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ICMA Quarterly Report

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ICMA
International Capital Market Association

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

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

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Foreword

ICMA: a hub for the industry

by **Marc Lewell**

Writing this foreword at the point of the first anniversary of the initial European COVID-19 lockdowns, I am driven to reflect on the grief and loss so many people have suffered over the last 12 months. What is clear is that the pandemic has significantly changed the lives of the global population, with a breadth that has no parallels in the last half century.

As we start to dream about the light at the end of the COVID tunnel, most of us have plenty of reasons to want to return to how life, work and the world was before 2020. But equally, many will have observed changes that we want to retain in the new recovered environment.

Often these changes are rooted in our home lives, but there have been changes in our working approach too that I think we will look back fondly on in years to come. Many of us experienced a decade's worth of technological change in just a few months; meetings that took days to set up, and many plane journeys to reach, are now organised in minutes.

In past forewords, Board colleagues have rightly highlighted the robust and resilient nature of the market, and the support that ICMA and its members provided to ensure the smooth running of so many segments and products around the world. We are now at a point that is largely adjusted to a new normal, and I sense that investors, issuers and bankers alike are now more focused planning for the longer term, a new post-COVID world.

Over the last decade ICMA, as a hub for the industry, has helped market participants prepare for and deal with significant changes – whether regulatory (MAR, MiFiD II/R), political (Brexit), or exogenous events (COVID-19). Throughout, there has been a desire to ensure continuity and stability, while moving with the times and meeting the changing needs of our clients and the external environment.

ICMA is often the light that guides the path of its member communities. We particularly value the engagement across disciplines – for instance, the commonalities between the Primary Market Practices Committee, the Legal and Documentation Committee and the Primary Market Compliance Forum – and the institutional history that means there is always a context and a detailed explanation available to members.

The leadership role played by ICMA in broadening the knowledge base of all our markets is also key. The various training courses and Handbook make a big difference. But arguably, the biggest contribution comes from the association's natural impulse to reach out to new participants and new markets and to help raise or harmonise standards across geographies and products.

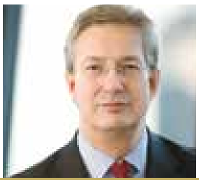
2020 was a banner year for ESG in the bond markets, and while each year is the biggest and best for such a rapidly growing area, it really feels like the pandemic has provided a tipping point where green products and ESG became almost the default setting in the primary bond markets.

The ESG innovations that ICMA has pioneered in recent years – the Green Bond Principles, Sustainability-Linked Bond Principles and Climate Transition Finance Handbook – have helped define and build the sector. We are seeing an ever-increasing investor focus while issuer discussion on these themes has reached crescendo levels; it is apparent that we are all looking at a bigger, broader, longer term picture. That may be one of many reasons that makes 2021 a more optimistic year than 2020.

Stay safe and take care.

Marc Lewell is Managing Director, Head of EMEA & APAC Syndicate, J.P. Morgan, a member of the ICMA Board and Co-Chair of the ICMA Primary Market Practices Committee.

2021: a packed agenda



by **Martin Scheck**

ICMA has had an exceptionally active first quarter of 2021, despite the fact that all our staff, except those based in Hong Kong, continue to work remotely given the COVID-19 pandemic. It is now a full year since starting this process, with a short period towards the end of last summer when we were able to reopen our offices briefly before a resurgence required us to close them. Whilst we are all looking forward to the pandemic being behind us, I am constantly impressed – and grateful – that our staff remain so effective.

In this edition of the Quarterly Report there are a number of articles focused on our work in Asia-Pacific, led by our office in Hong Kong. We have recently released two high-profile reports, one on the *Asian International Bond Markets*, and one entitled *The Internationalisation of the China Corporate Bond Market*, an important theme we have been supporting for many years. Overall, our footprint in Asia-Pacific continues to grow along with our Asian membership, led by our focus on sustainability and primary markets. In primary markets, the current consultation on DCM practices from Hong Kong's Securities and Futures Commission is a welcome opportunity to share detailed guidance from our Asian members, including our Asian Bond Syndicate Forum and Asian Legal and Documentation Forum. In southeast Asia, we have just been appointed to the Industry Advisory Panel of the ASEAN Joint Sustainable Finance Working Group, and we are actively cooperating with the ASEAN Capital Markets Forum on the creation of ASEAN sustainability-linked bond standards.

Let me draw your attention to the section in this Quarterly Report detailing our involvement in the Common Domain Model (CDM), where we have embarked upon an initiative to digitise the lifecycle events of repo and cash securities. The CDM is an open-source repository comprising digital representations of the lifecycle events of financial products. This is an important project for ICMA, and we are working together with ISDA and ISLA to expand the range of financial products in the CDM.

In Europe this is the first Quarterly Report since the end of the EU/UK post-Brexit transition period, and we provide a review of the way the markets functioned during the period. In primary markets, secondary and repo markets, and asset management, the preparation undertaken by market participants ensured the markets continued to function without a hitch. The EU/UK MOU, as expected, provides a framework for regulatory cooperation in financial services between the EU and the UK, but does not move the equivalence discussions forward. This, and other post-Brexit related issues, are discussed in more detail in the Quarterly Report.

A major ongoing theme for ICMA has been representing the industry in discussions with the EU authorities on the problematic issue of mandatory buy-ins under the CSDR. We submitted our responses and suggestions in early February based on evidence received from our members. Separately, on the specific issue of the implementation timetable for the CSDR, we organised and coordinated a letter to the authorities signed by 15 associations.

