressed? It is clear that the UK will leave the EU Single Market, as a result of which the Single Market will become two separate markets when passporting rights cease at the end of the transition period.[8] It is not yet clear whether the UK's proposal to negotiate a Canada-style trade agreement will be acceptable to the EU, on account of the EU's geographic proximity and the high degree of economic interdependence with the UK; and, if it is, whether the agreement will cover financial services in any detail. If no agreement is reached, the default option would be to fall back on World Trade Organisation terms, which do not fully cover financial services. Without an agreement, many of the cliff-edge risks originally identified when preparing for a no-deal Brexit (ie on 29 March, 12 April and 31 October 2019) would arise again.[9] Market participants in both the EU and the UK need to be prepared for all contingencies.

7 Having had to prepare for cliff-edge risks on three previous occasions, the financial services industry – located both in the EU and in the UK – would be better prepared for another cliff-edge when passporting rights cease at the end of the transition period. Large international sell-side and buy-side firms are authorised to operate in both the EU and the UK, and are as well prepared as they can be, though it is less clear how well prepared some smaller

4. Michel Barnier, Chief EU negotiator: "If we want to give this relationship [with the UK] all its dimensions, we need to give it more time and continue beyond the end of transition.": European Parliament, 18 December 2019.

5. By comparison, the free trade agreement between the EU27 and Canada (CETA) took seven years to negotiate and ratify.

6. President of the European Commission: "With every decision comes a trade-off. Without the free movement of people, you cannot have the free movement of capital, goods and services. Without a level playing field on environment, labour, taxation and state aid, you cannot have the highest quality access to the world's largest single market. … And without an extension of the transition period beyond 2020, you cannot expect to agree on every aspect of the new partnership.": European Parliament, 18 December 2019.

7. It is also worth noting that the UK attempted to encourage the development of a single market between the EU and NAFTA (ie including the US) in the 1990s.

8. Michel Barnier, Chief EU negotiator: "Does [the UK] want to distance itself, and if so how far, from our regulatory model? It is the answer to this question that will determine our level of ambition.": European Parliament, 18 December 2019.

9. President of the European Commission: "In case we cannot conclude an agreement by the end of 2020, we will face again a cliff-edge situation. This would clearly harm our interest, but it will impact the UK more than us." European Parliament, 18 December 2019.

The EU and UK opening positions on financial services

The opening positions of the two sides on a future trade agreement, including on financial services, appear to be far apart, though they may not in practice be as far apart as they appear, with political will on both sides:

EU's position

The EU is ready to offer a highly ambitious trade deal as the central pillar of its economic partnership with the UK. But because of the EU's geographic proximity and the high degree of economic interdependence with the UK, the EU's offer is conditional on making sure that competition is – and remains – open and fair. This requires guarantees to ensure a level playing field over the long term, including high standards on social, environmental, climate, tax and state aid matters, today and in the future. EU standards should be a reference point.

Where EU and UK rules converge – either because the UK chooses to match EU standards or where activities are subject to international regulations that the EU shares – it will be easier to reach agreement. The more the EU and the UK will have common standards, the higher quality access the EU will be able to offer to its market.

Even so, there will be two separate markets instead of a Single Market. Access to the EU market will be subject to market authorisation and supervision; there will be no harmonisation or mutual recognition of rules; and passporting rights for UK financial services will cease.

The determination of equivalence for financial services or adequacy of the UK data protection regime will be unilateral decisions of the EU. The parties should commit to preserving financial stability, market integrity, investor and consumer protection and fair competition, while taking equivalence decisions in their own interests and being able to adopt any measure for prudential reasons.[10]

UK's position

The agreement should be on the lines of the Free Trade Agreements already negotiated by the EU in recent years with Canada and with other friendly countries. There should be liberalised market access for trade in goods, with no tariffs, and non-tariff barriers should be addressed.

Any agreement must respect the sovereignty of both parties and the autonomy of UK legal orders.[11] It cannot therefore include any regulatory alignment, any jurisdiction of the European Court of Justice over the UK's laws, or any supranational control in any area. The Government will not agree to measures on competition policy, subsidies, environment and climate, labour and tax which go beyond those typically included in a comprehensive free trade agreement.

The UK will be leaving the Single Market and the Customs Union at the end of 2020 and stakeholders should prepare for that reality.

The agreement should promote financial stability, market integrity, and investor and consumer protection for financial services, and include legally binding obligations on market access and fair competition, in line with the recent CETA precedent.

The agreement should also build on recent precedent by establishing regulatory cooperation arrangements that maintain trust and understanding between autonomous systems of regulation as they evolve. This could include appropriate consultation and structured processes for the withdrawal of equivalence findings, to facilitate the enduring confidence which underpins trade in financial services.

The fact that the UK leaves the EU with the same rules provides a strong basis for concluding comprehensive equivalence assessments before the end of June 2020.[12]

10. Statement by Michel Barnier at the presentation of the Commission's proposal for a Council recommendation on directives for the negotiation of a new partnership with the UK: 3 February 2020; European Commission: *Future EU-UK Partnership: European Commission Takes First Step to Launch Negotiations with the UK:* 3 February 2020; and European Council Decision Authorising the Opening of Negotiations with the UJK for a New Partnership Agreement, 25 February 2020.

11. David Frost, Chief UK negotiator: "We must have the ability to set laws that suit us – to claim the rights that every other non-EU country in the world has. So to think that we might accept EU supervision on so-called level playing field issues simply fails to see the point of what we are doing. That is not a simple negotiating position which might move under pressure – it is the point of the whole project.": *Reflections on the Revolutions in Europe:* 17 February 2020.

12. HM Government: *The Future Relationship with the UK: The UK's Approach to Negotiations: February 2020.*

firms would be. But however extensive the preparations, they are unlikely to be sufficient to avoid cliff-edge risks altogether. So the agreements previously negotiated by the EU and the UK to address cliff-edge risks to financial stability need to renewed, where possible, or extended so that they cover, in particular: the ability of EU counterparties to trade with UK central counterparties; the novation of non-cleared derivatives contracts from the UK to the EU; the transmission of data from the EU to the UK;[13] and also the continuing delegation of fund management. Agreement to address cliff-edge risks is in the interests of both sides, but the outcome may depend on the political climate in which the negotiations take place.

8 The UK FCA has set out, for UK firms, considerations affecting whether any business that they undertake in the EEA from the UK can continue on the same legal basis after the end of the transition period or whether new regulatory permissions will be needed.[14] They include:

- permission under local law or based on rules of a local financial market infrastructure;
- local exemptions in an individual EEA country;
- whether "reverse solicitation" is permitted without local authorisation;
- whether an EU Member State has put in place a regime to provide continuity of business for a temporary period; and
- whether an activity is covered by an EU decision on the UK's equivalence.

(ii) EU access to the UK

9 Unlike the EU, the UK has a Temporary Permissions Regime (TPR) which will allow EEA firms currently using a passport to operate for a limited period when the passporting regime ends at the end of the transition period while they seek authorisation to carry out business in the longer term. Under the TPR, a firm that is authorised to carry on regulated activities in the UK can obtain permission to carry on those activities for a maximum of three years from the end of the transition period. The objective of the TPR is to help the UK PRA and FCA ensure a smooth and orderly authorisation process and avoid risks to financial stability.[15]

10 Longer term, the UK authorities have said: "The UK, and the global financial centre we host, will remain open to access from the EU and its members as we are open to access from the US and Asia."[16] How will this work in practice? The UK authorities have in the past had a significant influence over EU rules. But now that they no longer have any say over EU rules,[17] it is already clear that the UK will need the capacity to review and adapt its own rulebook.[18] In doing so, some of the questions that need to be considered include:

- how the UK authorities will treat EU legislation "in flight" at the end of the transition period: unless the UK continues to follow EU rules, minor differences between EU and UK rules will begin to occur very soon after the transition period ends;
- how they will organise, on the UK statute book, the variety of EU Regulations and Directives at Level 1, and Regulatory and Implementing Technical Standards at Level 2 "on-shored" in the UK;
- whether the UK authorities will review EU Regulations and Directives (eg MiFID II/R, Solvency II, PRIIPs, CSDR, AIFMD), as the EU does periodically, and propose changes that are considered more appropriate for the UK; and whether they will regulate new initiatives (eg on FinTech) in a different way from the EU;
- whether they will treat firms which operate in the domestic UK market – especially in the retail sector – differently from international firms providing wholesale financial services across borders;[19] and
- whether they will maintain the same standards as the EU, but simplify the legislation needed to achieve them: eg by hard-wiring less detail into UK legislation than the EU and leaving more latitude to UK regulators. One option would be for Parliament to give UK prudential and conduct regulators operational independence within a clear mandate for which they

13. See ICMA Quarterly Report, Fourth Quarter 2019, *Can Capital Market Fragmentation Be Avoided?* Box A on addressing cliff-edge risks on a no-deal Brexit. See also evidence submitted by the FCA and PRA to the House of Lords Select Committee on the EU, Financial Affairs Sub-Committee, 12 February 2020.

14. FCA, 3 February 2020.

15. Bank of England: Temporary Permissions Regime.

16. Sir Jon Cunliffe, Deputy Governor Financial Stability, Bank of England: *Governance of Financial Globalisation,* 11 February 2020.

17. Except by influencing them indirectly, by setting an example.

18. Andrew Bailey: Evidence to the House of Lords Select Committee on the EU, Financial Affairs Sub-Committee, 12 February 2020.

19. See also Lord Blackwell: *Britain Should Diverge on Domestic Financial Services Rules,* FT, 25 February 2020.

are politically accountable and subject to Parliamentary scrutiny.[20] Such an approach would conform more closely to the use of common law in the UK and provide the flexibility that regulators need to adapt to the requirements of overseeing a global financial centre. In the EU, civil law tends to require more detailed codification of rules. EU regulation also helps to ensure that all EU Member States implement EU rules in a consistent way.

EU regulatory equivalence

11 Market access for financial services in both the EU and the UK will be influenced by the determination of regulatory equivalence. The EU negotiates with third countries on market access for financial services through regulatory equivalence, which is determined unilaterally by the European Commission, where there is provision to do so in specific EU regulations. While decisions on regulatory equivalence are technically separate from negotiations on the future trade agreement between the EU and the UK, in practice the political context is likely to be important. The Political Declaration attached to the Withdrawal Agreement states that the EU and the UK should attempt to complete an assessment of regulatory equivalence by the end of June 2020, though decisions will only be taken by the EU later.[21] There are three key questions:[22]

(i) Scope for regulatory equivalence at the outset

12 The first is whether there will be regulatory equivalence between the EU and the UK at the outset (ie at the end of the transition period), as at the end of the transition period EU and UK rules will be the same. As EU and UK rules will initially be the same, the scope for regulatory equivalence should be considerable, unless the two sides cannot agree on a level playing field intended to prevent unfair competition or on the scope for regulatory divergence later.[23]

13 But regulatory equivalence is a patchwork. EU financial services law currently includes around 40 provisions which allow the European Commission to adopt equivalence decisions, of which around 240 have been taken so far affecting 30 third countries. These provisions generally relate to wholesale markets rather than retail markets, and they tend to be included only in more recent EU legislation (like MiFID II/R). So the scope for equivalence does not cover the regulation of financial services (or capital markets) as a whole, and it does not cover supervisory cooperation. Equivalence needs to be considered case by case in relation to the terms of the EU Regulations and Directives to which it applies.

14 Given that EU and UK rules will initially be the same, there is a case for considering whether the scope for regulatory equivalence can be enhanced, though that would also involve considering the implications for other third countries. But even if regulatory equivalence cannot be enhanced in legal form, there may be opportunities to achieve enhancement in practice: eg through regular exchanges of information between the EU and the UK about regulatory priorities.

(ii) Outcomes-based equivalence in the future

15 While EU and UK rules will start the same when the transition period ends, the second question is how to develop a stable and predictable EU/UK regulatory framework for the future. This needs to cover in particular the scope for sensible divergence between EU and UK rules. It is already clear that the British Government will want to be able to change UK rules so that they do not automatically follow EU rules, but instead that the UK has the ability to diverge from them.[24] Rules in other third countries (eg the US) have historically developed in a different way from the EU and, as a result, they are not the same as EU rules when regulatory equivalence is determined between them. In the case of the UK, the position is the other way around. UK and EU rules will start the same, but they are then expected to diverge. The UK authorities have said that "the UK cannot outsource regulation and supervision of the world's leading complex financial system to another jurisdiction."[25]

20. The HM Treasury review of the post-Brexit regulatory framework will include "the need for ensure financial stability is delivered through an effective regulatory framework, with the responsiveness necessary to a dynamic an open financial services sector and an appropriate level of democratic accountability." A Financial Services White Paper is expected in spring 2020. See also: Victoria Saporta: *The Ideal Post-EU Regulatory Framework*, 10 March 2020.

21. Valdis Dombrovskis, European Commission: "We should start assessing equivalence as soon as possible with a view to concluding these assessments by the end of June. But we will take the actual decisions later, taking into account overall developments, including any divergences from EU rules.": 10 March 2020.

22. See also Andrew Bailey's evidence to the House of Lords Select Committee on the EU, 12 February 2020.

23. President Macron: "Ease of access to the European market will depend on the degree to which the EU's rules are accepted, because we cannot allow any harmful competition to develop between us: Letter to *The Times,* 1 February 2020.

24. The British Prime Minister spoke in favour of "an ambitious free trade agreement, with no alignment on EU rules, but instead control of our laws and close and friendly relations.": House of Commons, 20 December 2019.

25. Sir Jon Cunliffe, Deputy Governor for Financial Stability, Bank of England: *Governance of Financial Globalisation,* Berlin, 11 February 2020.

16 Although the EU and the UK will not necessarily follow the same rules after the end of the transition period, they both believe in achieving equivalent outcomes (eg ensuring financial stability, investor and consumer protection, fair competition, market integrity and the prevention of regulatory arbitrage).[26] There should therefore be scope for achieving regulatory equivalence based on equivalent outcomes, unless the EU insists that equivalent outcomes can only be achieved if both parties have the same rules. As the rules are not the same in the case of EU agreements with other third countries (eg Canada and Japan, which have comprehensive agreements with the EU),[27] the remaining question is whether or not the UK should be treated differently because of its geographical proximity to the EU and the high degree of economic interdependence between them.

17 An outcomes-based approach to regulatory equivalence is particularly relevant in cases in which both the EU and the UK are implementing, in their own respective jurisdictions, global commitments agreed by global bodies such as the Financial Stability Board of the G20, the Basel Committee of Banking Supervision and IOSCO.[28] Such an outcomes-based approach would also help to reflect the differences between the legal systems in the EU and the UK: ie where the EU's legal system is based on codification of rules under civil law and the UK's system is based on principles and practice under common law.

(iii) Withdrawal of equivalence

18 The third question is what process should be used for the withdrawal of regulatory equivalence and how much notice needs to be given. In the EU, extra powers have recently been granted to the European Supervisory Authorities to monitor equivalence with third countries, and equivalence can be withdrawn unilaterally by the EU at 30 days' notice or granted only for a period with a time limit. Equivalence has been withdrawn by the EU in two recent cases: equivalence for the trading of Swiss shares in the EU; and equivalence under the CRA Regulation in the cases of Australia, Brazil, Canada and Singapore.

19 In the case of equivalence between the EU and the UK, agreement is needed on joint monitoring and on arbitration to resolve disputes.[29] That should make it possible in practice for both sides to consider the regulatory consequences of divergence sufficiently in advance. It is clear that 30 days' notice is much too short a period for market firms to prepare for regulatory changes and would carry risks to financial stability. For example, if equivalence for UK-based clearing houses were to be withdrawn so that EU clients were no longer authorised to use them, an orderly process of unwinding that collateral would take about three months.[30] In some other cases, the period of adjustment would need to be significantly longer.

Supervisory cooperation

20 In order to help ensure financial stability, continuing supervisory cooperation between the EU and the UK will be essential, with or without a deal at the end of the transition period. Against the risk of a no-deal Brexit in 2019, the EU and the UK negotiated Memoranda of Understanding to ensure that supervisory cooperation continued between them. Similar considerations need to apply in the event of no deal at the end of the transition period. Over the past 18 months, the Bank of England has signed 30 MOUs with EU and EU Member State authorities covering nearly all aspects of financial sector activity. The FCA has followed a similar approach.[31]

21 Continuing supervisory cooperation will also be needed if there is a trade agreement between the EU and the UK before the end of the transition period. In the case of the UK, large EU financial institutions active in London will need to be able to reassure the UK authorities about risks they import into the UK, as the Bank of England has made clear that it is committed to maintain a level of financial sector resilience which exceeds the requirements of

26. Steven Maijoor, Chair of ESMA: "EU equivalence decisions taken in financial markets have been overwhelmingly outcome-based resulting in reliance on home country regulation and supervision.": June 2019.

27. Mark Carney: "If we project forward 20 or 25 years, we are not going to have textual equivalence relationships with China on financial services. We are going to have something outcome-based.": Evidence to the House of Lords Committee on Economic Affairs, 11 February 2020.

28. G20: "Jurisdictions and regulators should be able to defer to each other when it is justified by the quality of their respective regulatory and enforcement regimes, based on similar outcomes, in a non-discriminatory way.": 2014. See also Mark Carney: "[The future relationship] will require developing a form of equivalence that would look like the forms of equivalence that have been applied with respect to derivatives between the Bank of England and the CFTC. It would also look consistent with the principles that were developed through the FSB." Evidence to the House of Lords Select Committee on Economic Affairs, 11 February 2020.

29. The dispute settlement mechanism in the EU-Canada Comprehensive Economic and Trade Agreement (CETA) and the binding commitments agreed in the EU-Japan Economic Partnership Agreement (EPA) provide precedents.

30. Evidence by Mark Carney to the House of Lords Select Committee on Economic Affairs, 11 February 2020.

31. Sir Jon Cunliffe, *Governance of Financial Globalisation,* Berlin, 11 February 2020.

international standards. A degree of joint supervision will also be needed in some cases (as in the case of colleges of supervisors for the financial market infrastructure).

22 The EU has a similar concern to ensure as far as possible that its regulatory system is not undermined by risks affecting the EU arising from the activities of financial firms in third countries outside its control. Where the EU considers that systemic risks are greatest, EU regulatory and supervisory oversight can be expected to be the most intense. One way in which the EU has sought to address this risk is by following a location policy, under which financial institutions with EU customers need to be located within the EU so that they can be authorised and supervised by EU supervisors. Another way would be to intensify supervisory cooperation between the EU and the UK so as to be able to manage risks to financial stability across borders.

A financial services partnership?

23 The EU and the UK have an opportunity to avoid most potential cliff-edge risks at the end of the transition period, when passporting rights cease, by agreeing that: (i) there is regulatory equivalence at the outset, as at the outset EU/UK rules will be the same; (ii) regulatory equivalence should not be withdrawn in the event that divergence takes place later, so long as outcomes remain the same; and (iii) that, if regulatory equivalence is withdrawn, there should be a process for managing this jointly in a way that minimises risks to financial stability. The result would be that, while EU and UK rules would be able to diverge in principle, in accordance with British Government policy, they would only diverge in practice if either the EU or the UK were to determine that they should. Both sides would have the right to diverge, but divergence would not be an obligation. These arrangements for an EU/UK partnership on financial services could be written into a proposed future free trade agreement as a separate chapter; or agreed as a joint declaration on cooperation with MOUs.