You may remember that, in 2020, based on extensive input from our members, we provided a comprehensive report to the European Commission on the rationale for a bond consolidated tape and suggestions on its structure and governance. We were pleased to see in January this year that the European Commission's review of MiFID II/R in 2021 will include "the design and implementation of a consolidated trading tape, in particular for corporate bond issuances – a central database, which aggregates the various post-trade data sources into a single view". We look forward to contributing to this.

ICMA's involvement in the complex LIBOR transition initiative has increased in intensity this year. Whilst the recent announcements by the authorities have provided welcome clarity, the timetable is short and from a bond market perspective the focus is firmly on dealing with the "tough legacy" issue. As you will see from the contributions inside this edition, discussions are centred on ensuring an orderly wind-down of sterling LIBOR and international coordination. ICMA is leading the industry in facilitating this transition from a bond market perspective.

Our education programmes have started strongly in 2021. The take-up of online courses has been encouraging, there is a strong pipeline for in-house courses (delivered virtually at this stage), and demand for livestreamed courses is starting to pick up. Unfortunately, the possibilities for in-person classroom courses still look remote. In China, our mandarin language education joint venture is running well.

We were delighted to use our educational resources as the foundation of a new ICMA Scholarship Programme. On 5 March, we welcomed the first cohort of 25 students to the programme from Ghana, Kenya, Nigeria, Rwanda, Tanzania, Uganda and Zimbabwe, chosen from an extensive number of applications. This scholarship programme is part of ICMA's mission to raise standards and support inclusion in financial markets – we wish the students all the best in their ICMA diploma studies.

The last point I want to mention is that our AGM takes place this year on 24 June. Given the current situation, sadly this will again be a written AGM without member participation. However, we will hold a virtual conference for 2½ hours later in the day to deliver a review of the year and present the activities of our committees and councils. The conference will be interactive with the opportunity to ask questions and we look forward to welcoming our members to join us – please put the date in your diaries. I very much hope that in 2022 we can return to the large-scale physical AGM and conference format we have enjoyed so much in the past. Vienna is our planned destination.

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The post-Brexit impact on the international bond market

by **Paul Richards**

Introduction

1 At the end of the post-Brexit transition period on 31 December 2020, the UK left the EU Single Market, passporting rights ceased and the UK and EU markets became two separate markets. What impact has the UK's withdrawal from the Single Market had on international capital markets, particularly the international bond market? This report gives an overall assessment, and more detailed assessments follow for primary markets, secondary and repo markets, and asset management.

The experience so far

Overall impact on the bond market

2 The preliminary conclusion is that there has not been a significant impact on the effective functioning of the international bond market since the end of the post-Brexit transition period; primary and secondary bond and repo markets, and asset management, have continued to work well; and financial instability has been avoided so far. But it is too early to form a definitive judgment, and difficult to distinguish between the post-Brexit impact on the international bond market and the impact from other factors, such as the official response to the COVID-19 pandemic and the growth in electronic bond trading.

Preparations by market firms

3 The bond market has continued to function well so far largely because capital market firms were as well prepared as they could be for the cessation of passporting rights at the end of 2020 and the fragmentation of the Single Market into two separate EU and UK markets. Although the EU/UK Trade and Cooperation Agreement was only reached a week ahead of the deadline, the agreement did not cover international capital markets in any detail. This was anticipated by market firms, because any common ground between the EU and the UK on financial services would have been reached largely outside the agreement (eg through regulatory equivalence). But in practice the regulatory equivalence granted by the European Commission to the UK was strictly limited, even though the UK Government offered EEA firms a package of equivalence decisions on 9 November. Market firms therefore took the view that there would not be a significant difference between an EU/UK deal and "no deal", and that it was prudent to prepare on a "worst case" basis. In the event, the main advantage of the deal is that it provides an opportunity for EU/UK relations to improve in future, including in financial services.

Authorisation in the EU and the UK

4 The preparations by market firms involved ensuring that they had authorisation to operate in both the EU and the UK separately, instead of being able to rely on continuing to provide services across borders. On the UK side, the Temporary Permissions Regime provides a period of up to three years in which EEA firms can seek authorisation in the UK. On the EU side, there is no equivalent to the Temporary Permissions Regime at EU level, though there is a patchwork of arrangements at national level.

5 The ECB and ESMA[1] have both set out requirements for UK firms dealing with EU customers. These include not only the transfer of EU-related capital, assets and operations to authorised and regulated EU legal entities, but also the transfer of key staff (including those who are client-facing) where otherwise EU entities would be deemed to consist of "letter boxes". EU and UK supervisors are both monitoring the relocation of EU activities of UK firms to the EU. The main

1. eg ESMA's "reminder to firms of the MiFID II rules on reverse solicitation in the context of the recent end of the UK transition period": 13 January 2021.

constraint on the transfer of staff in practice has not been unwillingness, despite the social impact, but uncertainty about the precise requirements and inability to transfer staff in the middle of the COVID-19 pandemic. In response to the pandemic, it is also not clear how much the location of key staff matters from an operational point of view when many of them are working remotely from home, though there are regulatory, tax and other implications relating to their location. And in the event, a degree of tolerance appears to have been granted by the ECB and ESMA for the time being.

National centres in the EU

6 Where market firms have transferred activities from London to the EU, they have not all transferred them to the same EU location. So, for example, some banking activities have been transferred to Frankfurt and Paris, trading venues to Amsterdam, and fund management to Luxembourg and Dublin. Many market firms are authorised to operate in a range of different EU centres. ESMA's role is to prevent regulatory competition within the EU by encouraging convergence in the implementation of regulations in different EU national centres. It is also important to note that all the large international capital market firms on both the sell side and the buy side continue to have extensive operations outside the EU in London. Given London's role as a global financial centre, competition comes not just from Frankfurt, Paris, Amsterdam, Luxembourg and Dublin, but also from New York, Singapore and Hong Kong.

Changes in other parts of the capital market

7 Although the division of the Single Market into two separate markets along these lines was anticipated by market firms, and the separation itself has not so far led to a substantial further impact on the effective functioning of the international bond market, there have been changes in other sectors of the capital market. For example, trading venues shifted trading in EU shares from London to Amsterdam at the beginning of January, while the UK has proposed to lift the EU ban on trading Swiss shares in London; and, in the absence of equivalence, the EU Derivatives Trading Obligation has led to the transfer of some euro interest rate swaps trading from London, including to US Swap Execution Facilities in New York and to Singapore.

Use of English law and national laws in the EU

8 It is still very early to tell whether the end of the post-Brexit transition period will have a significant impact upon the predominant usage of English governing law for international bonds and associated documentation. But there does not appear to have been a significant shift so far. Local law has been used by several sovereign issuers in the EU for some time, and by some EEA banks in respect of the status of their regulatory capital securities.[2] The question for the market is whether the use of a number of different local laws may lead to more market fragmentation. It is widely considered that English law is likely to remain the preferred choice of law among UK and EU27 market participants.

9 Market firms have been taking a case-by-case approach in considering any change to the use of an asymmetric non-exclusive jurisdiction clause in favour of bondholders and underwriters or dealers. There does not appear to have been a significant change to the *status quo* so far. One factor here is likely to be whether the UK is admitted to the Lugano Convention.

Operational resilience in the EU

10 There is an outstanding issue about the location of CCPs. With effect from the end of 2020, the European Commission has granted regulatory equivalence to UK CCPs, which have also been recognised by ESMA, on the grounds that otherwise there would have been a risk of financial instability in the EU. The grant of equivalence has been limited to 18 months to enable the EU to build up its own operational resilience and to enable UK CCPs to transfer contracts to EU CCPs in the meantime, so that a further extension is not necessary. In a decision by the Commission on 27 January, equivalence was also granted to the US SEC, following an earlier grant to the CFTC.

11 In the case of CCP-cleared repo, most euro-denominated trades were cleared in CCPs located in the EU prior to the end of the post-Brexit transition period. The most significant shift in location occurred in February 2020, when LCH successfully concluded the migration of its euro repo clearing activity from LCH Ltd in London to LCH SA in Paris. The rationale for the shift was only partly related to Brexit, given the existing drive to consolidate repo clearing in one location so as to maximise the scope for netting and ensure access to settlement in TARGET2 Securities. CCP-cleared repo accounts for well over 50% of the repo market (in terms of volume). Trade repositories have set up separate authorised entities in the EU and the UK to serve their EU and UK clients in transaction reporting (including EMIR and SFTR).

12 Before the end of the post-Brexit transition period, Euroclear acted as issuer CSD not only for UK but also for Irish corporate securities from its London-based company. Since 15 March, Euroclear's ICSD in Brussels has acted as issuer CSD for Irish corporate securities.

2. The European Banking Authority and Single Resolution Board have also indicated that EU banks should consider issuing instruments that are intended to be eligible to meet the MREL target under the governing law of one of the EU Member States.

The period ahead

EU/UK Memorandum of Understanding (MOU)

13 Looking ahead, the joint declaration on financial services that accompanied the EU/UK Trade and Cooperation Agreement provides for "structural regulatory cooperation on financial services, with the aim of establishing a durable and stable relationship between autonomous jurisdictions based on a shared commitment to preserve financial stability, market integrity and the protection of investors and consumers".[3] As EU and UK regulations currently remain much the same and are significantly more convergent than with other third countries, there should in principle be scope for agreement on equivalence in future. The MOU which both sides agreed at the end of March is intended to enable progress on equivalence determinations "without prejudice to the unilateral and autonomous decision-making process of each side".[4] In practice, the MOU provides only a Joint EU/UK Financial Regulatory Forum for regulatory cooperation in future. There is already a network of MOUs between the EU and the UK on supervisory cooperation.[5]

Regulatory equivalence

14 One of the European Commission's main concerns about granting regulatory equivalence to the UK is the prospect of regulatory divergence in future. The UK considers that this is consistent with equivalence if the EU and the UK are committed to the same regulatory outcomes (as in the case of global international standards set by the FSB and IOSCO). The EU considers that the outcomes are only likely to be the same if the rules are the same. The rules are not the same between the EU and other third countries to which the Commission has granted equivalence. But in those cases, equivalence is designed to bring the two parties together, whereas the future relationship between the EU and the UK is not yet clear. In any case, too much reliance should not be placed on equivalence: it can apply in the case of some EU regulations, but cannot apply in others, and where it does apply it can be withdrawn by the Commission at short notice (ie a minimum of 30 days).