24 It is in the interests of both the EU and the UK to agree as much common ground as they can on the regulation and supervision of Europe's capital markets in future so as to maximise the opportunities for sustainable growth across Europe. From the UK's perspective, an agreement with the EU (eg on regulatory equivalence and supervisory cooperation) would help to bridge the gap between the two separate EU and UK markets once passporting rights cease. From the EU's perspective, continued access to London's markets would support the financing of the EU economy while Capital Markets Union in the EU continues to develop. Instead of developing in isolation, EU markets would then continue to be sufficiently integrated with London as the largest global financial centre in Europe. Integrated capital markets would also help the whole of Europe confront global challenges, like the coronavirus (COVID-19) pandemic in the short term and climate change over the longer term, and unnecessary capital market fragmentation would be avoided. There would be a better opportunity to negotiate a lasting settlement if the transition period is extended.

Contact: Paul Richards
paul.richards@icmagroup.org

Official responses to the market impact of COVID-19

By David Hiscock

Summary

The COVID-19 pandemic has spread widely and rapidly and is having dramatic impacts in many ways. This short article provides a round-up of responses to the market impacts, with a focus on the financial regulatory actions being taken to help contend with these impacts.

Among the earlier signs of what was to follow in these respects, on 19 February, ESMA published its first *Trends, Risks and Vulnerabilities* (TRV) report of 2020, which stated that overall ESMA had identified continued high risks. In reporting on the market environment, ESMA noted that, "more recently, the coronavirus outbreak has also increased uncertainty and could dampen economic activity in the short run." Then, the BCBS met in Basel, on 26-27 February. Among other things, they discussed the financial stability implications of the coronavirus outbreak for the banking system and encouraged banks and supervisors to remain vigilant in light of the evolving situation.

On 16 March, the G7 leaders published a statement on COVID-19, acknowledging that the pandemic is a human tragedy and a global health crisis which also poses major risks for the world economy. They committed to doing whatever is necessary to ensure a strong global response through closer cooperation and enhanced coordination of their efforts and, while recognising that current challenges may require national emergency measures, to the stability of the global economy. They expressed their conviction that current challenges related to the pandemic need a strongly coordinated international approach consistent with their democratic values, and utilizing the strengths of private enterprise. They committed to marshalling the full power of their governments to coordinate on necessary public health measures to protect people at risk from COVID-19; restore confidence, growth, and protect jobs; support global trade and investment; and encourage science, research, and technology cooperation.

Subsequently, on 17 March, a video conference of the members of the European Council was held. The conclusions report that during the meeting information and practices were exchanged and four priorities identified: (i) limiting the spread of the virus; (ii) provision of medical equipment; (iii) promotion of research, including for a vaccine; and (iv) tackling socio-economic consequences. With respect to the latter, the Union and its member states stand ready to make use of all instruments that are necessary. In particular they will address any impact on liquidity, on support for SMEs and specific affected sectors, and for their employees. Flexible application of EU rules in particular as regard State aid and the Stability and Growth Pact will be needed. Already, on 13 March, the Commission set out the European coordinated response to counter the economic impact of the Coronavirus, and the Commission has established a coronavirus response team.

Already, on 11 March, ESMA announced that, together with NCAs, it is closely monitoring the situation in view of the continuing impact of the COVID-19 outbreak on financial markets in the EU. Following a Board of Supervisors discussion examining the market situation and contingency measures taken by supervised entities, ESMA made recommendations to financial market participants regarding business continuity planning; market disclosure; financial reporting; and fund management. ESMA, in coordination with NCAs, continues to monitor developments in financial markets as a result of the COVID-19 situation and is prepared to use its powers to ensure the orderly functioning of markets, financial stability and investor protection.

Then, on 12 March, ECB Banking Supervision announced the provision of temporary capital and operational relief in reaction to coronavirus. This confirmed that banks can fully use capital and liquidity buffers, including Pillar 2 Guidance, and will benefit from relief in the composition of capital for Pillar 2 requirements; while the ECB will consider operational flexibility in the implementation of bank-specific supervisory measures. Alongside this, the EBA issued a statement on actions to mitigate the impact of COVID-19 on the EU banking sector. It announced that the EU-wide stress test is postponed to 2021, to allow banks to prioritise operational continuity; and that NCAs should make full use, where appropriate, of flexibility embedded in existing regulation. And, on 17 March, EIOPA similarly issued a statement on actions to mitigate the impact of COVID-19 on the EU insurance sector.

In the UK, following announcement by the Bank of England's FPC of its, 11 March, decision to set the UK countercyclical capital buffer (CCyB) rate at 0% with immediate effect, the PRA published a statement of its accompanying measures. These detail some points concerning distributions and offer guidance on capital buffers. The PRA also covers transitional measures on technical provisions' relief for insurers. Subsequently, on 17 March, the FCA published information for firms on COVID-19, confirming that it is closely monitoring the coronavirus situation and stands ready to take any steps necessary to ensure customers are protected and markets continue to function well. This information includes points relating to regulatory change (including significant extension of several consultation periods); operational resilience; and market trading and reporting.

On 17 March, the Saudi G20 Presidency announced that it was communicating with G20 countries to convene an extraordinary virtual G20 Leaders Summit, in March, to advance a coordinated response to the COVID-19 pandemic and its human and economic implications for G20 Leaders to put forward a coordinated set of policies to protect people and safeguard the global economy. The Summit is intended to build on the ongoing efforts of the G20 Finance Ministers and Central Bank Governors, senior health, trade, and foreign affairs officials, to further develop the precise requirements and actions needed.

On 18 March, the FCA issued a statement on property fund suspensions, indicating its understanding that certain Standing Independent Valuers have determined that there is currently material uncertainty over the value of commercial real estate (CRE); and that, in such situations, a fair and reasonable valuation of CRE funds cannot be established. As a result, some managers of open-ended CRE funds have temporarily suspended dealing in units of these funds and others are likely to follow for the same reason, which is in line with their obligations under applicable regulations and, in these circumstances, likely to be in the best interests of fund investors.

On 19 March, ESMA issued a public statement to ensure coordinated supervisory actions on the application of SFTR, in particular, on the requirements regarding the reporting start date, as well as the registration of Trade Repositories (TRs). ESMA expects competent authorities not to prioritise their supervisory actions towards entities subject to SFT reporting obligations as of 13 April and until 13 July 2020. ESMA also expects TRs to be registered sufficiently ahead of the next phase of the reporting regime, ie 13 July 2020, for credit institutions, investment firms, CCPs and CSDs and relevant third-country entities to start reporting as of this date.

Alongside this, ESMA issued two positive opinions on emergency measures under the SSR relating to proposed measures by the Hellenic Capital Market Commission (HCMC) and by the Belgian FSMA. Already, ESMA had issued similar, positive, opinions relating to short selling bans by the French AMF, the Italian CONSOB and the Spanish CNMV. Additionally, on 16 March, ESMA had issued a decision temporarily (a period of three months) requiring the holders of net short positions in shares traded on a EU regulated market to notify the relevant NCA if the position reaches or exceeds 0.1% (lowered from 0.2%) of the issued share capital after the entry into force of the decision. The FCA published a, 17 March, statement on short selling bans and reporting, confirming that it will apply this change in the UK.

Also, on 19 March, FINMA noted that the operations of financial institutions and the financial market infrastructure (FMI) in Switzerland are continuing to function well; and that the institutions are also well equipped to deal with extreme stress scenarios. In light of the current situation FINMA also highlights that it will apply simplified rules for the trading room and points out an increase in certain cyber risks. FINMA is taking a risk-oriented and countercyclical approach to its supervisory work, so certain deadlines and routine control activities may therefore be postponed.

On 20 March, the Bank of England and PRA announced a number of measures aimed at alleviating operational burdens on PRA-regulated firms and Bank-regulated FMIs, in the wake of the COVID-19 outbreak. These measures are being taken to provide flexibility to help firms and FMIs maintain their safety and soundness and deliver the critical functions they provide to the economy. The measures include: (i) cancellation of the Bank's 2020 annual stress test – the annual cyclical scenario; (ii) amendments to the biennial exploratory scenario timetable; (iii) consideration of the potential interaction of COVID-19 with IFRS9, including through discussion with relevant bodies domestically and internationally, and with further guidance expected to be provided; and (iv) postponement of the joint Bank/FCA survey into open-ended funds.

Additionally, on 20 March, the FCA issued a statement regarding its approach to supervising reporting under SFTR. The FCA states that it supports ESMA's, 18 March, statement and will not prioritise supervision of these reporting requirements until at least 13 July 2020. The FCA also states that it will not require firms to back report any SFTs that are concluded between 13 April and 13 July 2020. However, SFTs that meet the criteria specified in SFTR Article 4(1)(a)(i) and (ii) (Backloading) should be reported using 13 July 2020 as the application date. Firms in scope of the first two application phase-in dates should continue to plan to meet their requirement to report SFTs under SFTR and MiFIR from 13 July 2020.

Also, on 20 March, the FSB, representing a broad and diverse membership of national authorities, international standard setters and international bodies, announced that it is actively cooperating to maintain financial stability during market stress related to COVID-19. The FSB encourages authorities and financial institutions to make use of the flexibility within existing international standards to provide continued access to funding for market participants and for businesses and households facing temporary difficulties from COVID-19, and to ensure that capital and liquidity resources in the financial system are available where they are needed. The FSB notes that many of its members have already taken action to release available capital and liquidity buffers, in addition to actions to support market functioning and accommodate business continuity plans.

Alongside this, the BCBS announced that it held a conference call, on 20 March, to discuss the impact of the rapid worldwide spread of COVID-19 on the global banking system. It notes that BCBS member jurisdictions are pursuing a range of regulatory and supervisory measures to alleviate the financial stability impact of COVID-19 – targeting the provision of lending by banks to the real economy and facilitating banks' ability to absorb losses in an orderly manner. – and have flexibility to undertake further measures if needed. The BCBS is continuing to assess and address the banking and supervisory implications of COVID-19, and in the immediate term is suspending consultation on all policy initiatives and postponing all outstanding jurisdictional assessments planned in 2020.

In the coming days, the BCBS will consider additional measures aimed at supporting the financial resilience of banks and the operational resilience of both the banking and supervisory community during these unprecedented times.

On 20 March, ESMA issued a public statement to clarify issues regarding the application by firms of the MiFID II requirements on the recording of telephone conversations, reminding firms of the requirements in this area. Considering the exceptional circumstances, ESMA recognises that some scenarios may emerge where, notwithstanding steps taken by the firm, the required recording of relevant conversations may not be practicable. Under these exceptional scenarios ESMA expects firms to consider what alternative steps they could take to mitigate the risks related to the lack of recording. Firms are expected to deploy all possible efforts to ensure that the above measures remain temporary and that recording of telephone conversations is restored as soon as possible.

ESMA also issued a public statement to ensure coordinated supervisory actions by NCAs on the application of the new tick-size regime for SIs under MiFIR and the IFR, responsive to developments related to the COVID-19 pandemic and the related actions taken by the EU Member States. ESMA expects NCAs not to prioritise their supervisory actions in relation to the new tick-size regime, from 26 March, the application date, until 26 June 2020, and to generally apply their risk-based supervisory powers in their day-to-day enforcement of applicable legislation in this area in a proportionate manner.

Furthermore, ESMA announced its decision to extend the response date for all ongoing consultations with a closing date on, or after, 16 March by four weeks, recognising that. COVID-19 has impacted significantly the activities of all market stakeholders. This announcement concerns seven specified consultations and the revised dates are reflected on the relevant page where the respective answers must be uploaded.

Additionally, on 20 March, ECB Banking Supervision announced that it was providing further flexibility to banks in reaction to COVID-19. In particular it is (i) giving banks

ESMA announced its decision to extend the response date for all ongoing consultations with a closing date on, or after, 16 March by four weeks.

further flexibility in prudential treatment of loans backed by public support measures; (ii) encouraging banks to avoid excessive procyclical effects when applying the IFRS 9 international accounting standard; and activating the capital and operational relief measures, announced on 12 March – the capital relief amounts to €120 billion and could be used to absorb losses or potentially finance up to €1.8 trillion of lending.

And, on 20 March, EIOPA issued recommendations addressed to NCAs on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure in light of COVID-19, in order to allow undertakings to concentrate their efforts on monitoring and assessing the impact of the COVID-19 situation as well as ensuring business continuity during these difficult times. The recommendations aim to offer operational relief in allowing for delays in reporting and public disclosure in relation to annual reporting, and solvency and financial condition reports for year-end 31 December 2019; and for Q1 2020 reporting.

Relatedly, the ESMA SMSG put forward its advice to ESMA in an own initiative report on measures relating to the COVID-19 crisis, dated 20 March. The SMSG urges ESMA to take action to postpone deadlines in respect of consultations; implementation, and reporting obligations. The SMSG also strongly advises ESMA to use it powers to coordinate diverging Member State short-selling measures and publish what measures NCAs have taken in this respect on a dedicated web-page. The SMSG recommends for ESMA to closely coordinate with NCAs to ensure that European markets will remain open and continue to operate efficiently in this challenging environment; and comments on the impact of work from home on voice recording and time stamping.

Responsively, on 23 March, the UK PRA issued a statement outlining its approach to regulatory reporting for UK insurers, in response to COVID-19 and considering EIOPA's, 20 March, recommendations. This details delays the PRA will accept for various aspects of Solvency II harmonised regulatory reporting, and PRA-owned regulatory reporting.

G20 Finance Ministers and Central Bank Governors met virtually, on 23 March, to discuss COVID-19's impact on the global economy and coordinate their efforts. They agreed to monitor COVID-19's evolution closely, including its impact on markets and economic conditions and take further actions to support the economy during and after this phase; and to develop a joint G20 Action Plan, which will outline the individual and collective actions that G20 has taken and will be taking. Furthermore, they discussed ways for stepping up coordinated efforts by creditors to address the risks of debt vulnerabilities, especially in low-income countries; and the role of the IMF and allied financial institutions, to deploy all available resources and explore additional measures needed to support financial stability and alleviate liquidity constraints for emerging markets and developing economies.

Additionally, a teleconference of EU Economics and Finance Ministers was held, on 23 March. Ministers discussed the flexibility of the Stability and Growth Pact, in view of the communication presented, on 20 March, by the European Commission on the economic aspects of the COVID-19 crisis. Ministers also exchanged views on the economic impact of the COVID-19 crisis and the various measures adopted both at national and European level to address it; and on the impact of COVID-19 on the European Semester 2020 and the way forward over the coming months.

Also, on 23 March, the FCA issued a statement on UK markets. This confirms that the FCA is working with international counterparts, in the US, EU and elsewhere, so that markets can remain open and orderly, and so they can continue to perform their essential role in supporting businesses, governments, jobs and the broader economy. It also comments specifically on short-selling activity.

Meanwhile, ESMA issued a, 23 March, positive opinion in respect of a proposed emergency measure, put forward by the Austrian Finanzmarktaufsicht (FMA), under the EU Short-Selling Regulation, for a period of one month to 18 April.

On 24 March, a statement of G7 Finance Ministers and Central Bank Governors was issued. This confirms that, consistent with the direction from G7 Leaders, they are taking action and enhancing coordination on their dynamic domestic and international policy efforts to respond to the global health, economic, and financial impacts associated with the spread of COVID-19. Collectively, G7 nations have already enacted a wide-ranging set of health, economic, and financial stability measures. They will do whatever is necessary to restore confidence and economic growth

The FCA is working with international counterparts, in the US, EU and elsewhere so that markets can remain open and orderly.

The central assumption that firms cannot rely on LIBOR being published after the end of 2021 has not changed and should remain the target date for all firms to meet.

and to protect jobs, businesses, and the resilience of the financial system; and also pledge to promote global trade and investment to underpin prosperity.

On 25 March, the EBA issued a press release to provide clarity to banks and consumers on the application of the prudential framework in light of COVID-19 measures. The EBA calls for flexibility and pragmatism in the application of the prudential framework and clarifies that, in case of debt moratoria, there is no automatic classification in default, forborne, or IFRS9 status; but, nevertheless, insists on the importance of adequate risk measurement. As a follow-up to its decision to support banks' focus on key operations and to limit any non-essential requests in the short term, the EBA has reviewed all ongoing activities requiring inputs from banks in the next months and decided: (a) to extend the deadlines of ongoing public consultations by two months; (b) to postpone all public hearings already scheduled to a later date and run them remotely via teleconference or similar means; (c) to extend the remittance date for funding plans' data; and (d) in coordination with the BCBS, to extend the remittance date for the QIS based on December 2019 data.

Alongside this, on 25 March, ESMA issued a public statement on some accounting implications of the economic support and relief measures adopted by EU Member States in response to the COVID-19 outbreak.

On 25 March, IOSCO announced that its members, who regulate over 95% of the world's capital markets, are cooperating closely on their responses to the disruption in capital markets resulting from the macroeconomic impact of COVID-19 on the global economy. Securities regulators are focused on the operational and financial resilience of market infrastructures, the operational capability of market users, and the continued flow of information to these markets. They are also providing the appropriate regulatory flexibility to help market participants address the challenges posed by COVID-19 while ensuring that market integrity and investor protection principles are maintained. IOSCO and its members will continue to monitor developments in financial markets arising from the COVID-19 situation and react accordingly.

Also, on 25 March, the FCA issued a statement regarding the impact of COVID-19 on firms' LIBOR transition plans over the coming months. This states that the central assumption that firms cannot rely on LIBOR being published after the end of 2021 has not changed and should remain the target date for all firms to meet. There has, however, been an impact on the timing of some aspects of the transition programmes of many firms; and, particularly in segments of the UK market that have made less progress in transition and are therefore still more reliant on LIBOR, such as the loan market, it is likely to affect some of the interim transition milestones.

Additionally, on 25 March, FINMA welcomed the Federal Government's package of measures, as adopted by the Federal Council. This provides for a rapid and unbureaucratic supply of liquidity to the real economy via the banks. In order to help maintain the current robustness of the Swiss financial institutions, FINMA calls on them to adopt a prudent distribution policy. Finally, FINMA is introducing the temporary exclusion of central bank reserves from the calculation of the leverage ratio.

On 26 March, the UK FCA, FRC and PRA announced a series of actions to ensure information continues to flow to investors and support the continued functioning of the UK's capital markets. This includes: (i) a statement by the FCA allowing listed companies an extra 2 months to publish their audited annual financial reports: (ii) guidance from the FRC for companies preparing financial statements in the current uncertain environment, complemented by guidance from the PRA regarding the approach that should be taken by banks, building societies and PRA-designated investment firms in assessing expected loss provisions under IFRS9; and (iii) guidance from the FRC for audit firms seeking to overcome challenges in obtaining audit evidence. It is acknowledged that previous market practices relating to the timing and content of financial information and the audit work that is done must change.

Also on 26 March, the FCA published its expectations on financial resilience for FCA solo-regulated firms. They want to see firms to continue operating in this challenging period, and intend, where they can, to provide flexibility to regulated firms to ensure this. Capital and liquidity buffers are there to be used in times of stress, and firms who have been set buffers can use them to support the continuation of the firm's activities. Firms should be planning ahead and ensuring the sound management of their financial resources, and if a firm is concerned it will not be able to meet its capital requirements, or its debts as they fall due, they should contact their FCA supervisor with their plan for the immediate period ahead.

A statement on COVID-19 was issued following the extraordinary virtual G20 Leaders' Summit, held on 26 March. The Leaders affirmed their commitment to do whatever it takes to overcome the pandemic, along with the WHO, IMF, WBG, UN and others. They committed to take all necessary health measures and seek to ensure adequate financing to contain the pandemic and protect people, especially the most vulnerable. Regarding safeguarding the global economy, they committed to do whatever it takes and to use all available policy tools to minimize the economic and social damage from the pandemic, restore global growth, maintain market stability, and strengthen resilience. They also reiterated their goal to realize a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment, and to keep their markets open.