Regulatory divergence in the UK

15 The Governor of the Bank of England has recently made it quite clear that, as London is a global financial centre, the UK will not be a rule-taker from the EU. "Rule-taking pure and simple is not acceptable when UK rules govern a system ten times the size of the UK GDP and is not the test up to now to assess equivalence."[6]

16 There is already evidence that UK regulation will begin to diverge from EU regulation, with the objective of improving EU regulations onshored to the UK and adapting them to changed circumstances:

- Examples in the bond markets include: differences between the UK and EU BMR; SFTR (which now has two separate reporting regimes); CSDR Settlement Discipline; and the PRIIPs Regulation, where the UK may reduce the circumstances in which a KID is required. The FCA has already announced that it will not be applying the PRIIPs regime to UK UCITS. There is a question about whether the MiFID II/R transparency regime should be altered to make it more effective and useful.
- In addition, the UK Listing Review has called, among other recommendations, for a fundamental review of the UK Prospectus Regulation with the aim of moving the UK regime much closer to the regime that existed in the UK before the EU Prospectus Directive and Prospectus Regulation were introduced.
- Cases being considered in banking and insurance include: whether the Basel regime for banks should cover all banks (as in the EU) or only internationally active banks (as in the US and Switzerland); whether software should count as bank capital (as proposed by the EU); and the need for a review of Solvency II.
- In the longer term, under the UK's future regulatory review of financial services, technical rules (such as those relating to MiFID II/R) onshored from the EU may be transferred from primary legislation (as in the EU) into the FCA and PRA rulebooks, subject to accountability of the regulators to Parliament.

17 But it is important to remember that the UK had a significant influence in drawing up capital markets regulation during the long period in which the UK participated in the Single Market. So UK changes to most existing regulations are not expected to be substantial, at least for the time being. It is more likely that divergence will occur in the case of new regulations: ie the UK will not necessarily follow new EU regulations, given that the UK no longer has any say in making them, and may propose financial services regulation of its own (eg relating to FinTech). By doing this, it is possible that the UK will exercise influence by setting an example. The UK authorities have made a point of saying that they will not reduce regulatory standards, and that these will be at least as high as the EU.

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3. Andrew Bailey, Governor of the Bank of England: *The Case for an Open Financial System,* 10 February 2021.

4. Mairead McGuinness, European Commissioner for Financial Services: "There is no recreating the Single Market for financial services when [the UK has] decided to leave the Single Market.": 22 January 2021.

5. The EU may also deem the UK's data regime adequate.

6. Andrew Bailey, Governor of the Bank of England: *The Case for an Open Financial System,* 10 February 2021.

Regulatory divergence in the EU

18 Regulatory divergence will occur, not just in response to measures taken by the UK, but also in response to measures taken by the EU. For example:

- The EU is due to review MiFID II/R to make it work more effectively.[7] An EU review of MAR is due later this year, and the EU prospectus regime is due to be reviewed next year. The EU PRIIPs regime is also due to be reviewed, though the timing is not clear. The Prospectus Regulation and MiFID II/R product governance regimes were amended in February 2021 in response to the EU Capital Markets Recovery Package.
- Under the EU review of the AIFMD, consideration is being given to tightening the EU's rules for the delegation of fund management. Delegation of fund management is a global issue, not a post-Brexit issue, but has become caught up in the negotiations post-Brexit.
- There is also potential for divergence between the EU and the UK on sustainable finance regulation.

In addition, the ECB's rules on eligible collateral contain jurisdictional limitations so that instruments issued by UK issuers and denominated in sterling, US dollars or Japanese yen, and unsecured UK bank debt instruments, are no longer eligible.

Market fragmentation and international competitiveness

19 While the EU and UK both make changes to their rules independently in order to improve them, and supervisory cooperation is designed to ensure that the rules are applied effectively, the risk is that the market fragmentation arising from the replacement of the Single Market by two separate EU and UK markets will make European markets as a whole less competitive in global terms (for example in relation to New York or financial centres in Asia). Replacing a single operation with two separate operations, with the resulting need to deal with different regulatory requirements in different jurisdictions, involves substantial costs for large market firms; and some smaller firms may find it more cost-effective to cease business in the alternative market altogether (for example in the case of some small UK-based fund managers). Market fragmentation can also lead to operational risks, split liquidity, price volatility and execution costs, and may carry risks to financial stability.

Differences of approach

20 Underlying the separation of the Single Market into two separate EU and UK markets is a difference in approach to markets and their regulation between the EU and the UK.

- One difference in approach is that the EU puts more emphasis than the UK on the need for a location policy, under which EU customers should be served by market firms located in the EU, except in limited cases where regulatory equivalence has been granted, on the grounds that this will help ensure EU financial stability. The UK puts more emphasis on the need for an open financial system globally, together with the need to ensure that this is consistent with financial stability.
- Another difference in approach is that the UK is considering the delegation of detailed technical rules to regulators who will be accountable to Parliament, while the EU includes detailed technical rules in primary legislation. This should make UK regulation more agile than the EU, which needs to be negotiated and requires a common approach across the 27 Member States.

ICMA's post-Brexit role and approach

ICMA's role is to encourage efficient, integrated and resilient capital markets, which are necessary to support sustainable economic growth.

ICMA's approach has been to focus on the potential impact of the UK's withdrawal from the Single EU Market on international capital markets.

ICMA is not lobbying for any particular financial centre. ICMA's members are based in the UK, the EU and more broadly.

ICMA has been discussing the impact of the UK's withdrawal from the Single EU Market with members and is reporting to the ICMA Board.

ICMA is keeping in contact with the authorities in the UK, the EU and the euro area.

ICMA is cooperating with other trade associations by sharing information, wherever possible.

ICMA is keeping members up-to-date by giving them regular assessments through the ICMA Quarterly Report, conference calls, podcasts and webinars, and ICMA is also keeping its post-Brexit webpage up-to-date.

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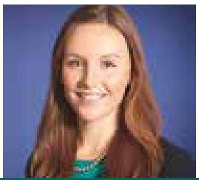
7. The EU has stated that in the short to medium term it will not assess the equivalence of the UK's regulatory and supervisory regime to its own for the purposes of MiFIR Article 47, which covers investment services.

The post-Brexit impact on primary markets



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

1 How well have primary markets functioned? Have there been any problems for issuers arising from market fragmentation?

Bond issuance volumes in the first part of the year and feedback from ICMA's issuer and underwriter communities suggest that the end of the post-Brexit transition period did not cause significant market disruption or financial instability for primary bond markets. The issuance process has remained largely the same so far, and issuers have not reported any concerns regarding access to funding or investor participation in their bonds.

2 Is there any evidence that bond market activities have shifted from Europe (ie the EU and the UK) to other financial centres (eg New York, Singapore and Hong Kong)?

Feedback from members to date would suggest that activities related to underwriting new issues have shifted more *within* Europe than *from* Europe to other financial centres.

3 To what extent have there been changes in the location in primary market activities?

Market firms took the view that there would not be a significant difference between an EU/UK deal and "no deal" and so have established regulated entities both in the UK and separately within the EU. They have consequently been engaging their clients from the appropriate entities. Location/entity changes for capital and staff may evolve further as the COVID-19 pandemic comes under control and subject to any developments in regulatory direction.

4 Has there been a significant shift in governing law in primary market documentation away from English law to national laws in the EU?

It is still very early to tell whether the end of the post-Brexit transition period will have a significant impact upon the predominant usage of English governing law for international bonds and associated documentation, though it is widely considered that English law is likely to remain the preferred choice of law among UK and EU27 market participants. There does not appear to have been a significant shift so far, though it is understood that in some jurisdictions, particularly in the Nordic region, local regulators are encouraging a move towards using local law for all bonds issued by financial institutions as well as local listings.

There appears to have been an incremental shift in some sectors, most notably capital securities of certain EU financial institution issuers (where the views of local resolution authorities, the SRB and the EBA on the ease of bailing in those securities and their eligibility for TLAC and MREL will be relevant). This incremental shift started before the end of the post-Brexit transition period. There does not appear to have been any shift in the typical use of English governing law for bonds issued by corporate issuers. In addition, it is understood that contractual documentation relating to bonds (for example, subscription agreements) will typically still be governed by English law, even where the bonds themselves (or certain bond provisions) are governed by a local law.

5 Has there been a significant shift in the use of asymmetric non-exclusive jurisdiction clauses?

Members are taking a case-by-case approach to their consideration of any changes to the usual approach in international debt capital markets of using an asymmetric non-exclusive jurisdiction clause in favour of the bondholders and underwriters or dealers. In the unsecured bond market, there does not yet seem to have been a significant change to the *status quo*.

Much will depend on the circumstances of individual cases, in particular the ease of enforcing English law judgments in the jurisdiction of the relevant parties and their assets. It is understood that, while the UK is not a party to the Lugano Convention, an exclusive jurisdiction clause could offer more certainty as to the recognition and enforceability of English law judgments. This is because the UK has acceded to the Hague Convention. However, this certainty would come at the expense of the flexibility that a non-exclusive jurisdiction clause provides. Also, if the UK accedes to the Lugano Convention, then it is understood that the position on civil justice as between the UK, the EU and Switzerland, Iceland and Norway will be almost exactly as it was when the UK was an EU Member State. Therefore, a case-by-case approach seems likely to persist in the unsecured bond market for at least as long as the question regarding the UK's accession to the Lugano Convention remains open. It is anticipated that there will be more clarity on whether the UK will be permitted to accede to the Lugano Convention soon.

6 Has there been a significant shift away from London as a listing venue and, if so, to which jurisdiction(s)?

There is no evidence of a significant shift away from London as a listing venue for Eurobonds.

The most commonly used listing venues for Eurobonds in Europe are the Luxembourg, London and Irish stock exchanges. The lack of change seems likely to be due to a combination of the following factors:

- the international debt capital markets are largely wholesale and institutional investors have historically not expressed any strong preference between listing venues;
- the London Stock Exchange has taken steps to ensure that London-listed bonds can continue to be used for the purposes of ECB eligible collateral; and
- currently, the EU and UK Prospectus Regulations are very similar, so (subject to a small number of exceptions) there is no significant difference between seeking admission to trading on the regulated market in London compared with Luxembourg or Ireland.

It remains to be seen how the fundamental review of the UK Prospectus Regulation proposed by the UK Listing Review and the next review of the EU Prospectus Regulation will have an impact on choice of listing venue.

7 What changes have been needed in ICMA primary market documentation?

At a high level, ICMA's primary market language that catered for EU legislation (eg EU Prospectus Regulation, EU PRIIPs Regulation, EU MiFID II/R product governance regime and EU BRRD Article 55) needed to be replicated and amended to cater for the corresponding UK regimes. This means market participants now often need to include double the amount of regulatory-related language in their bond documents: one set of language for the EU regime and another set of language for the UK regime.