A joint statement of the Members of the European Council was issued following their meeting by videoconference, on 26 March. The Members affirmed that they will continue to work along the five strands defined at their videoconferences on 10 and 17 March 2020 and do what is necessary to overcome the COVID-19 crisis. Considering the tackling of socio-economic consequences, they supported the resolute action taken by the ECB and took note of the progress made by the Eurogroup - inviting the Eurogroup to present proposals to them within two weeks. Also noting that EU Member States have taken extensive action to support their economies and alleviate social and employment problems, they affirmed that they will use EU instruments to support such actions to the extent necessary.

On 27 March, ESMA issued a public statement on the implications of COVID-19 on the deadlines for publishing financial reports which apply to listed issuers under the Transparency Directive. The Statement acknowledges the difficulties encountered by issuers in preparing financial reports and the challenges faced by auditors in carrying out timely audits of accounts due to COVID-19, which may impair the ability of issuers to publish within the legislative deadlines. On that basis, the statement recommends NCAs to apply forbearance powers towards issuers who need to delay publication. Issuers should keep their investors informed of the expected publication delay and be aware that requirements under MAR still apply.

On 27 March, the BCBS's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of Covid-19 on the global banking system. The measures endorsed by the GHOS comprise the following changes to the implementation timeline of the outstanding Basel III standards: (i) the implementation date of the Basel III standards, finalised in December 2017, has been deferred by one year, to 1 January 2023, with the accompanying transitional arrangements for the output floor also extended by one year, to 1 January 2028; (ii) the implementation date of the revised market risk framework, finalised in January 2019, has been deferred by one year, to 1 January 2023; and (iii) the implementation date of the revised Pillar 3 disclosure requirements, finalised in December 2018, has been deferred by one year, to 1 January 2023.

For further updates on official responses, please see the ICMA COVID-19 resource page on the ICMA website.

Contact: David Hiscock
david.hiscock@icmagroup.org

The G20 Leaders affirmed their commitment to do whatever it takes to overcome the pandemic.


The Chinese bond market and the impact of COVID-19

By Jenny Ai, Vice President and Yan Liu, Research Director, China Lianhe Credit Rating Co., Ltd.

Official sector measures to stabilize the Chinese bond market

Facing the COVID-19 pandemic, Chinese regulatory authorities have promptly issued policies and have taken measures to support the economy and stabilize the financial market.

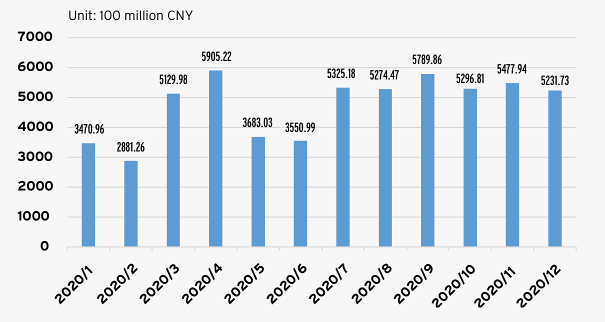
To minimize the impact of the COVID-19 pandemic on the Chinese economy, the People's Bank of China launched an oversized reverse repo of RMB 1.2 trillion on 3 February 2020 and lowered 7-day and 14-day reverse repo rates by 10 basis points to 2.40% and 2.55% respectively. Further interest rate cuts are expected to follow.

In late January and early February 2020, the People's Bank of China, China Securities Regulatory Commission (CSRC), Shanghai Stock Exchange, National Association of Financial Market Institutional Investors (NAFMII), National Development and Reform Commission, and Securities Association of China and other national ministries issued relevant policies under their jurisdiction. The policies involve measures to provide and maintain sufficient liquidity in the financial market, to ease the pressure of debt repayment for some companies through means such as differentiated financial discount or support on issuing new debts to pay old ones, and to fast-track bond issuance for specific geographies and uses of proceeds.

As credit structure diverges, companies in certain industries and regions will be worse hit

In 2020, it is estimated that approximately RMB10 trillion[1] of credit bonds will mature in the Chinese domestic bond market. Most of these bonds[2] will mature after March and will be affected by the pandemic to some degree. The distribution of these bonds by corporate ratings shows that their ratings are concentrated at AA level or above. In the overall credit bond market, 72% of issuers, 54% of bonds, and 81% of volume has a rating of AA or above.

Figure1: Monthly distribution of credit bonds that mature in 2020



Data source: Wind, compiled by China Lianhe Credit Rating Co., Ltd.

1. Since there is no data on Super & Short-term Commercial Paper (SCP) and bond resale in 2020, the scale of SCP in 2020 is calculated according to the data in 2019 and the resale scale is calculated according to 30% of the existing bonds with resale terms to make it comparable with the number in 2019.

2. When calculating the maturity scale of specific credit bonds, the bonds with normal maturity which excludes other situations such as resale and redemption are used. To compare with 2019, SCP that matures in 2019 is excluded. This methodology is also adopted when calculating the maturity scale of credit bonds by industry and ownership.

Table 1: Number of companies, the number and scale of credit bonds that mature in 2020 across domestic credit rating levels

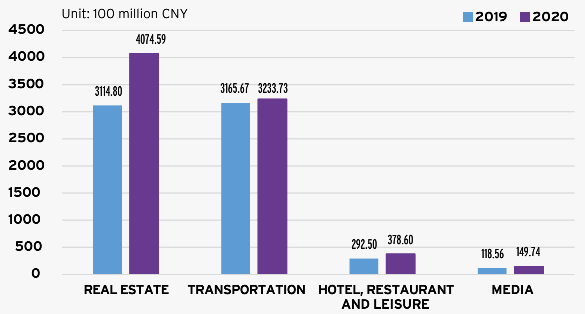
Credit Rating	Number of Companies	Percentage (%)	Number of Credit Bonds	Percentage (%)	Scale of Credit Bonds (billion CNY)	Percentage (%)
AAA	515	22.93	1489	23.71	3265.60	57.27
AA+	525	23.37	1041	16.58	878.29	15.40
AA	583	25.96	855	13.61	447.51	7.85
AA-	60	2.67	71	1.13	27.61	0.48
A+	11	0.49	12	0.19	2.80	0.05
A	4	0.18	7	0.11	6.07	0.11
A-	1	0.04	1	0.02	1.00	0.02
BBB+	1	0.04	1	0.02	0.24	0.00
BBB	3	0.13	9	0.14	9.362	0.16
BB	2	0.09	4	0.06	0.94	0.02
BB-	1	0.04	1	0.02	0.26	0.00
B	3	0.13	6	0.10	2.62	0.05
CC	2	0.09	3	0.05	0.84	0.01
C	32	1.42	59	0.94	55.86	0.98
NR	649	28.90	2721	43.33	1002.74	17.59
TOTAL	**2246**	**100.00**	**6280**	**100.00**	**5701.74**	**100.00**

Data source: Wind, compiled by China Lianhe Credit Rating Co., Ltd.

The COVID-19 pandemic has disrupted the normal production and operation of some companies, especially those in the transportation, hotel, catering and leisure, media, and real estate sectors. Coal, steel, non-ferrous metals, chemicals, machinery and other pro-cyclical industries will be adversely affected due to the short-term decline in demand. However, we believe that online businesses such as games, videos and on-line education, as well as pharmaceutical companies that are active in virus prevention and control may benefit significantly.

Among industries that are most disrupted by the pandemic, the volumes of credit bonds maturing in 2020 are RMB407 billion in the real estate industry, RMB323 billion in the transportation industry, RMB38 billion in the hotel, catering and leisure industry, and RMB15 billion in the media industry.

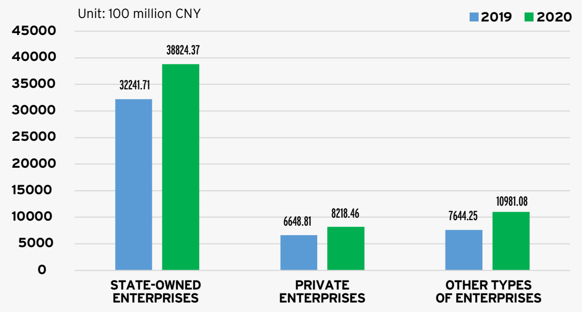
Figure 2: Credit bonds that mature in 2019-2020 for sectors most affected by the pandemic



Data source: Wind, compiled by China Lianhe Credit Rating Co., Ltd.

The distribution by ownership shows that outstanding bond volumes are RMB3.9 trillion in state-owned enterprises, RMB822 billion in private enterprises, and RMB1.1 trillion in other types of enterprises. In particular, the proportion of high credit qualities in private and other enterprises is relatively low, so we believe that these enterprises are more vulnerable to the impact of the pandemic and that their default rates are likely to rise.

Figure 3: Credit bonds that mature in 2019-2020 by ownership



Data source: Wind, compiled by China Lianhe Credit Rating Co., Ltd.

Risks to the overall Chinese bond market

It is expected that corporate bond issuance in China will decline significantly over the short term due to the pandemic. However, as the pandemic dissipates, we believe that financing demand will rebound rapidly and that bond issuance volumes in 2020 will continue to grow. From the issuing cost perspective, the People's Bank of China has lowered the reverse repo rate through open market operations in February 2020 and further rate cuts are expected, which we expect to lower bond issuance rates further. However, we believe that the issuance costs for companies in different industries and with different credit quality levels will diverge to some extent.

Because companies' credit fundamentals are affected by the pandemic, we think it is likely that a trend of credit rating downgrades will emerge in 2020. Companies that are in heavily pandemic-influenced industries and regions will be viewed as potential downgrade targets. The pandemic will also, in our opinion, increase the frequency of defaults of companies and corporate bonds in China.

We believe overall that the impact of the pandemic and authorities' policies on the overall Chinese domestic bond market will be mainly short-term in nature and will not significantly affect medium- to long-term trends related to economic fundamentals and macro-financial policy. The general trend of credit divergence will continue and investors should be alert to the industries whose credit risks are rising sharply due to the effects of the pandemic.

Contacts: Mushtaq Kapasi and Ricco Zhang
mushtaq.kapasi@icmagroup.org
ricco.zhang@icmagroup.org

The issuance costs for companies in different industries and with different credit quality levels will diverge to some extent.

Time to Act: ICMA's third corporate bond secondary market study

By Andy Hill

ICMA's third study into the state and evolution of the European investment grade corporate bond secondary market

Introduction

In many ways the timing of ICMA's third instalment exploring developments in the liquidity, functioning, and structure of Europe's investment grade corporate bond market could not have been more apt. Since its publication on 4 March 2020, global credit markets have come under the most intense pressure since the Great Financial Crisis of 2007-08. If there was ever a time to test the resilience of the market, the effects of a decade of regulatory reform, and participants' concerns about diminished market liquidity, it is surely now.

Background

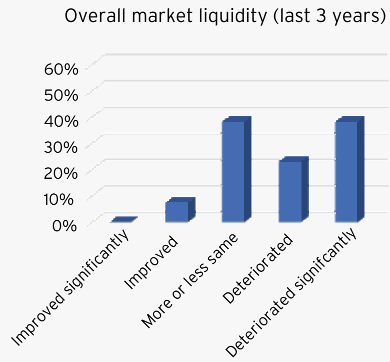
Three years since the last ICMA study of the European investment grade secondary corporate bond market, and two years since the European Commission's Expert Group reports, this study sets out to answer three key questions with respect to the European investment grade corporate bond secondary market: (i) What is the current state and expected course for market liquidity? (ii) How is the structure of the market evolving? (iii) What are the expectations for future market developments? The research underlying the study employs a triangulation approach focused on both quantitative and qualitative data. It utilizes three main sources of data: (i) market data provided by trading venues and data providers; (ii) surveys of market participants; and (iii) interviews with market participants.

Secondary market liquidity

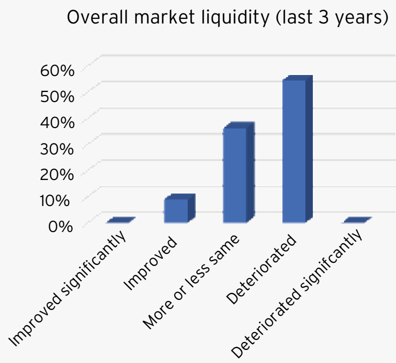
The survey results suggest that, overall, secondary market liquidity has continued to deteriorate since the 2016 study, with sell-side firms observing the decline more acutely. The interviews, however, indicate a more complicated picture with liquidity bifurcated by trade size. Liquidity for smaller trade sizes is broadly considered to be adequate. This may partly be explained by a move to more automated pricing by market makers, largely focused on smaller sizes and more frequently traded ISINs, as well as more willingness to allocate balance sheet to "service trades" rather than "risk trades". Block trades, however, appear to create the biggest challenge for buy sides. Here the dealer-client relationship still matters, perhaps more than ever before. Splitting larger trades into smaller order sizes will not help and in most cases will be counterproductive.

Survey Q: overall market liquidity over the past three years?

Sell-side

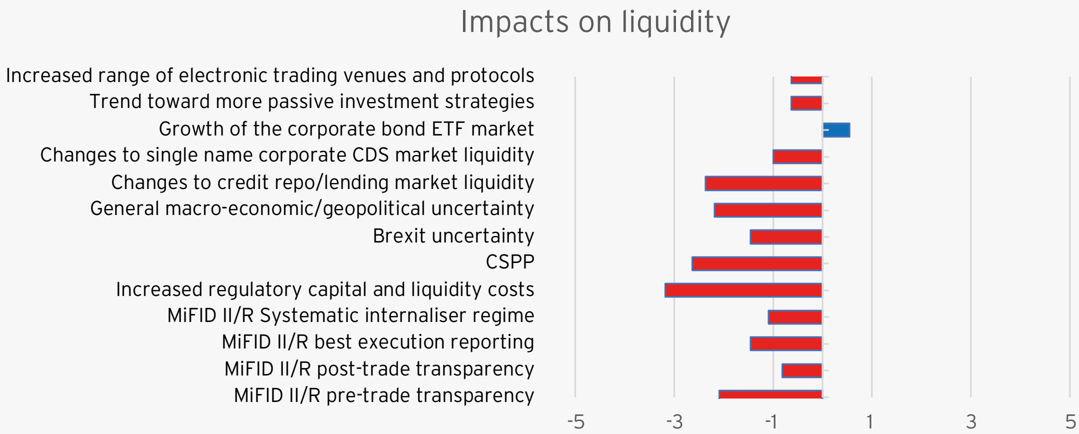


Buy-side

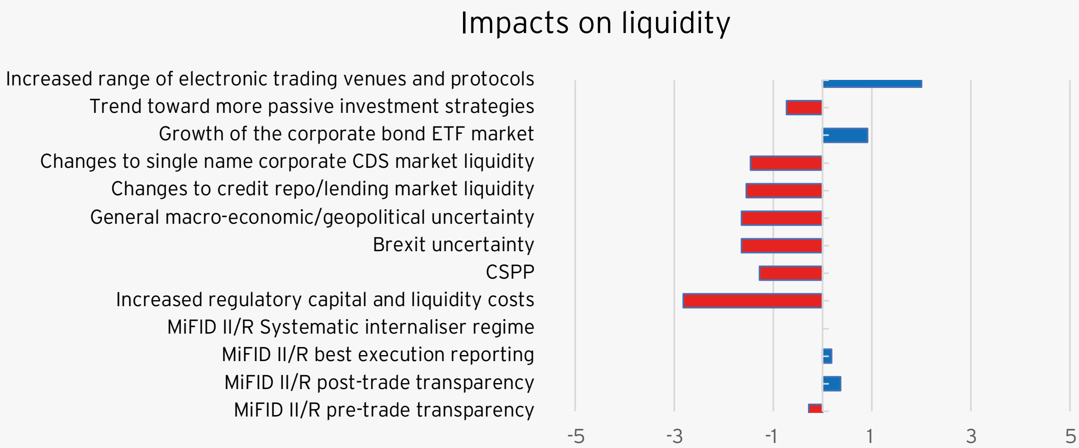


Survey Q: How do you rate the impacts on liquidity of various factors (where -5 is very negative, +5 is very positive, and 0 is neutral)?

Sell-side



Buy-side



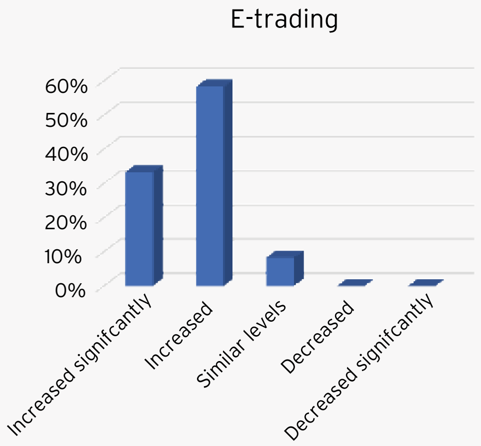
While the surveys and interviews strongly suggest that liquidity conditions in the European corporate bond secondary market are becoming more challenging, this is part of a bigger story of changing dynamics and evolving market structure. While the capacity of dealers to provide liquidity is becoming more constrained and increasingly selective, asset managers are looking to new approaches for sourcing liquidity, either becoming more sophisticated in their interaction with market makers, or through diversifying their use of trading venues and protocols.

Evolving market structure

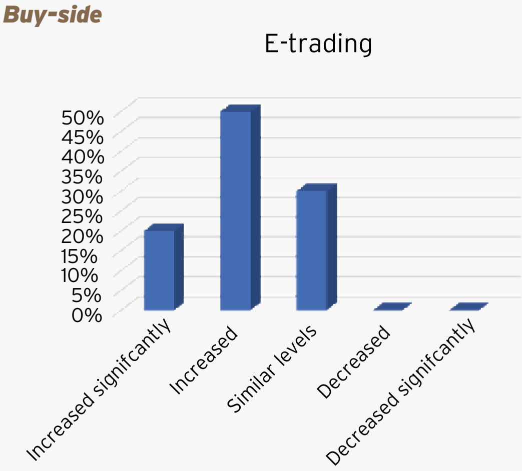
The survey responses suggest that, with the exception of the growth of the corporate bond ETF market, sell-side firms see little in the way of positive contributors to liquidity over the past three years, while selecting increased regulatory capital and liquidity costs, the CSPP, MiFID II/R, the state of the credit repo and securities lending market, and general macroeconomic and geopolitical uncertainty as the main adverse influencers. Buy-side firms also identify capital and liquidity costs as the single biggest determinant in the decrement of market liquidity, followed by the CSPP, credit repo conditions, and economic and political uncertainty.

Survey Q: volumes traded electronically compared with 3 years ago?

Sell-side

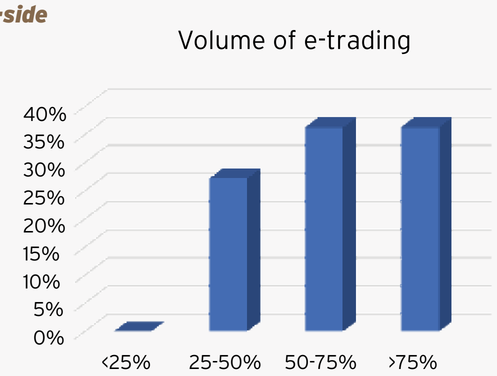


Buy-side

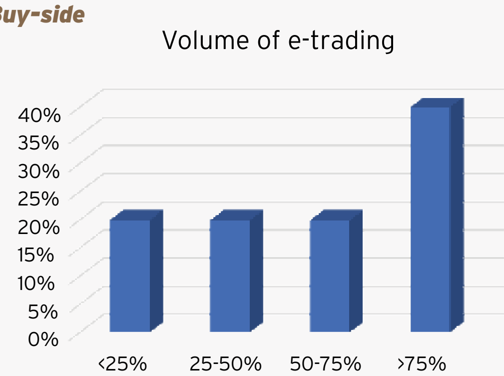


Survey Q: proportion of overall volumes traded electronically?

Sell-side



Buy-side



Market, and even security, selection by dealers is becoming more prominent, particularly among firms outside of the global bulge bracket, with a focus on segment or sector specialization, playing to their strengths, and the objective of increased position turnover and inventory velocity. If dealers feel that they cannot trade out of a position quickly, they will price to miss.

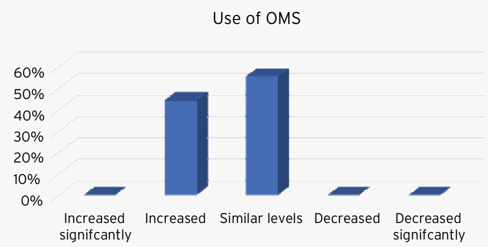
From the buy-side perspective, behaviour is increasingly being driven by three critical questions: (i) who is likely to show the most competitive price for a particular bond? (ii) who might be axed with an opposite interest? (iii) who is going to step up to the plate for a significant order? For less liquid bonds and larger sizes, knowing which dealer or dealers to go to is therefore paramount in the investment decision process. Accordingly, buy sides are increasingly relying on counterparty analytics, monitoring hit and quote rates of dealers across sectors and credits, as well as observing market reaction in response to a request.

Participants report that the use of trading venues and e-trading protocols to execute trades has continued to increase over the past years. Selective or multiple RFQ continues to dominate, consistent with the dealer-centric structure of the market, and whereby clients solicit quotes from specific dealers. Compared with three years ago, however, there appears to be more interest in, and uptake of, alternative protocols to source liquidity. In particular, a number of buy-side firms report more use of all-to-all protocols, such as RFQ-to-all. Direct connectivity (or "direct access trading"), whereby dealer banks stream axes or prices directly to their clients, appears to be gaining more interest among participants, which also supports more automated bilateral order execution, such as "click-to trade".

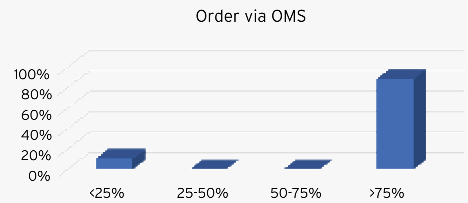
Perhaps the most eye-catching trend with respect to e-trading since the last study is the increased reliance on automation in the trading process, both for buy-sides and sell-sides. Sophisticated "rules-based", or even algorithmic, automated processes to manage and direct orders to venues or counterparts are commonplace in equity markets and have been widely used by asset managers for many years. As technology becomes more advanced, their adoption in the fixed income space has become more prevalent, albeit mainly in the more liquid, homogenized, sovereign bond segment. Increasingly, however, interviewees and survey respondents suggest that this is beginning to impact the IG credit space.

While sell-side "auto-quoting" is now relatively well established for more liquid sovereign bond markets, it would seem that this is still relatively nascent in the credit space and remains very much limited to smaller ticket sizes.

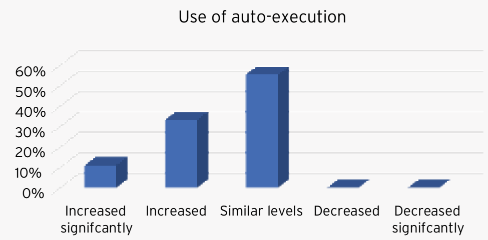
Survey Q: [buy-side] use of order management systems (OMS) for submitting orders electronically, compared with 3 years ago?



Survey Q: [buy-side] proportion of orders submitted via an OMS?



Survey Q: [buy-side] use of rules-based, fully automated electronic execution ("auto-execution"), compared with 3 years ago?



Underpinning advances in automation is the availability of and access to extensive, reliable data. While the quantum and quality of pre- and post-trade market data provided by commercial vendors continues to evolve, proprietary data is also being viewed as a highly valuable resource.

While a number of interviewees express little optimism that the European corporate bond markets will see improved public pre- or post-trade transparency any time soon, some suggest that there seems to be a growing desire from the authorities for a consolidated tape for bond markets in Europe, and a recognition that the MiFID II/R transparency regime is a missed opportunity.

Another notable development since the previous study is the continued growth of the corporate bond ETF market, and the spillover impacts this appears to be having on underlying bond market activity. Growth in corporate bond ETFs has accelerated in Europe, which brings with it new flows in the underlying bond market, as well as new players.

The adoption of portfolio trading in the European corporate bond markets is a relatively new initiative but features prominently in many of the interviews. Buy-side participants suggest that there is potential value in portfolio trading, primarily from the perspective of immediacy and knowing that it is possible to execute an entire portfolio in one transaction.

The general view of interviewees is that the first round of the ECB's Corporate Sector Purchase Programme (CSPP) did not lead to the evaporation of liquidity or dislocations in eligible bonds that some had anticipated. Respondents are largely complimentary of the ECB's management of the purchases, which suggests a concerted attempt not to disrupt the market or undermine liquidity. What becomes clear from the interviews with corporate issuers and syndicate desks is that, despite any declines in secondary market liquidity conditions, the primary market remains resolutely robust. Issuers nonetheless remain concerned about the health of the secondary market.

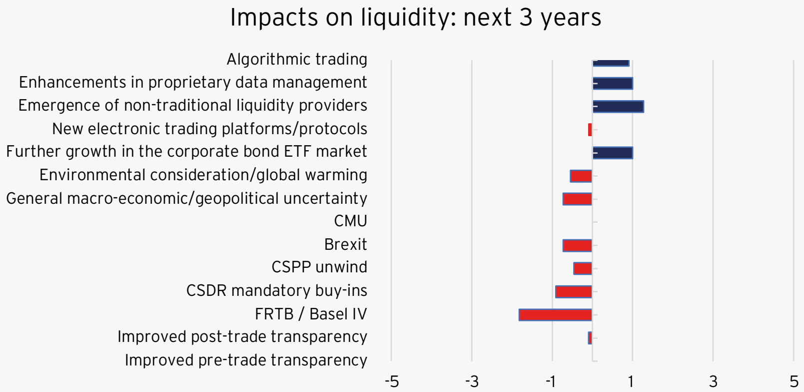
Future market developments

In terms of factors expected to undermine market liquidity and efficiency further, market and prudential regulation are discussed the most, in particular the anticipated increased capital costs which will be borne by market-makers with the introduction of more punitive capital requirements under the FRTB, as well as the introduction of the highly controversial CSDR mandatory buy-in regime. General macroeconomic and geopolitical uncertainties also feature high on the list of market concerns.

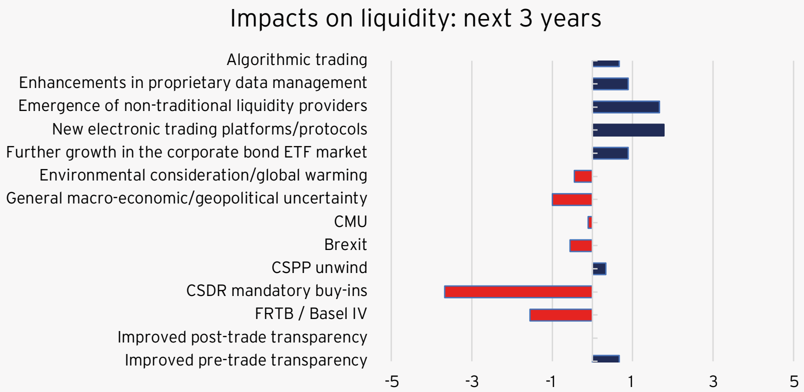
There is a burgeoning focus on the capture, analysis, and deployment of firms' proprietary order and trading related data, not only to support the optimization of investment or trading decisions, but also to facilitate the automation of

Survey Q: In the next 3 years, what impact do you expect the following factors or initiatives to have on market liquidity (where -5 is very negative, +5 is very positive, and 0 is neutral)?

Sell-side



Buy-side



the trading workflow. There is a lambent alertness among both sell and buy sides that this will be the focal point for market development over the next few years, generating greater efficiencies for low-touch (liquid) trading, while providing enhanced intelligence to support the high-touch (illiquid), alpha generating sub-set of trading activity. In the case of the former, machine learning (ML) will inevitably play an increasing role, creating a more established human-digital partnership to fill the traditional trading seat. For a number of interviewees' firms this is not just informed speculation, but rather a strategic priority and a major investment of resources.

When it comes to positive market developments, the potential for data management, automation, and the introduction of new liquidity providers, particularly through the growth of the ETF market, are where participants pin their hopes.

Conclusion

If there is one recommendation arising from the study, it is that policy makers, regulators, and market participants should re-focus on the conclusions and recommendations of the European Commission's Expert Group on Corporate Bond Markets, particularly with a view to developing Europe's corporate bond markets. With respect to safeguarding secondary market liquidity, reviewing the relevant provisions of FRTB and the CSDR mandatory buy-in regime remain an imperative.

Given the current market dislocations, and the reported breakdown in market functioning and evaporation of liquidity, a wholesale review of the market structure, as well as existing and projected regulatory initiatives, would seem inescapable. In this respect, the time to act may have already passed.

Contact: Andy Hill
andy.hill@icmagroup.org

RFR bond market conventions: shifts, lags and the SONIA index

By Katie Kelly

As reported in the Q4 2019 edition of this Quarterly Report, certain market conventions have developed in each of the SONIA and SOFR bond markets, including floating rate notes (FRNs) and securitisations. In the SONIA market, the conventions involve referencing SONIA compounded in arrears over an interest period, with a margin added, and a "lag" (or "lookback", as it is commonly referred to in the US) in respect of each interest period, so that the SONIA rate used to calculate a rate for each day in an interest period is based on the SONIA rate for a prior day (typically, five days prior).

However, in February 2020, the EBRD issued a SONIA-linked FRN which used a 5 day observation period "shift" approach. This is similar to the "lag" approach described above, but the compounding formula in the "shift" approach weights the SONIA rate to account for calendar days when the SONIA rate is not published according to the number of days that apply in the *observation period*, whereas the "lag" approach weights the SONIA rate according to the number of days that apply in the *interest period*.

Also in February, the Bank of England announced that it intends to publish a daily SONIA Compounded Index (the SONIA Index), a move which has been welcomed by the Sterling Risk-Free Rate Working Group (RFR WG). The SONIA Index would provide a number representing the returns from a rolling investment earning interest each day at the SONIA rate, which is consistent with the approach taken by the Federal Reserve Bank of New York's SOFR Index. Market participants have been encouraged to respond to the discussion paper relating to the SONIA Index by 9 April 2020, with publication of the SONIA Index expected to commence by the end of July 2020.

The publication of the SONIA Index is a significant development. It would be freely available and could be referenced in documentation, thereby standardising and simplifying the calculation method. This in turn should have the effect of reducing operational risk by facilitating reconciliation of interest amounts between market counterparties. As the SONIA Index could also be used for other SONIA-referencing products, such as loans, it could thereby potentially encourage scalability of the use of compounded SONIA across products.

Importantly, the SONIA Index would also be compatible with any financial product that uses the "shift" approach, as described above. This may influence an issuer's decision whether to use the "shift" approach over the "lag" approach in the bond market. This not to say however that any transactions which have been issued using the "lag" approach, of which there are many, will be affected. Indeed, the RFR WG released a statement on bond market conventions in March, in which it stressed that "it is important to maintain confidence and stability in [the lag] format, both as regards the transactions completed and any future development using the lag approach". SONIA-linked transactions which are already in issue and which use the "lag" approach can continue as they are: no changes would be required to align them with the "shift" approach, and it is considered that there is no substantive economic difference in terms of the coupon amounts for each approach.

Even if the "shift" approach were to be adopted by the market, issuers could still issue using either the "lag" approach or the "shift" approach. In other words, transactions issued using either approach can co-exist, although investors will of course need to be able to differentiate between the two different approaches in case there are any challenges associated with holding one form over the other. Market infrastructure will therefore have to evolve to ensure easy identification of each approach.

In the SOFR market, no particular market convention has yet been used consistently enough to emerge as a clear standard; as more fully described in the ARRC's SOFR FRNs Comparison Chart, some have used a "lockout" mechanism, some have used the "lag/lookback" approach and others have used a payment delay mechanism. However, in its Conventions Matrix from August 2019, the ARRC expressed a preference in the SOFR market for the lookback using the "shift" approach, on the basis that the observation period shift applies the correct weighting to the SOFR rates, and could also use the SOFR Index.

It remains to be seen whether this will drive consistency of approach in terms of conventions in the SOFR market. It is also unclear as yet whether the "shift" approach would be preferred in the loan market, and what ISDA's recommendation will be. But needless to say, any developments with respect to these factors might further influence the outcome as to which approach is used, on the basis that consistency between products, and common use of the SONIA Index, are generally considered desirable in the transition to risk-free rates.

Contact: Katie Kelly
katie.kelly@icmagroup.org

Even if the "shift" approach were to be adopted by the market, issuers could still issue using either the "lag" approach or the "shift" approach.


ICMA *Quick Guide to the Transition to Risk-Free Rates in the International Bond Market*

By Charlotte Bellamy and Katie Kelly

ICMA published the first edition of its *Quick Guide to the Transition to Risk-Free Rates in the International Bond Market* on 27 February 2020. The Quick Guide summarises the position on the transition to risk-free rates in the international bond market across LIBOR currencies and provides links to further detailed ICMA and other resources. The Quick Guide covers:

The need to transition to RFRs
A summary of why markets need to transition to RFRs, including links to further resources.

New RFR-linked floating rate notes
A summary of progress in new issues of FRNs and securitisations, including links to further resources.

The differences between LIBOR and RFRs
A summary of the differences between LIBOR and RFRs, including links to further resources.

RFR bond market conventions
A summary of RFR bond market conventions, including links to further resources.

Use of term rates
Information on the use and availability of term RFRs, including links to further resources.

Fallbacks in IBOR bonds
Information on fallbacks in IBOR bonds, including links to further resources.

Legacy LIBOR bonds
Information on the issues surrounding bonds which already reference LIBOR and which are due to mature beyond the end of 2021, including links to further resources.

Spread adjustment
Details of different spread adjustment options, including links to further resources.

EU Benchmarks Regulation and regulatory issues in the UK
A summary of ICMA's response of December 2019 to the European Commission's consultation on the EU Benchmarks Regulation; and a summary of efforts to highlight relevant regulatory and conduct issues in the UK, including links to further resources.

ICMA documentation
A summary of the impact of IBOR transition on ICMA documentation.

Next steps/key priorities
Links to publications detailing the key priorities and next steps for the official sector sponsored working groups and information on next steps for certain markets.

The Quick Guide is also available as a PDF and a short podcast is also available. The Quick Guide will be updated periodically as new developments arise.

Contacts: Charlotte Bellamy and Katie Kelly
charlotte.bellamy@icmagroup.org
katie.kelly@icmagroup.org

Summary of practical initiatives by ICMA

Introduction

This article summarises recent and current practical initiatives by ICMA with – and on behalf of – members.

Market impact of coronavirus (COVID-19) pandemic

1 ICMA has set up on its website a COVID-19 resource page on the market impact of the coronavirus (COVID-19) pandemic and the response.

Post-Brexit

2 The Quarterly Assessment in this Quarterly Report provides an update for ICMA members on the post-Brexit negotiations between the EU and the UK under the heading: *Post-Brexit: Should the Transition Period be Extended?*

Transition to risk-free rates

3 ICMA continues to participate in the RFR Working Groups in the UK, the euro area and Switzerland; and ICMA is chairing the Bond Market Sub-Group in the UK, working with the FCA and Bank of England, and is in regular contact with the equivalent group in the US Alternative Reference Rates Committee (ARRC), which is working with the Federal Reserve. In addition, on 27 February, ICMA published a *Quick Guide to the Transition to Risk-Free Rates in the International Bond Market*. There is a summary in this Quarterly Report.

Primary markets

4 *MiFID II/R*: ICMA is working with members on primary market aspects of investor protection as a contribution to ICMA's response to the European Commission consultation on reviewing MiFID II/R.

5 *Prospectus Regulation:* ICMA is continuing to work with members on the implementation of the Prospectus Regulation regime, and has published revisions to the ICMA Primary Market Handbook. ICMA is also considering potential disclosure requirements relating to ESG and has responded to a European Commission consultation on a framework for markets in crypto-assets, which included questions related to the Prospectus Regulation.

6 *IOSCO:* On 14 February, ICMA responded to the IOSCO consultation on debt capital raising.

7 *Deal announcement and new issue processes:* ICMA has been facilitating industry discussions among buy-side and sell-side market participants on new issue processes and in this respect has published a form of deal announcement in the ICMA Primary Market Handbook.

8 *Post-trade:* ICMA is working on the primary market implications of various emerging post-trade initiatives, including: the ECB AMI-SeCo Collateral Management Harmonisation Task Force consultation on corporate action harmonisation; and potential reforms to the ICSD syndicated closing process following CSDR implementation.

9 *Primary markets technology mapping directory:* ICMA has reviewed its mapping of existing and emerging platforms and technology solutions in primary markets, which was initially launched in December 2018. The new version was published in September 2019 and updated in February 2020. The purpose is to help inform ICMA members and thereby create greater transparency.

10 *Primary markets and Brexit:* ICMA has updated its Primary Market Handbook to reflect the UK's departure from the EU.

Secondary markets

11 *CSDR mandatory buy-ins:* ICMA, through its CSDR Settlement Discipline (CSDR-SD) Working Group, remains highly focused on the implementation of the mandatory buy-in framework, which is scheduled now to come into force in February 2021. The CSDR-SD Working Group has two priorities: (i) addressing practical implementation challenges, both for cash bonds and repo; and (ii) advocacy and raising awareness. ICMA is currently working with members to update its Secondary Market Rules & Recommendations, as well as drafting an Annex to the GMRA to help support implementation of the regulatory requirements in the international bond and repo markets.

12 *Corporate bond secondary market:* ICMA published its third study into the state and evolution of the European IG corporate bond secondary market on 4 March. This updates the seminal 2016 report, and addresses three key questions: (i) What is the current state and expected course for market liquidity? (ii) How is the structure of the market evolving? (iii) What are the expectations for future market developments? The report also builds on the work of the European Commission's Expert Group on Corporate Bond Markets.

13 *ESMA SI pre-trade transparency:* ICMA responded to ESMA's consultation on systematic internaliser (SI) pre-trade transparency on 6 March.

14 *European Commission MiFID II/R review:* ICMA is coordinating with members its response to the European Commission's consultation on the MiFID II/R review. However, ICMA – along with other trade associations – has submitted a request for an extension to 1 July, owing to COVID-19.

15 *An EU bond consolidated tape:* In response to a request from the European Commission, ICMA submitted an interim report to the Commission on 13 December on an EU bond consolidated tape. Following further discussions with the Commission, ICMA is working with members on a final report for submission before the end of March.

16 *ICMA Secondary Markets Newsletter:* ICMA has launched a new *Secondary Markets Update* which provides a quick summary of ICMA's current initiatives and workstreams, pertinent news and regulatory updates affecting the secondary bond markets. It is to be published on a bi-monthly basis.

17 *ETP mapping directory:* ICMA has updated its mapping directory of Electronic Trading Platforms (ETPs). The directory now lists a total of 43 electronic execution venues, Order Management Systems (OMS) and information networks. It is intended to help market participants understand what execution and non-execution venues are available for cash bonds. The revised mapping is available on ICMA's website.