ICMA has made available its updated language to ICMA members and ICMA Primary Market Handbook subscribers on the ICMA Other Primary Market Documentation webpage. In due course, the updated language will be included in the ICMA Primary Market Handbook.

8 What evidence is there of future divergence between capital market regulation in the EU?

In the primary markets, there is evidence of future regulatory divergence in the following areas. The precise implications of any divergence are not yet clear:

- *UK Listing Review:* The UK Listing Review published on 3 March has called for, among other recommendations, a fundamental review of the UK Prospectus Regulation with the aim of moving the UK regime much closer to the regime that existed in the UK before the EU Prospectus Directive and Prospectus Regulation were introduced.
- *EU Prospectus Regulation:* The EU Prospectus Regulation is due to be reviewed by the European Commission by July 2022. This may lead to further divergence between the EU and UK regimes.
- *PRIIPs Regulation:* The UK authorities have indicated that they will not apply the PRIIPs Regulation to UK UCITS, pending a review the UK PRIIPs regime. Similarly, the EU authorities are expected to review the EU PRIIPs Regulation. As things currently stand, they will apply the Regulation to UCITS as from the beginning of 2022. This will lead to divergence between the EU and UK regimes.
- *EU Capital Markets Recovery Package:* The EU Prospectus Regulation and MiFID II/R product governance regimes were amended in February 2021 pursuant to the EU Capital Markets Recovery Package. Following the end of the post-Brexit transition period, these changes have not been automatically carried across to the corresponding UK regimes.
- *EU MAR:* The EU Market Abuse Regulation is due to be reviewed by the European Commission (possibly this year), and this may lead to divergence between the EU and UK regimes.

In relation to benchmarks, the EU BMR was amended on 12 February 2021. The amendments included new provisions related to a statutory override of references to certain benchmarks in certain financial instruments and contracts, designed to cater for an orderly wind-down of LIBOR. The UK is considering changes to the UK BMR as part of the UK Financial Services Bill, also with a view to an orderly wind-down of LIBOR. The UK proposals are different in nature to the EU BMR proposals. For further information, see *Tough Legacy Proposals: A Snapshot*, ICMA, October 2020.

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The post-Brexit impact on secondary and repo markets


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

Secondary markets

1 How well have secondary markets functioned for bond trading? Have there been any problems arising from market fragmentation?

Members report that there has been little or no disruption in secondary bond markets and that pricing and liquidity have not been impacted. Firms appear to have been well prepared for the end of the post-Brexit transition period, and had begun the process of opening, capitalising, and staffing their EU entities, as well as undertaking the necessary repapering work with their clients and counterparties, long in advance of 1 January 2021. In fact, some were even operating as separate UK and EU entities in the weeks before the transition period ended.

Any challenges appear to be more related to derivatives, particularly with respect to the trading obligation for credit default swaps (CDS), with some initial confusion around counterparty eligibility which resulted in a reduction in liquidity.

2 To what extent have there been changes in the location of secondary market activities or infrastructures?

Some members report significant organisational impacts, with key trading or sales staff being relocated from the UK to their EU entities. They have either moved already or are projected to do so in the near future. So far this has been more material from the perspective of sell-side firms, with little or no impact on buy-side trading desks.

Trading venues (ie multilateral trading facilities (MTFs)) had already relocated or set up EU entities to complement their UK platforms well in advance of the end of the extension period. Members report that since 1 January 2021 bond market access and liquidity is fully interchangeable between both UK and EU MTFs.

3 What amendments to the ICMA Secondary Market Rules & Recommendations have been required?

There have been no required revisions to the ICMA Secondary Market Rules & Recommendations (SMR&Rs) as a consequence of the end of the post-Brexit transition period. The SMR&Rs are intended to provide best practice for secondary trading in cross-border bond markets. Where relevant, specific jurisdictional regulatory requirements will take precedence over the SMR&Rs.

Repo markets

4 How well have repo and collateral markets functioned? Have there been any problems arising from market fragmentation?

Similar to member feedback with respect to secondary bond markets, repo markets have continued to function well, with no observed disruptions to market access, pricing, or liquidity. A "worst case" scenario had long been anticipated, and investment firms and infrastructures were well prepared.

Repo clearing: In the case of repo, most euro-denominated trades were already cleared in CCPs located in the EU prior to the end of the post-Brexit transition period. The most significant shift occurred in February 2020, when LCH successfully concluded the migration of its euro repo clearing activity from LCH Ltd in London to LCH SA in Paris. The rationale for the migration was only partly related to Brexit, given the existing drive to consolidate repo clearing in one location so as to maximise the scope for netting. CCP-cleared repo accounts for well over 50% of the repo market (in terms of volume).

5 What other impacts have been noted?

SFTR: From a transaction reporting perspective, the end of the post-Brexit transition period has meant that SFTR is now split into two separate reporting regimes, UK SFTR and EU SFTR. In most cases, an individual entity is subject to either UK SFTR or EU SFTR, although there is some degree of double reporting required, especially in scenarios where a branch in either the EU or the UK is involved. However, the more serious concern is around possible divergence of the reporting rules going forward, given firms' extensive efforts over past years to implement the complex SFTR rules.

Trade repositories: In order to continue to serve both UK and EU clients in their transaction reporting under the relevant regimes (including EMIR and SFTR), trade repositories had to set up separate authorised entities in each jurisdiction and have played an important role in supporting clients in the transition and route reporting flows correctly.