Repo and collateral markets

18 *ERCC elections:* On 6 February, ICMA announced the results of the 2020 elections to the ERCC Committee. 19 candidates have been elected to form the new Committee for a term of office of around one year. The new Committee held its first meeting on 26 February in London.

19 *SFTR implementation:* Helping members to implement the extensive reporting requirements under the EU's SFT Regulation (SFTR) continues to be a key priority for ICMA and its members, who are heavily engaged in the ERCC's dedicated SFTR Task Force. This brings together representatives from over 150 firms across the whole market spectrum to coordinate the industry's implementation effort in relation to repos and buy/sell-backs.

20 *ICMA Guide on SFTR implementation:* On 26 February, ICMA published its SFTR Guide with detailed best practice recommendations in relation to SFTR reporting. The 202 page guide, which has been agreed by the ERCC SFTR Task Force, was published alongside two other best practice documents, a set of 35 SFTR sample reports covering various repo scenarios and an overview of repo lifecycle event reporting.

21 *Common Domain Model:* ICMA is cooperating with ISDA to extend the development of the Common Domain Model (CDM) to include repo and, by extension, outright bond transactions: a single, common digital representation of securities trade events and lifecycles intended to enhance standardisation and facilitate interoperability across firms and platforms. Three CDM Repo Workshops were held in January, February and March to model and demonstrate a real-time implementation of open repos, repo interest payments as well as cash and collateral legs.

22 *ECB AMI-SeCo:* The ERCC is represented on the ECB's Advisory Group on Market Infrastructure for Securities and Collateral (AMI-SeCo) and is playing an active role on its Collateral Management Harmonisation Task Force (CMH-TF).

23 *Basel III implementation:* The ERCC remains focused on the implementation of Basel III measures with respect to SFTs, in particular the Leverage Ratio, the Liquidity Coverage Ratio, the Net Stable Funding Ratio, and minimum haircut floors. The ERCC submitted its response to the European Commission's consultation document on *Implementing the Final Basel III Measures in the EU* on 2 January.

24 *FinTech mapping directory for repo and cash bonds:* The directory is periodically reviewed by the FinTech Working Group of the ERCC to ensure it is up-to-date. The revised mapping is available on ICMA's website.

25 *Repo Trading Technology Directory:* In light of increasing electronification of repo markets, ICMA has conducted a mapping exercise of electronic trading platforms. The directory is intended to help market participants understand what execution venues are available for repo trading (D2D or D2C, for instance), product scope, as well as differences in trading protocols, clearing and collateral configurations. The directory is available on ICMA's website.

Green, social and sustainability bond markets

26 *Climate Transition Finance Working Group:* In October 2019, the GBP SBP Executive Committee decided in Washington to set up a Climate Transition Finance Working Group with the mandate to understand why corporate issuers from carbon intensive industries have been largely absent from the green bond market thus far and to consider providing guidance for potential future issuances.

27 *Sustainability/KPI-linked Bonds Working Group:* In January 2020, GBP SBP ExCom decided to establish a working group on Sustainability/KPI-linked bonds. These are an emerging product where the coupons of general corporate purpose bonds can vary depending on the achievement by the issuer of environmental, social or governance (ESG) related key performance indicators (KPIs), providing a new way for issuers to underline their commitment to sustainability. The remit of this working group will be to: (i) take stock of recent and ongoing developments in the market for sustainability/KPI-linked bond products; (ii) establish their main characteristics including by using what has been developed in the sustainability-linked loan market; (iii) examine any concerns; and (iv) consider and potentially propose market guidance.

28 *SFC meeting:* In January 2020, ICMA Sustainable Finance Committee (SFC) held its second meeting following its establishment in September 2019. The meeting focused on the EU's recent legislative/regulatory actions in the sustainable finance field with the presentations from the European Commission on the EU Taxonomy and the Disclosure Regulation and from ICMA AMIC Sustainable Finance WG on the EU Ecolabel for sustainable funds. The GBP SBP Steering Committee also updated participants on the emerging sustainable bond products and the establishment of the Advisory Council.

29 *EU Taxonomy:* On 18 December 2019, the European Council and the European Parliament reached a political agreement on the Taxonomy Regulation. The Regulation will introduce a complex classification system of sustainable activities based on contributions to environmental objectives and technical criteria, as well as wider social and sustainability factors. It also recognises transition and enabling activities. ICMA has published an overview and comments on the text of the agreement.

Asset management

30 *Fund liquidity:* The ICMA Asset Management and Investors Council (AMIC) published with EFAMA their updated joint fund liquidity report on 22 January. AMIC and EFAMA members are: (i) calling for a stronger enforcement of the current rules rather than new provisions; (ii) recommending that liquidity management tools should be made available across all EU jurisdictions; (iii) asking for data to be made available better to understand investors' behaviour and redemption patterns; and (iv) flagging the impact of certain regulatory provisions on market liquidity (eg mandatory buy-ins under CSDR). The report has been well received by securities regulators, including ESMA.

31 *PRIIPs:* On 13 January, AMIC submitted its response to the ESAs' consultation on the review of the regulatory technical standards (RTS) relating to the Key Information Document (KID) for Packaged Retail and Insurance-based Investment Products (PRIIPs). In its response, AMIC argued for a review of the transaction cost methodology (spread instead of slippage) which currently produces misleading results for retail investors (negative or inflated transaction costs).

32 *ELTIFs:* On 17 January, AMIC published a discussion paper on the review of the European Long Term Investment Fund (ELTIF) Regulation, which highlights four areas for improvement: (i) widening the list of eligible assets; (ii) aligning the encumbrances limit with market practice; (iii) simplifying requirements regarding eligible investors; and (iv) tackling tax treatment issues.

33 *CSDR implementation:* The AMIC and the IA wrote to the Commission, on 30 January, expressing concerns about the potential bond market impacts of the CSDR mandatory buy-in provisions (due to come into force in early 2021) and encouraging the Commission to undertake a robust market impact assessment of these provisions before attempting implementation, or, as a minimum, to adopt a cautious, phased-in approach to minimize potential disruption.

34 *AMIC Review:* On 10 March, the AMIC published its first 2020 bi-annual review, featuring articles on sustainable finance, fund liquidity and primary markets. This publication highlights the role of the buy-side community within ICMA, reminds readers of AMIC's objectives and priorities and outlines the activities of its working groups, alongside some enduring AMIC topics.

35 *Cyber-resilience:* Based on the ESAs' opinion issued in April 2019, the Commission is considering introducing changes to the sectorial legislation (eg UCITS, AIFMD) to enhance cyber-resilience. On 19 March, the AMIC responded, arguing that the regulatory framework already allows us to address cyber-risk in the asset management industry to be addressed.

FinTech in capital markets

36 *FinTech Advisory Committee (FinAC):* ICMA's FinAC held its inaugural meeting on 21 January, bringing together front office, middle/back office, legal and technology expertise across ICMA's core areas. In line with ICMA's mission statement to promote resilient and well-functioning international debt capital markets, the purpose of the ICMA FinAC is to provide guidance on ICMA's engagement on FinTech across primary, secondary, repo and collateral markets, as well as sustainable finance. The second (virtual) meeting was held on 24 March.

37 *FinTech meetings with regulators:* ICMA held a call with the AFM on 4 March to discuss FinTech and related legislative and regulatory developments.

38 *ECB FinTech Task Force:* ICMA, through the ERCC Ops FinTech Working Group, continues to be represented on the ECB's FinTech Task Force, a sub-group of the AMI-Pay and AMI-SeCo, following the renewal of its mandate and extension to payments. ICMA contributes, for example, to the mapping exercise of post-trade technology solutions, as well as the report on tokenisation of securities in a DLT environment.

39 *IOSCO FinTech Network:* ICMA, an affiliate member of IOSCO, is represented on the IOSCO FinTech Network, and continues to participate in the workstream on distributed ledger technology (DLT). The purpose of the network is to share information and practices with respect to FinTech in an informal manner.

40 *DLT Regulatory Directory:* ICMA has published a Distributed Ledger Technology (DLT) Regulatory Directory which seeks to provide a non-exhaustive overview of recent DLT regulatory guidance, legislative initiatives, as well as related strategy papers and publications in selected jurisdictions across Europe, North America, and Asia-Pacific. The directory is available on ICMA's website and will be kept up-to-date.

41 *European Commission consultation on a framework for markets in crypto-assets:* ICMA has responded to this consultation, focusing on the application of existing regulatory regimes to security tokens: ie crypto-assets issued on DLT that qualify as financial instruments under MiFID II/R. ICMA notes that there does not appear to be a need for exemptions or alleviations for security tokens compared with traditional securities.

Other meetings with central banks and regulators

42 *ICMA Regulatory Policy Committee (RPC):* Tom Duggan and Mark Griffin, HM Treasury, joined the ICMA RPC meeting in London on 12 March for a discussion.

43 *Other official groups:* ICMA continues to be represented, through Martin Scheck, on the ECB Bond Market Contact Group and on the ESMA Securities and Markets Stakeholder Group; through Nicholas Pfaff on the European Commission Technical Expert Group on Sustainable Finance; through Charlotte Bellamy on the Consultative Working Group on ESMA's Corporate Finance Committee; and through Gabriel Callsen on the ECB AMI-Pay AMI-SeCo Joint Task Force on Innovation and FinTech (FinTech-TF).

44 A draft of the ICMA regulatory grid is available on a password-protected webpage on the ICMA website.

Primary Markets

by Ruari Ewing and Charlotte Bellamy

Impact of COVID-19 on primary markets

Introduction

Primary market participants have, like others, been adjusting to the new environment caused by the COVID-19 pandemic. A few successful new Eurobond transactions in the initial social distancing stages indicated that most banks' syndicate desks seemed to be able to operate effectively through home working – and just as significantly that most investors were also able to do so. There have been reports about the need for issuer pragmatism in terms of market access, and one reported use of a new US "straight to launch" accelerated approach of going from initial price thoughts straight to final terms, by skipping the price guidance stage.

ICMA has facilitated discussions among primary market members on some of the practical challenges presented by the COVID-19 pandemic. This article seeks to summarise some of the key market practice points that have emerged.

Force majeure

The ICMA Primary Market Handbook includes in Appendix A9 a standard form force majeure clause for use in subscription agreements for syndicated offers of international bonds in the primary market. Having discussed with members of the ICMA Legal & Documentation Committee and others, ICMA is not intending to make any changes to the form of language in the light of the COVID-19 pandemic. ICMA has published a short note explaining how this clause would be expected to operate in the context of the current crisis, as well as the background and historic use of this clause.

Due diligence and risk factors

Underwriters, issuers and guarantors of new bond issues will need to consider carefully the impact of the COVID-19 pandemic on the issuer and any guarantors' ability to fulfil their obligations under any new issue of bonds. This is likely to impact underwriters' due diligence; and issuers and guarantors will wish to ensure that, in particular where the Prospectus Regulation applies, risk factor disclosure is specific to the issuer and/or guarantor(s) and not generic in nature.

Transaction timetables

Underwriters and issuers will need to consider the impact of social distancing arrangements, including numerous transaction parties working from home, on transaction timetables. Not only is this relevant for the underwriters and issuers themselves, but other parties such as national competent authorities who may be involved in approving offering documentation, stock exchanges, agents, ICSDs, law firms, auditors and others. ICMA is not aware of any particular parties highlighting the possibility of delays to usual processes as a result of the COVID-19 pandemic, and some organisations are confirming that their timetables should not be affected by the crisis. Nevertheless, ICMA members have reported ad hoc delays to, for example, prospectus approvals.

ICMA has facilitated discussions among primary market members on some of the practical challenges presented by the COVID-19 pandemic.

Auditors' comfort packages

The COVID-19 pandemic is also likely to have an impact upon the ability of auditors to carry out audits as they normally would. The impact upon this for companies' audited financial statements is not clear, but it may be the case that auditors need to issue qualified audit opinions. On 21 March 2020, the UK FCA requested UK companies to delay the announcement of their preliminary financial statements for at least two weeks. On 26 March 2020, the UK FCA, FRC and PRA announced a series of actions to ensure information continues to flow to investors and support the continued functioning of the UK's capital markets. This includes: (a) a statement by the FCA allowing listed companies an extra two months to publish their audited annual financial reports; (b) guidance from the FRC for companies preparing financial statements in the current uncertain environment. This is complemented by guidance from the PRA regarding the approach that should be taken by banks, building societies and PRA-designated investment firms in assessing expected loss provisions under IFRS9; and (c) guidance from the FRC for audit firms seeking to overcome challenges in obtaining audit evidence.

The Committee of European Audit Oversight Bodies (CEAOB) issued a statement on 24 March 2020 on the impact of COVID-19 on audited financial statements, including the statement that "auditors may need to postpone the issuance of their audit report, and where this is not possible or not likely to resolve the issue, auditors may need to modify their audit report to reflect that they have not been able to obtain the necessary audit evidence." On 25 March 2020, ESMA issued guidance on accounting implications of COVID-19 and the EBA issued a related statement. And on 27 March 2020 ESMA released a statement notably as to its expectation that EU national regulators, during this COVID-19 period, not prioritise supervisory actions against issuers in respect of certain upcoming Transparency Directive deadlines regarding financial reports.

Audit firms have flagged the possibility that the COVID-19 pandemic may mean that companies will not prepare management accounts on a basis consistent with the accounting policies normally adopted in preparing their audited accounts. If that were to be the case, then the auditors would be unlikely to be able to carry out the typical procedures related to comparing amounts shown in management accounts in the manner they would have previously (as envisaged in the ICMA standard form of comfort letter set out at Appendix A2 of the ICMA Primary Market Handbook).

Signing arrangements

- *Syndicate / dealer panels signing:* Under usual circumstances, documentation for a new bond issue or programme update would be signed on behalf of the syndicate or dealer panel by one bank pursuant to a signing authority provided to it by each other bank in the syndicate or dealer panel. Given current working from home and other social distancing arrangements, it seems likely that banks will start to sign documentation individually to avoid the logistical challenges associated with coordinating such signing authorities. Considerations associated with this include (a) communicating this to law firms drafting the relevant documentation and (b) communicating this to other relevant transaction parties providing documentation to the syndicate or dealer panel such as auditors.
- *Signing generally:* Working from home and social distancing may also impact upon the ability of some transaction parties to sign and/or deliver documentation in "wet ink". Market participants have been exploring with their legal advisors the validity and practicability of other methods of signing documentation, noting that various factors need to be considered including the governing law of the document, the jurisdiction of incorporation of the relevant parties and the type of document.

Possible closures of financial centres

While it is not envisaged that any changes need to be made to standard provisions in bond terms and conditions relating to payments, market participants will wish to consider the practical implications of possible closures of financial centres and how relevant definitions in documentation relating to payments would work in that scenario, in particular where there are associated swap or other transactions.

Contacts: Ruari Ewing and Charlotte Bellamy
ruari.ewing@icmagroup.org
charlotte.bellamy@icmagroup.org

Bank of England's COVID Corporate Financing Facility (CCFF) and ICMA ECP documentation

Following the announcement of the Bank of England's Covid Corporate Financing Facility (CCFF) and in the interest of supporting the overall market, ICMA has made generally available to non-ICMA members the euro commercial paper (ECP) materials from the ICMA Primary Market Handbook (previously available only to ICMA members and ICMA Primary Market Handbook subscribers). The Bank of England has confirmed that it will accept commercial paper with standard features that is issued using ICMA standard documentation. To support companies seeking to set up CP programmes quickly, the Bank will accept simplified versions of the commercial paper documentation, based on the ICMA standard, which are available on the Bank website (blacklined against the ICMA versions, where relevant) and encourages companies to use those pre-approved versions wherever possible.

The relevant ICMA materials are:

- Appendix A7, Part I - Dealer Agreement;
- Appendix A7, Part II - Information Memorandum (not necessary for CCFF purposes);
- Appendix A7, Part III - Global Note;
- MiFID II Product Governance and Euro Commercial Paper;
- Chapter 12 - ECP Recommendations;
- Chapter 2 - MTN Recommendations (cross-references from Chapter 12).

Contacts: Ruari Ewing and Charlotte Bellamy
ruari.ewing@icmagroup.org
charlotte.bellamy@icmagroup.org

ICMA Primary Market Handbook updates

On 25 March 2020, ICMA published:

- amendments to Appendix A8, *Final terms and pricing supplement;*
- a new Appendix A12a, *Product governance (MiFID II) language*;
- amendments to Appendix A13, *Selling restrictions and legends (EEA PRIIPS Regulation, EEA Prospectus Regulation, UK)*, previously entitled *Selling restrictions and legends (EEA PRIIPs Regulation, EEA Prospectus Directive, UK)*;
- amendments to Appendix A16, *Sub-€100,000 denomination bonds under the EEA Prospectus Regulation and retail cascade legends*, previously entitled *Sub-€100,000 denomination bonds under the EEA Prospectus Directive and retail cascade legends*; and
- amendments to various other references to the Prospectus Directive, the Market Abuse Directive and the EEA.

in the ICMA Primary Market Handbook. The purposes of the amendments are as follows.

- In the case of Appendix A8:
  - to cater for the implementation of the Prospectus Regulation and the UK's exit from the European Union;
  - to reflect that the Insurance Mediation Directive has been superseded by the Insurance Distribution Directive; and
  - to include language relating to the MiFID II product governance regime and notes relating to the cessation of LIBOR.
- In the case of Appendix A12a, to set out standard language relating to the MiFID II product governance regime.
- In the case of Appendices A13 and A16:
  - to cater for the implementation of the Prospectus Regulation and the UK's exit from the European Union; and
  - to reflect that the Insurance Mediation Directive has been superseded by the Insurance Distribution Directive.
- In the case of amendments to various other references to the Prospectus Directive, to reflect the implementation of the Prospectus Regulation, which superseded the Prospectus Directive.
- In the case of amendments to various other references to the Market Abuse Directive, to reflect the implementation

of the Market Abuse Regulation, which superseded the Market Abuse Directive.

- In the case of amendments to various other references to the EEA, to reflect the UK's exit from the European Union.

The amendments to the ICMA Primary Market Handbook are available on the ICMA Primary Market Handbook Amendments/archive webpage.

Contact: Charlotte Bellamy
charlotte.bellamy@icmagroup.org

Other primary market developments

A few other developments concerning ICMA's primary markets' work are set out below.

- *ESA's PRIIPs consultation:* On 13 January and as anticipated in the last edition of this Quarterly Report, ICMA responded to the ESAs' October 2019 consultation on PRIIPs KID amendments, with the primary market aspects focusing on the product scope of PRIIPs.
- *IOSCO consultation on DCM conflicts:* On 4 February and as anticipated in the last edition of this Quarterly Report, ICMA responded to IOSCO's December 2019 consultation on conflicts of interest and conduct risks in debt capital raising, notably explaining international investment grade syndication (including in terms of borrower objectives, transaction disclosure, allocations, pricing and typical deal-flow generally) and commenting on the consistency of proposed IOSCO guidance in this respect.
- *HKEX consultation on Chapter 37:* On 7 February, ICMA responded to an HKEX consultation on its review of Chapter 37 listing (debt issues to professional investors only), supporting most of the HKEX proposals (though querying both differentiation of disclosure requirements between high net worth and institutional investors and HKEX publication of disclosure guidance).
- *UK consultation on AMLD5 and bond trusts:* On 21 February, ICMA responded (by supporting a response from ICMSA) to a UK HMRC and HM Treasury consultation on the Fifth Money Laundering Directive and Trust Registration Service (since the AMLD5 requirement for all express trusts to be registered in a central national register can have potential implications for trustees of bond trusts).
- *European Commission consultation on crypto-assets:* On 18 March, ICMA responded to a European Commission consultation on crypto-assets (covering inter alia aspects of the EU's prospectus, market abuse and MiFID regimes). See further report in the FinTech section of this Quarterly Report.
- *European Commission consultation on MiFID II:* The European Commission is broadly consulting on the MiFID II regime, including on its investor protection aspects that ICMA has been previously dealing with (notably in terms of product governance, inducements / costs & charges and allocation justification recording). The consultation includes a suggestion for a new category of semi-professional clients. It is unclear whether the European Commission will provide flexibility, in light of COVID-19, regarding the formal 20 April deadline.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

Secondary Markets




by Andy Hill, Elizabeth Callaghan, Gabriel Callsen and Rowan Varrall

CSDR Settlement Discipline: secondary markets

The ICMA CSDR-SD Working Group (WG) remains actively focused on the CSDR Settlement Discipline (SD) provisions, including the mandatory buy-in regime and cash penalties for settlement fails. The WG aims to identify and resolve practical implementation challenges related to the SD package, as well as directing ICMA's advocacy work around the regulation. This will result in an updated version of the ICMA Buy-in Rules, which will provide a contractual framework and market best practice to support implementation in the international bond markets when the settlement discipline provisions come into effect (now expected to be 1 February 2021).

WG members include sell-side and buy-side traders (bonds and repo), as well as operations experts and interested legal, compliance, and regulatory policy representatives.

The WG is also working closely with the ICMA Legal Working Group CSDR Workstream, which is focused on the relevant contractual work required with respect to both the GMRA and the ICMA Secondary Market Rules & Recommendations.

Implementation issues

ICMA is focused on a number of practical implementation issues related to the secondary bond markets. Priorities include:

(i) Ensuring that firms can contract to settle the buy-in or cash compensation differential symmetrically. This is an important enhancement from a risk management perspective. ICMA has been in discussion with ESMA and the European Commission on this topic since 2018.

(ii) Providing for a pass-on mechanism. ICMA has held the pen on a cross-industry proposal to introduce a pass-on mechanism that could operate under CSDR buy-ins, largely based on the existing mechanism in the ICMA Rules. ESMA endorsement of this proposal would reduce the overall number of buy-ins and would help to maintain market stability.

(iii) Establishing best practice for determining cash compensation. ICMA has created a workstream focused on market best practice methodology for determining the appropriate reference price in the case of cash compensation.

These enhancements, and others, are intended to be included in the revised ICMA Buy-in and Sell-out Rules.

Advocacy

In January, along with 13 other industry bodies, ICMA co-signed a cross-industry letter to the European Commission outlining concerns related to the implementation of the CSDR mandatory buy-in regime. ICMA also held the pen for a joint buy-side letter to the Commission from ICMA's Asset Management and Investors Council (AMIC) and the Investment Association. This encourages the European Commission to undertake a robust market impact assessment of the mandatory buy-in provisions before attempting implementation. In the absence of such an analysis, as a minimum, the associations request a cautious, phased-in approach to minimize potential disruption to the European markets. As yet, the Commission has not responded to either letter.

In February, ICMA joined EFAMA in a meeting with DG FISMA, again to raise buy-side concerns about the market impacts of the CSDR buy-in regime.

Contact: Andy Hill
andy.hill@icmagroup.org

MiFIR pre-trade transparency regime for SIs

This article summarises ICMA's key messages in its response to the ESMA MiFID consultation on the pre-trade transparency regime for systematic internalisers (SIs) active in bond instruments, which was submitted ahead of the deadline of 18 March 2020.

In terms of pre-trade transparency and trade execution, buy-side participants assess how they wish to execute a trade based on the current market liquidity, and specific bond liquidity in the context of the size of the desired trade.

In bond markets, SIs do not function simply as an alternative to trading venues. Bond markets are by nature a less liquid market with naturally fewer market participants. SIs therefore offer a valuable, tailored service based on their clients' requirements, as well as acting as a source of market liquidity through their ability and willingness to take risk onto their own books in the knowledge that they will be able to manage that risk effectively.

There are several reasons why buy-side firms may choose to request quotes bilaterally from an SI rather than sourcing the SI's liquidity through a trading venue:

- when trading in significant sizes: here, revealing their intentions to multiple liquidity providers may prove market impactful and compromise their trading strategy;
- in conjunction with direct conversations with that SI when discussing complex trading structures;
- where liquidity is not offered on a trading venue (where there are no readily available buyers and sellers in the market).

An SI will often be willing to trade "on risk", and hedge that exposure through non-identical liquidity, potentially obtained through a mixture of trading venues and other counterparties. As the buy-side firm's objective is to source the original liquidity, seeking alternative liquidity in the same manner as the SI has hedged would not be suitable, even assuming that the buy side firm had the expertise to achieve this.

Furthermore, with respect to MiFIR pre-trade transparency, market interactions and behaviours, buy-side participants tend to interact more with vendor published axes and inventory, much more so than with MiFIR-based pre-trade quotes published on Sis' websites.

Finally, the response argues that MiFIR SI pre-trade transparency obligations create unnecessary complexity and an un-level playing field for SIs. SI rules under Article 18 go above and beyond those required on multilateral venues in that they also impose additional obligations on SIs such as requiring them to make the firm quotes "available to other clients' (Article (18(5))*and* "enter into transactions" under the published conditions with clients to whom the quotes are made available (Article (18(6)).

The key recommendation in ICMA's response regarding MiFIR transparency obligations is that the transparency obligations should be modified under MiFIR to focus only on the transparency element, in the same way as it does with multilateral venues.

Contact: Elizabeth Callaghan
elizabeth.callaghan@icmagroup.org

Bond market post-trade transparency regimes

ICMA has compiled an overview of current post-trading reporting obligations across multiple jurisdictions from Europe, the Americas and Asia-Pacific. The purpose of the mapping is to provide a consolidated view to compare both regulatory rules and best practice guidance on bond post-trade transparency regimes, as well as details on reporting fields and exceptions. This is a non-exhaustive overview and is intended to be a living document with periodic reviews.

Evolution of bond market transparency

Transparency requirements have evolved in various aspects across regions. The US's FINRA TRACE model, for example, was a replacement to the previous Fixed Income Reporting System (FIPS). FIPS provided a summary of post-trade data with one-sided quotation information to a limited number of HY OTC Corporate Bonds. The TRACE model expanded on post-trade transparency and eliminated pre-trade quotations, while reducing the reporting timeframe from 75 to 15 minutes. Similar time reductions have been seen in Indonesia (Government and Corporate OTC reporting within 1 hour to 30 minutes) and the EU's MiFID II/R regime specifies real time reporting obligations of in-scope instruments will move from 15 minutes for first 3 years to 5 minutes thereafter.

Regulatory frameworks and rulebooks

Transparency regimes are structured in varying ways across jurisdictions. A common regulatory framework for trade reporting is characterised by a Self-Regulated Organisation (SRO) or Limited Exchange SRO, overseen by a Statutory Regulatory body. The SRO or Exchange in many cases maintains a rulebook or publishes guidelines which adhere to regulatory requirements. This type of structure is the case for the United States, Canada, Hong Kong, Japan, Republic of Korea, Singapore and Thailand among others. This model is in contrast to the EU's MiFID II/R transparency regime.

Post-trade transparency

Post-trade transparency generally refers to the dissemination of executed trade details to market participants. As the trade has already been executed, a large array of data points is generally required. Such data could include product identifier (such as ISIN or CUSIP) final price, volume, yield, value, execution time, direction, counterparty and unique transaction ID.

Post-trade data availability also varies across regimes, with a number of jurisdictions implementing transparency reporting requirements based on a set of defined criteria (such as liquidity status of an instrument or the size of a transaction). This may impact either the timing of reporting (eg delayed publications) or level of detail displayed (eg transaction volumes are masked above a certain threshold).

Timing of publication: The delay between execution time and dissemination ranges between real time and weeks. The EU for example has real time post-trade reporting requirements for non-exempt trades. If the trade is deemed large in size or illiquid the reporting may be deferred for up to four weeks (Article 11 MiFIR, supplemented by Articles 8-11 RTS 2). The EU's MiFID regime is unique in assessing liquidity to determine post-trade reporting requirements. However, Switzerland's SIX exchange rules follow MiFID's liquidity standards in addition to waivers for LIS and SSTI qualifying bonds, based on mutual market access obligations to retain EU equivalence, and allows for a deferral to T+1 7:00am. Australia's transparency regime for Commonwealth Government Securities (CGS) also follows a deferral regime for exceptions, where Large Principal Transactions are to be reported as soon as practicable after Reporting Participant is no longer exposed to risk from the transaction (6.3.1(2) rules, generally T+1).

Information masking: Volume information is the most common data point withheld or masked. A large volume trade could fall into a deferral regime (eg MiFID's LIS or SSTI exceptions and Australia's Large Principal Transaction rules) where under other regimes a large trade could be reported on-time but with 'capped' volumes to mask the real size of a trade. The United States, Canada and Japan all have cap limits. In addition, US and Canada have distinct caps for IG ($5million and $2 million respectively) and HY/non-IG ($1 million and $200,000 respectively) categories while in Japan, Corporate bonds lower than AA ratings and transactions smaller than JPY100 million are not subject to the transparency requirements.

The Bond Market Post-Trade Transparency Directory is available on ICMA's website.

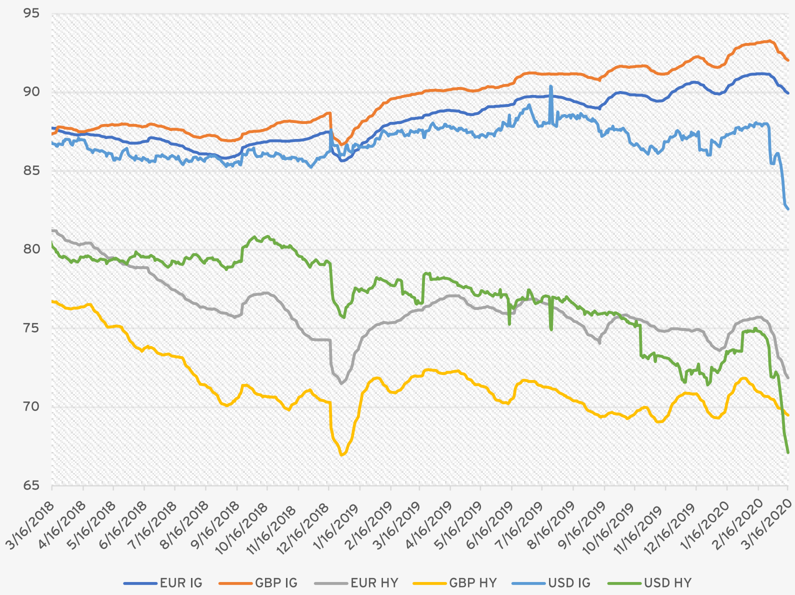
Contact: Rowan Varrall
rowan.varrall@icmagroup.org

Post-trade data availability also varies across regimes, with a number of jurisdictions implementing transparency reporting requirements based on a set of defined criteria.

ICE Data Services Corporate Bond Market Liquidity Indicators™

Tracker indicates significant deterioration in credit market liquidity in wake of COVID-19 crisis
March 2020

ICE Liquidity Indicators™



Commentary

As discussed in previous Quarterly Reports, corporate bond market liquidity recovered throughout Q1 2019 but then followed a downward trend in Q3 2019 before improving again towards year-end. US HY liquidity is an exception with a marked decline from Q2 2019, reaching a new low in Q4 2019.

While it is difficult to attribute causality, a possible explanation for the deterioration in EUR HY liquidity in 2018 could be the announcement of the wind-down of the ECB's Corporate Sector Purchase Programme (CSPP). While HY was not in scope of the purchase programme, the sector has benefited from a "portfolio rebalancing" effect. Rate hikes in the US, widening CDS spreads and falling equities markets appear furthermore to have had a knock-on effect on reduced EUR and GBP liquidity.

At the beginning of 2019, monetary policy and tightening CDS spreads seem to have countered this effect. Meanwhile, the continued economic uncertainty arising from Brexit, global geopolitical tensions and a "flight-to-quality" appear to have had a continued adverse impact on HY liquidity throughout Q2 and Q3 2019, notably for GBP HY, a segment dominated by UK retailers. A sell-off in global bond markets in Q4 2019 does not appear to have had a material impact on liquidity.

Liquidity levels across IG and HY declined towards the end of Q4 2019, before following an upward trajectory at the beginning of Q1 2020. It remains unclear as to whether those improvements may have benefitted from the third rate cut by the Fed and the ECB's relaunched asset purchase programme in 2019, or whether it is a "usual" recovery as observed in previous years following a slump at year-end. However, it seems that the global spread of the COVID-19 pandemic has led to an abrupt deterioration of liquidity from February, with US IG and HY falling to record lows by the middle of March 2020.

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

Repo and Collateral Markets

by Andy Hill, Alexander Westphal, Gabriel Callsen and Rowan Varrall




SFTR implementation and ICMA *Recommendations for Reporting*

Unsurprisingly, the unprecedented measures taken to combat the COVID-19 pandemic have had a major impact on the industry's preparations for the SFTR reporting go-live, initially due on 11 April. On 16 March, amidst growing concerns from members, ICMA sent a letter (co-signed by ISLA) to ESMA requesting a delay of the reporting go-live in light of the circumstances. In support of the request, the letter included concrete examples of the critical challenges that the COVID-19 pandemic and related measures are posing to members' SFTR implementation programmes. ESMA responded promptly. On 19 March, ESMA issued a public statement, effectively postponing the first phase of the SFTR reporting go-live, applicable to banks and investment firms, by three months, from April to 13 July. Although ICMA had initially suggested a delay until October, the move is of course broadly welcome and a real relief to the industry. The initial statement left a few aspects unaddressed, in particular the implications of the delay for backloading. In response to queries by ICMA and others, on 26 March, ESMA issued an updated version of the statement which clarifies that firms subject to SFTR reporting under all 4 phases are not expected to apply the backloading requirements under SFTR. ICMA published a more detailed assessment of the ESMA statements which is available on the ICMA website.

In the meantime, discussions continue in relation to the final Level 3 guidance published by ESMA on 6 January. The ESMA Guidelines contain helpful clarifications and additional guidance, incorporating many of the suggestions submitted by ICMA, but they also leave a number of important questions open. Following in-depth review of the documents, ICMA followed up with ESMA on a limited set of questions that were considered most critical. Two questions stand out:

- How far do settlement fails on the repurchase leg of a repo require reporting? While there has always been a clear industry consensus that modifying reports following settlement fails would not be appropriate in the context of repos as this would misrepresent the contractual and legal reality of the product, ESMA's Guidelines seem to require exactly this.
- For uncleared repos, how should variation margining be reported? Despite previous discussions and proposals submitted by ICMA, this continues to be an open question as the related examples in the Guidelines are not clear.

Despite the delay and current circumstances, ICMA continues to engage fully with members to keep the work to support the industry's implementation effort on track. On 23 February, an important milestone was reached with the publication of the detailed *ICMA Recommendations for Reporting under SFTR*. On 202 pages, the ICMA recommendations set out detailed guidance on over 70 issues, helping firms to interpret the regulatory reporting framework, providing additional clarity and address ambiguities in the official guidance where necessary. The Guide is the result of many months of intensive discussions within ICMA's dedicated SFTR Task Force and extensive feedback provided by members. It was published along with two complementary best practice documents, a list of SFTR sample reports (covering a wide range of 35 relevant repo scenarios) and an overview for the reporting of repo

On 23 February, an important milestone was reached with the publication of the detailed ICMA *Recommendations for Reporting under SFTR.*

lifecycle events. All three documents continue to be reviewed by the Task Force and are expected to evolve further in light of any changes in the market consensus, new issues arising or additional clarifications provided by ESMA. Regular updates will be published on the ICMA website.

Finally, education remains an important pillar of the SFTR implementation work. ICMA already hosted seven full-day technical workshops on SFTR reporting and is currently looking to supplement this offering by suitable web-based alternatives. More information on the ERCC's implementation work and educational offering in relation to SFTR is also available on ICMA's SFTR webpage.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org

CSDR Settlement Discipline: repo and collateral markets

The ICMA CSDR-SD Working Group (WG) remains actively focused on the CSDR Settlement Discipline (SD) provisions, including the mandatory buy-in regime, both for cash bonds and repo.

In February 2020, ICMA and ISLA, on behalf of the European repo and securities lending community, submitted a Q&A to ESMA requesting Level 3 guidance that open, and open-like, SFTs should be exempted from the CSDR buy-in requirements based on their earliest contractual termination date. This is in line with other regulatory treatments (eg for LCR and NSFR purposes) as well as general accounting practice. The results of a survey of ERCC and ISLA members on their treatment of open SFTs was also shared with ESMA.

In March 2020, ICMA published FAQs on CSDR mandatory buy-ins and Securities Financing Transactions. The FAQs are intended to outline considerations and, where possible, to provide clarity with respect to the application of CSDR buy-ins in the case of repos and other SFTs. The FAQs will be updated in light of new guidance from ESMA and agreed market best practice.

More about ICMA's extensive work related to CSDR Settlement Discipline can be found in the Secondary Market section of this Quarterly Report.

Contact: Andy Hill
andy.hill@icmagroup.org

ICMA Repo Trading Technology Directory

In light of increasing electronification of repo markets, ICMA has conducted a mapping exercise of electronic repo trading platforms. The directory is intended to help market participants understand what execution venues are available for repo trading (D2D or D2C, for instance), product scope, as well as differences in trading protocols, clearing and collateral configurations. The directory also provides information on the venues' regulatory status, market identifier codes (MIC) and additional services on offer such as regulatory reporting under SFTR. The directory includes a total of seven electronic trading platforms for repo.

Electronic repo business continues to trend upwards while voice-broker volumes continue falling to all-time lows and CCP-cleared (anonymous) electronic repo has surged.[1] We may expect to see further increased use of electronic platforms in order to facilitate STP and manage the vast array of standardised data fields required under SFTR requirements. The Repo Trading Technology Directory is available on ICMA's website.

The mapping directory does not constitute an exhaustive list of providers in the market. Relevant providers that are not yet covered by the mapping directory and wish to join are very welcome to do so.

Contacts: Rowan Varrall and Gabriel Callsen
rowan.varrall@icmagroup.org
gabriel.callsen@icmagroup.org

CDM repo workshops

Following the meeting of the European Repo and Collateral Council in November 2019, it was agreed to explore the development of ISDA's Common Domain Model (CDM) for repos and bonds. In collaboration with ISDA and Regnosys, ICMA held three workshops in January, February and March respectively, modelling open repos, and as an initial use

1. ICMA European Repo Market Surveys No.37 November 2019 and No.36 April 2019.

case, repo interest payments, followed by the execution of a repo transaction comprising transfer of collateral and cash of both legs.

What is the CDM?

The CDM is essentially a model for trade processing that is machine readable and executable. It was initially developed for derivatives and can be used by all businesses and processes within a firm, and across the entire industry, to ensure consistency in the way lifecycle events are represented in different systems. The aim of the workshops was to demonstrate the benefits of a consistent data model in machine-readable format, using a hands-on format which showed a real-time implementation.

CDM as an enabler of solutions and interface

Based on consistent definitions and digital representations, the key benefits of the CDM include: (i) enhanced interoperability & straight-through-processing (STP) between market infrastructures, including trading venues, order/execution management systems, CSDs, CCPs, and trade repositories; (ii) greater internal efficiencies for firms' various processes and IT applications: eg quoting, trade execution, trade confirmation, reconciliations, settlement, risk management, regulatory reporting; (iii) consistency of regulatory reporting and better regulatory oversight; and (iv) a common foundation for developing innovative solutions (whether based on DLT, cloud or conventional technologies). The CDM can therefore be described as an enabler of solutions rather than a solution itself.