Settlement: Prior to the end of the post-Brexit transition period, Euroclear acted as issuer CSD not only for the UK, but also for Irish corporate securities, through Euroclear UK & Ireland (EUI), a London-based company without physical presence in Ireland. In the context of the end of the post-Brexit transition period, this model had to be reviewed. After considering a number of alternative solutions, it was agreed that in future Euroclear Bank, Euroclear's ICSD based in Brussels, would act as issuer CSD for Irish corporate securities. The migration was successfully concluded on 15 March.

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The post-Brexit impact on asset management


By **Arthur Carabia** and **Irene Rey**

1 What has been the impact of UK withdrawal from the Single Market on asset management?

At the end of the post-Brexit transition period, many asset managers were well placed, given existing substantial fund businesses, to service EU and global fund clients from Luxembourg and Dublin domiciled fund ranges. Where managers did not already have such operations (ie they serviced EU clients with UK domiciled UCITS ranges), they had to prepare in time for the UK's withdrawal from the Single Market by setting up subsidiaries in EU financial hubs to ensure that they could continue to serve their EU clients by creating EU domiciled funds that mirror previously passported UK UCITS funds.

Asset managers operating discretionary investment management businesses for EU clients from the UK faced a different issue owing to the fact that EU clients were generally serviced by EU branches of UK MiFID entities using the MiFID Single Market passport. These managers prepared for the UK's withdrawal by setting up specific MiFID entities domiciled in the EU, or by extending existing UCITS/AIFMD licences where possible (since such licences allow certain ancillary MiFID activities to be undertaken). In both cases managers stepped up their EU presence.

2 What has been the impact on the regulatory framework for asset management?

In relation to fund business, MOUs signed by ESMA, the FCA and EU NCAs in February 2019 (and later confirmed in July 2020) enabled portfolio management activity to continue to be delegated to the UK in compliance with the UCITS Directive and AIFMD.

There has been ongoing discussion about what is meant by "substance", the avoidance of letter box entities, and the oversight of delegated activities particularly in the area of fund business, an issue which preceded Brexit, but which Brexit brought into sharper focus. In 2017, following the announcement in 2016 that the UK intended to leave the EU, ESMA issued an opinion on the supervisory approach it wished national competent authorities to follow regarding relocations of business to the EU from the UK. This has resulted in further guidance from competent authorities, including:

- In Luxembourg, the CSSF published a circular in August 2018 detailing its expectations for UCITS and AIFs management companies. This builds on the expectations set out in ESMA's opinion, and in some cases goes beyond them, such as requiring all mancos to have at least three full-time equivalent staff, including two senior managers based in Luxembourg or a location that in principle allows them to travel to Luxembourg every day. The CSSF rules cap the limits of fund mandates that board directors may hold and must not have time commitments of more than 1,920 hours annually (around 40 hours a week), unless they can justify how they manage their responsibilities, including through technical and administrative support.
- In Ireland, the Central Bank of Ireland (CBI) has updated its authorisation process for UCITS and AIFMD firms to ensure that it has all the information needed to document the assessments described in ESMA's opinion. The new information requirements include the rationale for the geographical distribution of planned activities, the objective justification for delegation arrangements in relation to critical functions and details of the due diligence undertaken during the selection process.

3 What further changes are expected in the period ahead?

The regulatory framework continues to evolve post-Brexit and changes may still occur locally or at European level:

- *Local development:* In October 2020, the CBI published a thematic review of fund management companies where they found that some firms were not able to demonstrate that they had carried out an appropriate level of due diligence on their delegates and group policies. Affected asset managers have been updating their governance and oversight to ensure that they have all the necessary resources on the ground with the required autonomy, seniority and skillsets.

- *European development:* The EU is currently reviewing the AIFMD and is expected to publish its legislative proposal at some point in Q3 2021. In August 2020, ESMA sent a letter to the European Commission proposing significant changes to the current delegation model (though the letter also addressed a number of issues unrelated to post-Brexit as well). Some of the points made by ESMA were raised in the form of questions in the AIFMD review consultation paper. It remains to be seen whether the European Commission will include them in its final proposal and whether these will also extend to UCITS.

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Breaking down risks in the asset management industry

By **Bob Parker**

Regulators continue to debate whether existing risk management in the asset management industry is satisfactory and whether the associated subject of the industry representing a potential systemic risk to financial markets is being adequately addressed. These questions have been raised in response to the intense volatility in capital markets in March 2020, during which some mutual funds faced the challenges of meeting client redemptions and deteriorating liquidity conditions in markets, leading to pricing uncertainty in a number of asset classes. This debate has become of more importance as the size of the asset management industry has grown significantly since 2008 owing first to the long-term compounded growth of assets and second to the objective of policy makers to move away from bank-centric economies by encouraging the development of capital markets.

In reviewing risk management, various components need to be analysed, namely the risks inherent in the structures of asset management product offerings, the different types of varying asset classes, the different markets in which products are sold, the use of leverage and derivatives, and finally the level of transparency of the asset management process presented to clients and other interested parties.