With regard to existing standards and messaging protocols, the CDM can be considered an interface between ISO20022, Financial Product Mark-up Language (FpML), or Financial Information Exchange (FIX), for example. It doesn't replace any existing standards but is essentially a connection between different standards and messaging protocols.

Modelling open repos, repo interest payments, cash and collateral

The functionality of CDM was demonstrated in interactive sessions to model an open repo transaction as well as the execution of a plain vanilla repo transaction, drawing on participants' input. In practical terms, this involved the following steps:

(i) Describing the structure and operation of an open repo such as repo rate, re-rate event, termination, but also a simple DvP scenario ie the transfer of cash and securities of both repo legs.

(ii) Outlining the sequence of steps, for example of repo interest payments, *manufactured* coupon payments, transfer of cash and collateral.

(iii) Identifying commonalities between derivative and repo transactions (such as termination of an open repo which is similar to a call option in a derivatives contract) but also gaps (such as collateral substitution which is specific to repos, price notations eg haircuts, or references to the GMRA for product definitions).

(iv) Modelling features such as the termination attributes and a re-rate of an open repo, or settlement of cash and securities based on existing components in the CDM, and "simulating" other features currently not included such as cash flows related to securities.

(v) Translating these elements into code in the CDM.

(vi) Running a real-time demo, showcasing the output the CDM generates and how the data is validated based on embedded rules.

Further information and supporting materials from the CDM Repo Workshops can be found on ICMA's CDM webpage.

Next steps

To extend the CDM fully to repos and bonds, it will be necessary to conduct a gap analysis between the existing components in the CDM that can be re-used, and those that will have to be newly developed and adapted to the specificities of repo and bonds markets. Test data samples or data schemas will be critical to understand the different permutations of data representations in member firms' internal systems. ICMA member firms that are willing to commit time and resources, for example by sharing test data samples, or to contribute to workshops, are welcome to get in touch.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

Green, Social and Sustainability Bond Markets




by Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck and Ozgur Altun

Sustainable finance developments

In light of the COVID-19 crisis, we are presenting developments in sustainable finance in a summary format in this edition of the Quarterly Report.

European Action Plan on Sustainable Finance

The European Commission's Technical Expert Group on Sustainable Finance, of which ICMA is a member, and where it also represents the GBP SBP, on 10 March 2020 published two important reports.

First, the *Final Report on the EU Taxonomy* describes changes to the Taxonomy since the political agreement in December 2019, explains the climate adaptation activities and has extensive implementation guidance including on the "do no significant harm" (DNSH) criteria and on the minimum safeguards in the Taxonomy Regulation. It also contains advice on how companies and financial institutions can make disclosures on their Taxonomy aligned economic activities and investments.

The report is supplemented by a Technical Annex with screening criteria for 70 climate change mitigation and 68 climate change adaptation economic activities. Included are the criteria for pollution prevention and control, use and protection of water and marine resources, circular economy, and protection and restoration of biodiversity and ecosystems.

Second, the *Usability Guide for the EU Green Bond Standard* (EU GBS) offers market participants guidance on the use of the proposed standard, focusing especially on defining projects aligned with the Taxonomy, the content of the GB Framework and reporting requirements and templates. It also describes the proposed setup of an interim registration scheme for verifiers (external reviewers) of the EU GBS pending likely ESMA supervision.

It is important to note that the TEG's recommendation for the EU GBS remains for a voluntary standard. The Usability Guide refers explicitly to the GBP and states that "EU GBS aligned bonds are GBP-aligned by definition". The Usability Guide otherwise contains an updated draft EU GBS that should facilitate issuance. This draft contains new language that:

(i) expands the flexibility of EU Green Bond issuers when aligning projects with the Taxonomy, notably "for specific cases where the technical screening criteria may not be directly applicable as a result of the innovative nature, the complexity, and/or the location or other legitimate factors"; and

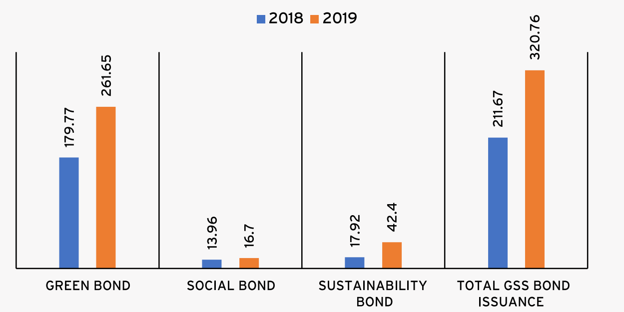
(ii) frames requirements for verification for alignment for qualitative criteria in the Taxonomy that "could for instance consist of the verification of the existence of appropriate processes and due diligence systems designed to assess, mitigate and remedy risks and issues that may arise in relation to these qualitative criteria".

Regarding next steps, the Commission will adopt the classifications for climate change mitigation and climate change adaptation in the form of Delegated Acts by the end of 2020, as set out in the Taxonomy Regulation which will be adopted in 2020. The Commission will use an upcoming public consultation on sustainable finance to finalise its initiative for an EU GBS. The Commission also organised a web-based stakeholder dialogue on the final reports on 12 March 2020 where ICMA was represented by Nicholas Pfaff as a speaker.

Green, social and sustainability bond market update

Green, social and sustainability bond issuance totalled USD320 billion in 2019, representing more than 50% growth over 2018. Green bond issuance totalled USD261 billion representing the bulk of issuance while sustainability bonds more than doubled to USD42 billion compared to 2018.

GSS bonds in 2018 and 2019 (USD billion)



Source: ICMA based on Environmental Finance Database

Green bond issuance from corporates almost doubled, from USD48.47 billion in 2018 to USD94.35 billion in 2019, while the SSA segment saw an increase of more than 35% reaching USD87.34 billion during the same period. Green bond issuance from financial institutions totalled USD63.2 billion, which was very close to the 2018 volume. Europe dominated green, social and sustainability bond issuance in 2019 with USD149.47 billion, while the US and Asia accounted for nearly USD63 billion and USD62 billion respectively.

Concerning Q1 2020, green, social and sustainability bond issuance totalled USD33.75 billion, of which green bonds represented USD29.24 billion and social and sustainability bonds USD4.51 billion (as of 12 March 2020). This is equivalent to a 35% slowdown in the total issuance of green, social and sustainability issuance compared to Q1 2019 (USD52 billion). This is likely to be mainly attributable to COVID-19's global negative economic effect.

In other significant developments this quarter, we noted:

- the Republic of Ecuador issued in January 2020 the first ever sovereign social bond of USD400 million partially supported by a credit guarantee from the Inter-American Development Bank. The proceeds from the issuance will be used for housing loans with social and public interest for medium or low-income families.
- In March 2020, Cadent, a large UK gas distribution company, issued the UK's first "transition bond" of EUR500 million where proceeds will be used for eligible transition projects of retrofit of gas transmission and distributions (to facilitate future transmission of hydrogen and other low-carbon gases & reduce methane leakage), renewable energy, clean transportation, and energy efficiency.
- Sydney Airport issued In February 2020 an AUD100 million 20-year sustainability-linked bond in the form of a private placement under a multi-tranche, triple-currency transaction which raised around AUD600 million.

GBP SBP developments: postponement of the 2020 AGM & Conference

Given the impact of the COVID-19 outbreak, the GBP SBP Executive Committee decided to change the format and date, as well as partially relocate, this year's GBP SBP Annual General Meeting & Conference which was scheduled to take place in New York on 12 May 2020.

The Annual General Meeting, open to members and observers of the GBP SBP only, will be relocated to London on 19 May 2020 and will be a much smaller and remote-enabled event kindly hosted by the EBRD. The Conference will be rescheduled to later in the year in New York.

Green Bond Principles Working Group on sustainability/KPI-linked bonds

On 14 January 2020, the Executive Committee of the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines (the Principles), supported by the International Capital Market Association (ICMA), decided to establish a working group on emerging sustainability/KPI-linked bond products.

The remit of the Working Group will be to (i) take stock of recent and ongoing developments in the market for sustainability/KPI-linked bond products (ii) establish their main characteristics including by using what has been developed in the Sustainability-linked Loan market; (iii) examine any concerns; and (iv) consider and potentially propose market guidance. The Working Group's Terms of Reference are available from our website.

Social Bonds as part of the response to the COVID-19 crisis

Social Bonds are emerging as a readily actionable response for the market to contribute to the response to the economic consequences of the COVID-19 crisis. This is being explored by issuers such as the IFC with its USD1 billion 3-year social bond of 11 March 2020 that aims to "support the private sector and jobs in developing countries affected by COVID-19 outbreak" and Bank of China's issuance of a dual currency (HKD4 billion and MOP1 billion) social bond of 3 March 2020 where proceeds will be allocated to the SMEs impacted by COVID-19.

The Social Bond Principles (SBP) supported by ICMA are immediately applicable. The SBP guides issuers to finance social projects "that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population(s)". Illustrative examples for eligible social projects can include COVID-19 related healthcare and medical research and development of vaccines, investment into additional medical equipment, or manufacturing facilities to produce more health and safety equipment and hygiene supplies, and specific projects designed to alleviate unemployment generated by the crisis. These could especially target specific groups directly impacted by the virus outbreak, although they may also seek to support a wider population affected by the economic crisis. Additional advice for issuers in the form of new Q&A and case studies has also been provided by the GBP SBP Executive Committee.

Compendium of international policy initiatives and best market practice for sustainable finance

On 20 February 2020, ICMA published a *Compendium of International Policy Initiatives and Best Market Practice for Sustainable Finance* intended to provide stakeholders with an easy reference point to the numerous national and international developments in the context of the rapidly growing international market for sustainable finance supported by initiatives from governments, regulators, exchanges, financial industry associations and market participants themselves. ICMA has contributed actively to the policy and regulatory dialogue including the G20 and continues to do so notably as a member of the European Commission's Technical Expert Group on Sustainable Finance.

The Compendium is also the first publication of ICMA's Sustainable Finance Committee set up in September 2019. This Committee brings together various ICMA committees, including its buy-side arm, corporate issuer forum, legal and documentation committee as well as the Executive Committee of the Green Bond Principles and the Social Bond Principles, and aims to address cross-cutting sustainable finance developments.

Contacts: Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck and Ozgur Altun
nicholas.pfaff@icmagroup.org
valerie.guillaumin@icmagroup.org
simone.utermarck@icmagroup.org
ozgur.altun@icmagroup.org

ESG and investor duties in China

By Wei Kong, Partner, Zhong Lun Law Firm, and Margarita Pirovska, Head of Fiduciary Duty in the 21st Century, PRI

The manner in which fiduciary duty – or equivalent investor duties and obligations – is defined has profound implications. Decisions made by fiduciaries cascade through the investment chain and impact investment decision-making processes, ownership practices, the way in which companies are managed, and ultimately the world in which we live.

The report by the PRI and UNEP FI on *Fiduciary Duty in the 21st* Century outlines a modern understanding of fiduciary duty, requiring investors to:

- incorporate ESG issues into investment analysis and decision-making processes, consistent with their investment time horizons;
- encourage high standards of ESG performance in the companies or other entities in which they invest;
- understand and incorporate beneficiaries' sustainability-related preferences, regardless of whether these preferences are financially material;
- support the stability and resilience of the financial system;
- report on how they implement these commitments.

Fiduciary duty in China is defined by a series of laws and regulations that define investors' duties and obligations towards their clients and beneficiaries[1]. This article explores how market opening and ESG measures may influence the development of modern fiduciary duties in China.

The legal framework for sustainable investment in China

China's investment industry is regulated and monitored by several Government departments, the People's Bank of China (PBOC), China Securities Regulatory Commission (CSRC) and China Banking and Insurance Regulatory Commission (CBIRC). In addition, the Asset Management Association of China (AMAC), as a national, industrial and non-profit social organization voluntarily formed by key financial institutions, has played the role of bridge between the industry and the Government, and has promoted the sustainable, stable and healthy development of the investment industry. Since the publication of the *Guidelines for Establishing a Green Financial System*, issued by the PBOC, the Ministry of Finance, the National Development and Reform Commission and other Departments in 2016[2], these regulatory bodies have issued guidance and legislation promoting green investment and the consideration of ESG issues.

1. Investor duties and ESG integration in China (2018) https://www.unpri.org/fiduciary-duty/investor-duties-and-esg-integration-in-china/2915.article

2. http://www.mee.gov.cn/gkml/hbb/gwy/201611/t20161124_368163.htm

The CSRC issued a series of environmental information disclosure requirements for listed companies in 2017[3], and an updated version of the *Corporate Governance Guidelines for Listed Companies*[4] in 2018. AMAC published in 2018 *Guidance on Green Investment (Interim)*[5] and *Research Report on ESG Valuation System of Chinese Listing Companies*[6], which provide guidance for investors to consider ESG issues in investment decision making.

The Chinese Government has also engaged in promoting sustainable and responsible investment at international and regional level. President Xi Jinping announced in 2019 that China's Belt and Road initiative must be green and sustainable[7]. At the same time, 27 financial institutions signed the *Green Investment Principles*, which aim to integrate low-carbon and sustainable development criteria within Belt and Road projects and to promote green and sustainable investment within countries engaged in the Belt and Road initiative[8].

The influence of the opening-up measures in the financial sector

China has also gradually accelerated the pace in opening up the domestic financial industry to foreign investors, which may continue to promote the alignment of Chinese investor duties with international best practice. For example, July 2019, China unveiled eleven liberalizing measures throughout the financial sector,[9] which require broad cross-departmental coordination among China's regulators in the continued opening-up of China's financial sector to foreign investors. China has also established the Shanghai Pilot Free Trade Zone and more recently the Shanghai Government introduced *100 Measures of Shanghai Greater Opening-up*[10], aiming to improve the status of Shanghai as an international financial center. In February of 2020, PBOC, CBIRC, CSRC, State Administration of Foreign Exchange and Shanghai Government further jointly issued *Opinions on Further Expediting the Building of Shanghai into an International Financial Center and Financial Supports for the Yangtze River Delta (YRD) Integrated Development*[11], promoting the financial development of the YRD cored by Shanghai.

Both the example of Shanghai on a regional level and the opening-up measures on national level should further attract foreign investment, integrating China's investment industry with international markets. This will also increase the exposure to ESG investment requirements which are integrated in policy frameworks in global markets. As an example, the European Commission recently adopted a Regulation requiring asset managers to disclose how they

3. https://neris.csrc.gov.cn/falvfagui/rdqsHeader/mainbody?navbarId=3&secFutrsLawId=745777672752021627&body= https://neris.csrc.gov.cn/falvfagui/rdqsHeader/mainbody?navbarId=3&secFutrsLawId=745777672752023201&body=

4. https://neris.csrc.gov.cn/falvfagui/rdqsHeader/mainbody?navbarId=1&secFutrsLawId=b08cc738a4154bd6977b6ff4cdf542e6

5. http://www.amac.org.cn/aboutassociation/gyxh_xhdt/xhdt_xhyw/201912/t20191231_4471.html

6. http://www.amac.org.cn/aboutassociation/gyxh_xhdt/xhdt_xhgg/201811/t20181122_2432.html

7. Speech at the second Belt and Road forum in Beijing April 27-29 2019

8. Source: http://www.greenfinance.org.cn/displaynews.php?id=2530

9. www.gov.cn/guowuyuan/2019-07/20/content_5412220.htm

10. http://www.shanghai.gov.cn/nw2/nw2314/nw2315/nw4411/u21aw1325485.html

11. http://www.gov.cn/zhengce/zhengceku/2020-02/14/content_5478985.htm

consider ESG issues in their investment decisions, and the societal impacts of their investments.[12] This is an example of policy makers legislating to align policies with the modern understanding of investor duties.

Market response to ESG Investment in China

Incorporation of ESG issues, alongside all value drivers, in investment decision making is an increasingly accepted understanding of investor duties in China. Alongside the development of a policy framework around ESG integration and disclosure in China, many ESG-related funds have appeared in the market. As of November 2019, there were a total of 95 ESG-related mutual funds. Examples are Hwabao Green Theme Hybrid Securities Investment Fund[13], Wanjia Social Responsibility 18 Months Regularly Open Mixed[14] and Hwabao MSCI China A-Share International ESG General Index Securities Investment Fund. In addition to funds, green bonds are also growing in China. In 2019, a total of 47 green bonds were issued with total value USD26 billion equivalent, accounting for 10% of global green bond issuance and maintaining China as the world's third largest green bond issuer.

However, compared to the total size of secondary markets in China (USD13.4 trillion in outstanding bonds in the domestic market as of end September 2019), these developments remain relatively marginal. For example, ESG-related mutual funds represented 2% of the whole fund market in 2019. In order to mainstream green and sustainable finance and economy, further policy developments are needed, both for investors and issuers.

What next?

Chinese policy makers should respond to the increasing interest on ESG integration in China by further developing the legal framework around investor duties and ESG integration. The CSRC has already pledged to publish a mandatory ESG disclosure framework in 2020 which will significantly expand the quantity and quality of ESG data available for investors to use in investment decision making. However, beyond ESG disclosure, a comprehensive policy framework is needed, including requirements for asset owners and asset managers to adopt responsible investment practices, including stewardship of invested assets and incorporation of ESG issues in all investment decision making, and disclose how they do so.

The ultimate goal of sustainable finance policies and regulations is to lead to an effective economic transformation, driving investments to low carbon, sustainable and inclusive economic activities. Developing a legal framework for ESG integration to achieve the coordination and unity between investment practice and ecological civilization development is what Chinese regulators should strive for in the future.

In terms of legislation, the authorities could learn from others: the European Commission has established a Technical Expert Group on sustainable finance to develop recommendations for a comprehensive capital market transformation; Asian pension funds are accelerating the region's shift towards ESG investments with increasingly diverse solutions for sustainable investment. Aligning sustainable finance policy developments in China with global and regional developments to improve the applicability of legislation and encouraging sovereign pension funds to actively implement ESG investment standards across their portfolios may be the right direction.

Contacts: Mushtaq Kapasi and Ricco Zhang
mushtaq.kapasi@icmagroup.org
ricco.zhang@icmagroup.org

12. https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1580215739945&uri=CELEX:32019R2088

13. Source: http://eid.csrc.gov.cn/fund/web/fund_detail.fund?fundId=5539

14. Source: http://eid.csrc.gov.cn/fund/web/fund_detail.fund?fundId=6047

Japan's measures for the expansion of sustainable finance

By Keiko Nakada, Japan Securities Dealers Association

The agenda for global sustainability has become a priority across the globe in recent years. Since the adoption of the United Nations Sustainable Development Goals (SDGs) in 2015, many stakeholders have endeavoured to do their part to contribute to achieving the goals by the target date of 2030. Amidst the global movement towards sustainability, financial instruments that can effectively channel these funds to sustainable projects have garnered attention, the most well-known of which are green, social and sustainability bonds.

In Japan, the market size of such bonds is still small in comparison to that of its economy. But given that Japan–similar to other countries–faces a number of ESG-related issues such as social inequality and environmental preservation, the growth potential for the market remains high. This potential has been reflected in the expansion of the market for these types of instruments, which, according to BIS statistics, doubled from 2018 to 2019 from about 16% to 33% of the total bond market in Japan. In 2019 alone there were a total of 21 issuances of green bonds, 16 issuances of social bonds, and 14 issuances of sustainability bonds, the combined issuance amount of which totaled just over JPY1.2 trillion–more than double the figure of 2018.

What lies behind this growth is the momentum propelled by the initiatives of the Japanese financial industry and Government at large?

At Government level, for instance, the Japanese Ministry of the Environment (MoE) published in 2017 its Green Bond Guidelines, which are in line with ICMA's Green Bond Principles. The Green Bond Guidelines were updated most recently in March 2020, reflecting recent developments in and to become more aligned with the ICMA Principles. Moreover, since 2018, the MoE has provided subsidies in the form of grants up to almost USD 500,000 per issuance for green bonds. In the private sector, Japan Exchange Group (JPX) has most notably launched a platform for green and social bonds, as a part of its professional-oriented bond market. Further, a number of ESG-related ETFs are currently listed on the JPX, and JPX has also developed ESG indices in collaboration with external benchmark administrators.

The Japan Securities Dealers Association (JSDA) has also launched a number of important initiatives to provide impetus for the development of the markets for sustainable finance from a securities industry perspective, including but not limited to: creating an umbrella term ("SDG bonds"[1]) for bonds that contribute to the SDGs; publishing the *Guidebook on Financial Instruments Contributing to the SDGs* in order to raise and deepen the understanding of financial products that can contribute to the SDGs among the executives and employees of securities firms, as well as investors; and publishing "SDG bond" issuance statistics.

The combined effect of such initiatives is that Japan boasts a handful of noteworthy green, social, and sustainability bond issuances. To name a few, green bonds issued by ANA Holdings aimed to raise funds for a new training center with high environmental performance; and through the certification of the Sustainability Finance Framework issued by the Japan Railway Construction, Transport and Technology Agency (JRTT), Japan saw the first issuance of sustainability bonds in its domestic bond market.[2]

The move to expand sustainable finance is not one that works in a vacuum. The Japanese example above illustrates that the global project of sustainability is one that requires the cross-sectional collaboration and efforts, both individual and combined, of all stakeholders. Going forward, Japan and the Japanese securities industry will continue to work towards realising a sustainable society, in pursuit of ethical values with financial value.

---

1. Bonds that have a positive impact on the environment and society, and are issued in accordance with generally accepted standards (ICMA principles, etc.) or bonds issued by institutions whose business itself is considered to contribute the SDGs and whose information on (improvement effects) has been appropriately disclosed.

2. For a full list of green bond issuances in Japan, visit the Green Bond Issuance Promotion Platform's link below: http://greenbondplatform.env.go.jp/en/policies-data/list.html

Asset Management

by Arthur Carabia

Impact of COVID-19 on asset management

As the magnitude of the COVID-19 crisis and its impact on health and the economy became clearer, fund managers faced their most challenging quarter in decades. The speed and the amplitude of the sell-off were unprecedented: on the equity market, it took the S&P 500 only 22 trading days to fall 30% from its record high, making it the fastest drop of this magnitude in history. Although most bond funds were in general able to cope with this shock and to continue to serve clients, it was particularly challenging to do so as, at the peak, stress was also felt across all types of securities and durations.

Impact on bond funds

Fund managers investing in *governments bonds* were able to perform positively during this first quarter provided that their market timing was right. They had indeed to face extreme volatility as government bond yields dropped to all time lows before rising sharply as market participants anxiously awaited decisive measures from central banks and governments, and as fund managers suddenly had to sell these liquid assets in order to raise cash and meet redemptions. Benchmarks of sovereign bond funds issued by developed countries provided no positive return this quarter (0% as of 23 March, despite a 7% peak performance on 9 March).

With companies' cash flow evaporating due to lockdown measures, *money market funds* investing in commercial paper faced significant outflows prompting an early and specific intervention from the Fed on 19 March: the central bank is now able to grant secured loans to credit institutions providing liquidity support to money market funds.

As debt downgrades loomed and the oil price war erupted, *high-yield (HY) bond funds* performed negatively sometimes causing suspensions of redemptions. Likewise, *investment grade (IG) bond funds* were also negatively impacted. The benchmarks of global HY and IG bond funds fell respectively by as much as 22% and 18% before recovering part of their losses during the last days of the quarter.

Despite the market conditions and selling pressure, all *bond ETFs* traded continuously during this period of stress. Some market participants have praised bond ETFs during this crisis as they positively contributed to price discovery and indicated where the market was actually clearing.

Monetary policies

Most markets seem to have stabilized following the announcement of wide-ranging measures both by governments and central banks, including fiscal relief packages, liquidity support for companies and accommodative monetary policies. The asset purchase programmes announced by central banks are indeed unprecedented in size and in scope, allowing them to intervene across all durations of bonds, with a new focus on commercial paper and corporate bonds, to protect the flow of credit to companies and corporate bond liquidity. We note in particular as a novelty that the Fed will be able to purchase, until 30 September 2020, US listed ETFs providing broad exposure to the market for US investment grade corporate bonds. These extreme measures seem to have halted significant outflows in the short term and there is now reasonable hope that this could contribute to a market rebound across asset classes in the medium term, provided that progress is made on the management of the COVID-19 pandemic.

> **We welcome the fact that during this crisis supervisors have overall taken a pragmatic approach.**

Reaction from supervisors

From a regulatory perspective, we welcome the fact that during this crisis supervisors have overall taken a pragmatic approach by postponing new regulatory provisions in order to alleviate operational burdens on firms. In particular, we welcome the three month delay granted by ESMA regarding the first phase of the SFTR reporting obligations applicable to banks and investment firms, from 11 April to 13 July. In the same vein, supervisors have postponed ongoing consultations such as the Bank of England/FCA joint review of fund liquidity rules for open-ended funds. (See the list of initiatives postponed by ESMA and the FCA). Finally, supervisors have issued helpful positions to manage fund liquidity. In Luxembourg, for instance, the CSSF has extended the possible use of swing pricing to protect remaining investors in a fund. We also welcome the FCA statement on property fund suspensions, which recognises that "In these circumstances, suspension is likely to be in the best interests of fund investors."

Impact on AMIC activities

In these extreme circumstances, AMIC had to postpone until further notice its bi-annual Conference in Paris (11 March) and its Covered Bond Investor Council conference in Frankfurt (13 May). Meanwhile, the AMIC Secretariat was able to run meetings of working groups and the AMIC Executive Committee, via conference calls, and carry on work as planned.

On top of the deliverables announced in the previous Quarterly Report, which referred to an updated report on fund liquidity, a response to the PRIIPS consultation and a paper on ELTIFs), AMIC has issued the following publications:

- *CSDR implementation:* The AMIC and the IA wrote to the Commission, on 30 January, expressing concerns about the potential bond market impact of the CSDR mandatory buy-in provisions (due to come into force in early 2021) and encouraging the Commission to undertake a robust market impact assessment of these provisions before attempting implementation, or, as a minimum, to adopt a cautious, phased-in approach to minimize potential disruption.
- *AMIC Review:* On 10 March, the AMIC published its first 2020 bi-annual review, featuring articles on sustainable finance, fund liquidity and primary markets. This publication highlights the role of the buy-side community within ICMA, reminds readers of AMIC's objectives and priorities and outlines the activities of its working groups, alongside some enduring AMIC topics.
- *Cyber-resilience:* Based on the ESAs' opinion issued in April 2019, the Commission is considering introducing changes to the sectorial legislation (eg UCITS, AIFMD) to enhance cyber-resilience. On 19 March, the AMIC responded, arguing that the regulatory framework already allows the market to address cyber-risk in the asset management industry.

Next quarter, AMIC is planning to focus mainly on the following deadlines:

- Sustainable finance: AMIC responses to consultations on (i) the EU Ecolabel for fund; (ii) implementing measures of the Sustainability-Related Disclosure Regulation; and (iii) Non-Financial Reporting Directive review.
- Capital Markets Union: AMIC is contributing to ICMA's response to the MiFID review consultation).

Contact : Arthur Carabia
arthur.carabia@icmagroup.org

FinTech in International Capital Markets *by Gabriel Callsen*

ICMA FinTech Advisory Committee

In light of the pace of technological change, the ICMA Board decided in 2019 to expand the remit of the Board Sub-Group on Technology, tap into the expertise of ICMA's broad membership, and provide guidance on ICMA's work through the creation of the FinTech Advisory Committee (FinAC).

The FinTech Advisory Committee held its inaugural meeting on 21 January 2020 followed by its second (virtual) meeting on 24 March 2020. It is chaired by Armin Peter, Global Head of Syndicate at UBS and previously chair of the ICMA Board Sub-Group on Technology, and brings together front office, middle/back office, legal and technology expertise across ICMA's core areas, representing corporate and public sector issuers, investors, banks, market infrastructures and law firms.

In line with ICMA's mission statement to promote resilient and well-functioning international debt capital markets, the purpose of the ICMA FinTech Advisory Committee is to provide guidance on ICMA's engagement on FinTech across primary, secondary, repo and collateral markets, as well as sustainable finance.

Since the financial crisis in 2008, ever-increasing regulatory reporting requirements have been implemented successively, which has led to an inconsistent data approach (eg for MiFID II/R, followed by SFTR). Short lead times have resulted in suboptimal technical implementation. Furthermore, there is a need for a common language for communication within the industry to break down siloes.

The FinTech Advisory Committee focused in its first two meetings on STP, common standards for data and lifecycle events, messaging protocols as well as standardisation initiatives within each of ICMA's pillars.

From a primary market perspective, process standardization remains a key requirement to enable straight-through-processing (STP). Current pain points include the ISIN allocation for new issues, the provision of LEIs (for example, at fund or entity level), and information gaps in term sheets despite standardization efforts. Investor allocations remain highly manual due to an inconsistent categorization of investors (as asset managers or insurers, for instance). Sourcing data from historical prospectuses poses challenges in the absence of a central repository.

In secondary markets, the accessibility and availability of post-trade data published by Approved Publication Arrangements (APAs) remain challenging. Investments in direct connectivity between market participants are increasing and will require standardisation, for example, of communication standards for pricing. Axe distribution also requires standards, which has been addressed by ICMA's Electronic Trading Council (ETC).

From a repo and collateral perspective, the reporting regime under the Securities Financing Transactions (SFT) Regulation (delayed by ESMA until July 2020 in light of COVID-19), requires a large number of data points to be matched between counterparties. Implementation has been operations-driven with little focus on legal aspects.

From a legal perspective, there are different solutions to automate the creation of legal documentation. However, one of the challenges is that documentation is often based on previous transactions or different programmes. While implementation of legal technology such as mark-up language is simple from an IT perspective, the challenge is adoption.

The FinTech Advisory Committee focused in its first two meetings on STP, common standards for data and lifecycle events, messaging protocols as well as standardisation initiatives within each of ICMA's pillars. Further information will be made available in due course on ICMA's FinTech Hub.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

EU framework for markets in crypto-assets

On 18 March 2020, ICMA responded to the European Commission's consultation on an EU framework for markets in crypto-assets (security tokens). The ICMA response was prepared, taking account of comments from ICMA's stakeholders, notably the ICMA Legal & Documentation Committee[1] and associated ICMA members, solely in relation to selected aspects of EU legislation applying to "security tokens", defined by the European Commission as "crypto-assets issued on a DLT and that qualify as transferable securities or other types of MiFID financial instruments". ICMA's response is available on our website.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

1. https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Primary-Markets/primary-market-committees/icma-legal-and-documentation-committee/

ICMA Capital Market Research

Time to Act: ICMA's Third Study into the State and Evolution of the European Investment Grade Corporate Bond Secondary Market
Published: 4 March 2020
Author: Andy Hill, ICMA

A Quick Guide to the Transition to Risk-Free Rates in the Bond Market
Published: 24 February 2020
Author: Charlotte Bellamy and Katie Kelly, ICMA

Sustainable finance: Compendium of International Policy Initiatives and Best Market Practice
Published: 20 February 2020
Author: Nicholas Pfaff, ICMA

Managing Fund Liquidity Risk in Europe: Recent Regulatory Enhancements and Proposals for Further Improvements
Published: 22 January 2020 (update to the original 2016 report)
Authors: ICMA/EFAMA Joint Report

ICMA ERCC Briefing Note: The European Repo Market at 2019 Year-end
Published: 14 January 2020
Author: Andy Hill, ICMA

MiFID II/R and the Bond Markets: The Second Year
Published: 20 December 2019
Author: Gabriel Callsen, ICMA

ICMA impact study: Mandatory buy-ins under CSDR and the European bond markets
Published: 27 November 2019
Author: Andy Hill, ICMA

ICMA briefing: The Importance of Integrated Capital Markets and CMU
Published: 29 July 2019
Author: David Hiscock, ICMA

A comparative review of practices and procedures in the Russian and international primary debt capital markets
Published: 5 June 2019
Authors: ICMA/NFA Joint Report

ICMA ERCC Briefing Note: The European repo market at 2018 year-end
Published: 15 January 2019
Author: Andy Hill, ICMA

ICMA AMIC/EFAMA Report on Liquidity Stress Tests in Investment Funds 2019
Published: 8 January 2019
Authors: ICMA/EFAMA Joint Report

The GFMA and ICMA Repo Market Study: Post-Crisis Reforms and the Evolution of the Repo and Broader SFT Markets
Published: 17 December 2018
Authors: ICMA/GFMA Joint Report

MiFID II/R and the bond markets: the first year
Published: 6 December 2018
Editor: Andy Hill, ICMA

Adopting International Practices of Bond Trustee Arrangements in China
Published: 5 December 2018
Authors: ICMA/NAFMII joint publication

ICMA Discussion Paper: CSDR mandatory buy-ins and securities financing transactions
Published: 3 October 2018
Author: Andy Hill, ICMA

ICMA Briefing: Regulatory approaches to FinTech and innovation in capital markets
Published: 7 September 2018
Author: Gabriel Callsen, ICMA

The Asia-Pacific Cross-Border Corporate Bond Secondary Market: A report on the state and evolution of the market
Published: 30 August 2018
Authors: Andy Hill and Mushtaq Kapasi, both ICMA

How to Survive in a Mandatory Buy-in World
Published: 26 June 2018
Author: Andy Hill, ICMA

The European Corporate Single Name Credit Default Swap Market: A Study into the State and Evolution of the European Corporate SN-CDS Market
Published: 15 February 2018
Authors: Andy Hill and Gabriel Callsen, both ICMA

ICMA ERCC Briefing Note: The European Repo Market at 2017 Year-End
Published: 15 January 2018
Author: Andy Hill, ICMA

ICMA events and courses

All ICMA's events and courses up to June 2020 have been postponed, including the ICMA AGM and Conference scheduled for Vienna in June and the Green Bond Principles/Social Bond Principles AGM in New York in May. We will be in contact with members about alternative arrangements for the two AGMs within the next few weeks. **Contact: events@icmagroup.org**

The ICMA Mentoring Platform

Over the next few weeks and months it will become more important than ever for our community to work together to provide strong support for each other and to ensure that, whilst having to socially isolate, we do not become isolated.

We are living in difficult times, each of us facing our own challenges and constant uncertainty. When we launched our mentoring platform our aim was to provide a tool that you could use to help support your career development and to share knowledge. Whilst that is still the case, it does also provide you with an online facility to find a mentor to help support you through current challenges or for you to be able to offer your support to others as a mentor. You may not be able to solve all the challenges that we will face going forward but having someone to give you some additional support and ideas could be invaluable.

Some of us may find we have more time on our hands than we normally would and so finally have the time to invest in developing a mentoring relationship, one which will continue well beyond the foreseeable future and will support our long-term career development.

Others will find that our time is taken up in coping with this ever-changing situation, so support needs may be less long term and formal but a shorter-term mentor to bounce ideas off and to provide a different perspective could still be invaluable.

Benefits of mentoring

Research has shown that mentoring programs offer benefits for both parties involved. Being a mentor can bring many mental benefits. The interaction from mentoring increases social engagement, which helps people avoid loneliness and reduces the risk of depression. The experience gives the mentor a chance to revisit obstacles they have overcome and the successes they have achieved, which can help focus on the positive aspects of life.

Mentoring skills

A good mentor needs specific skills, such as active listening and empathy. There are often times when a mentee needs guidance or ideas, and other times when they just need to talk about what is on their mind and want someone to just listen

Mentoring is a serious commitment, so both mentor and mentee should be honest about their desire to pursue it. You do not want to enter into a mentoring relationship and then suddenly abandon it. Our platform provides a "learn more" section which guides you through what is involved in the mentoring process so you can assess whether it is right for you before you make a commitment.

Keep in mind that mentoring is like any other new relationship, begin slowly, and do not worry if there is not an initial spark. It may take time to build trust, so do not think initial resistance is a sign of rejection. If, for some reason, a specific mentoring relationship does not work out, don't give up. Try again with a different individual and eventually you will find a good fit.

Get started now Contact: info@icmagroup.org

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
CBIC	ICMA Covered Bond Investor Council
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDS	Credit default swap
CFTC	US Commodity Futures Trading Commission
CGFS	Committee on the Global Financial System
CICF	Collateral Initiatives Coordination Forum
CIF	ICMA Corporate Issuer Forum
CMU	Capital Markets Union
CNAV	Constant net asset value
CoCo	Contingent convertible
COP21	Paris Climate Conference
COREPER	Committee of Permanent Representatives (in the EU)
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
DCM	Debt Capital Markets
DLT	Distributed ledger technology
DMO	Debt Management Office
D-SIBs	Domestic systemically important banks
DVP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
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
ECPC	ICMA Euro Commercial Paper Committee
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)
EFSF	European Financial Stability Facility
EFSI	European Fund for Strategic Investment
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
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	Environmental, social and governance
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
ETP	Electronic trading platform
EU27	European Union minus the UK
ESTER	Euro Short-Term Rate
ETD	Exchange-traded derivatives
EURIBOR	Euro Interbank Offered Rate
Eurosystem	ECB and participating national central banks in the euro area
FAQ	Frequently Asked Question
FASB	Financial Accounting Standards Board
FATCA	US Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FCA	UK Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FICC	Fixed income, currency and commodity markets
FIIF	ICMA Financial Institution Issuer Forum
FMI	Financial market infrastructure
FMSB	FICC Markets Standards Board
FPC	UK Financial Policy Committee
FRN	Floating-rate note
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FSC	Financial Services Committee (of the EU)
FSOC	Financial Stability Oversight Council (of the US)
FTT	Financial Transaction Tax
G20	Group of Twenty
GBP	Green Bond Principles
GDP	Gross Domestic Product
GFMA	Global Financial Markets Association
GHOS	Group of Central Bank Governors and Heads of Supervision
GMRA	Global Master Repurchase Agreement
G-SIBs	Global systemically important banks
G-SIFIs	Global systemically important financial institutions
G-SIIs	Global systemically important insurers
HFT	High frequency trading
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 Depositaries
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
ITS	Implementing Technical Standards
KfW	Kreditanstalt fur Wiederaufbau
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
MMCG	ECB Money Market Contact Group
MMF	Money market fund
MOU	Memorandum of Understanding
MREL	Minimum requirement for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NAFMII	National Association of Financial Market Institutional Investors
NAV	Net asset value
NCA	National competent authority
NCB	National central bank
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio (or Requirement)
OAM	Officially Appointed Mechanism
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
ORB	London Stock Exchange Order book for Retail Bonds
OTC	Over-the-counter
OTF	Organised Trading Facility
PCS	Prime Collateralised Securities
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSEs	Public Sector Entities
PSI	Private Sector Involvement
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RFRs	Near risk-free rates
RM	Regulated Market
RMB	Chinese renminbi
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
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SARON	Swiss Average Rate Overnight
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
STS	Simple, transparent and standardised
T+2	Trade date plus two business days
T2S	TARGET2-Securities
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TONA	Tokyo Overnight Average rate
TRs	Trade repositories
UKLA	UK Listing Authority
VNAV	Variable net asset value

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

ICMA London
T: +44 20 7213 0310
23 College Hill
London EC4R 2RP

ICMA Paris
T: +33 1 70 17 64 72
62 rue la Boétie
75008 Paris

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

icmagroup.org