Product vehicles or investment offerings range from exchange-traded funds (and their sub-components), mutual funds, investment trusts/closed end funds, structured products such as CDOs, CLOs, etc, separate accounts, "white labelling" and typically in the alternatives sector the use of general partner/limited partner (GP/LP) structures. At times of financial stress, although investment performance might suffer, there are rarely significant problems in longer term structures such as separate account portfolios, GP/LP structures and closed end funds. Investment trusts will tend to trade at a discount in difficult market conditions but, subject to performance, these discounts can eventually narrow back. Apart for some commodity ETFs and their variants such as ETNs/ETP, which had important issues (liquidity and termination) when oil futures went negative for the first time in history in April 2020, the performance of ETFs was broadly in line with market conditions and a number of studies have concluded that generally the ETF market has been robust at times of stress largely owing to their additional layer of liquidity (primary and secondary). One area that was closely associated with the 2008 crisis was the structured product market and notably CBO/CDOs linked to the US mortgage market. Subsequently, the structured product market has been limited in scope and attempts to rebuild the market based on pools of high-quality collateral have been below expectations. White labelling and open-ended funds typically are the same structures but with different sales processes. Here, risk oversight is key. Lastly, if open-ended funds are in theory more prone to liquidity challenges, overall they have shown in the recent crisis a satisfactory level of resilience owing to the implementation of sound risk management processes. This is the result of both regulatory requirements and industry practices on liquidity and leverage.

Asset managers can struggle to meet client redemptions in periods of under-performance with risk management failures caused typically by either concentrated positions, exposures to illiquid assets and investments in assets which are difficult to price/value or held via inappropriate products. Different asset classes have varying risk and liquidity characteristics. Investors in illiquid real assets such as private equity, infrastructure and real estate have typically long-term time horizons and in many cases these assets are used to meet long-term liabilities as is the case with pension funds and aspects of the life insurance sector. Infrastructure and real estate markets have high correlations with fixed income yields and valuations can be stressed in periods of bond market volatility, while private equity valuations will typically trade at discounts to publicly listed equity markets. Clearly, in the case of illiquid assets, investors are prepared for extended periods to make purchases or sales and pricing or valuation transparency can be challenging. In liquid asset classes, such as foreign exchange, commodities, fixed income and equities, risk management only becomes problematic at times of extreme market volatility, but typically foreign exchange markets and exchange-traded assets matching buyers and sellers only experience short-term periods when liquidity becomes difficult. However, liquidity and transparent pricing in extreme market conditions will deteriorate in emerging market asset classes and in corporate debt markets. In 2020, primary market issuance expanded significantly in corporate debt markets with credit spreads tightening and, while increased activity on electronic exchanges has improved trading conditions, over-the-counter trading can still result in illiquidity. Since 2009, there has been increased investor activity in the credit loan markets and in a number of securitised areas such as insurance and risk management techniques have generally been enhanced in these areas, although some well publicised losses by asset managers have occurred.

In retail mutual funds there are regulatory limits on the use of leverage and derivatives, but it has to be recognised that in most financial crises excessive leverage has been a major cause of market distress. Examples of leverage leading to problems were investor borrowings in the tech sectors in 1999-2000 and the embedded leverage in CDO/CLO and CBO structured products in 2007-2009. Since 2008, the leverage levels in the hedge fund industry and the banking sector have been reduced, although in the equity market rally from March 2020 there has been a clear increase in leverage amongst retail investors while the use of derivatives has meant that quantifying leverage levels can be difficult and risk management challenged by opacity. In the derivatives markets, where rapid market movements lead to margin calls, market volatility can be compounded with potential losses to counterparties being forced to liquidate collateral in declining markets.

Regulation is typically more rigorous when asset management products are distributed in retail markets, but there has rightly been criticism over the risk ratings applied to different funds. In a number of cases, risk ratings are over-qualitative, are only changed or reviewed infrequently and assume that historic risks and volatility will be repeated in the future. There has been considerable debate over whether projecting future investment performance is appropriate and can lead to potential uncertainty amongst investors as to the risk/reward characteristics of the funds they are investing in. There has, however, been a quantum improvement in the flow and quality of information provided to investors, although in limited cases where funds have invested in illiquid assets such as private equity or small cap stocks, information could have been improved.

After the significant growth of the asset management industry since 2009, partly reflecting the de-leveraging of the banking industry, many regulators have argued that systemic risk in asset management has increased. The asset management industry has made significant progress in recent years in ensuring that investment processes are clearly explained to investors and that risks are well monitored. The diversity of the industry, the risk control of leverage and the trend improvement in all aspects of risk management, major systemic risks are unlikely and the industry should be able to navigate future market shocks rather than being a source of them.

Robert Parker is Chair of the ICMA Asset Management and Investors Council and Executive Committee.

A European Financial Transaction Tax?

By **Sven Renders**

The Portuguese EU Presidency has the ambition to move forward with a Financial Transaction Tax (FTT) at EU level. Although the recovery after the pandemic provides a clear momentum, it remains to be seen whether it will be enough to make real progress with this initiative.

According to early plans dating back to 2011, the FTT would impact financial transactions between financial institutions charging 0.1% against the exchange of shares and bonds and 0.01% across derivative contracts, if just one of the financial institutions resides in a Member State of the EU FTT. To avoid negative spillover on the real economy, certain specific transactions such as day-to-day financial activities of citizens and businesses (eg loans, payments, insurance, deposits etc) or investment banking activities in the context of raising capital, would be exempt.

The concept of a tax on financial transactions has been around for quite some time. Britain has been charging stamp duty on equity purchases since 1694 and Nobel prizewinning economist James Tobin already proposed a global tax on foreign-exchange transactions in 1972. The idea of skimming a tiny bit of revenue off the top of financial trades, and of retrieving money for taxpayers from an industry that has benefited greatly from their size, has a moral justification. In this respect it is no surprise this idea is receiving renewed attention.

However, introducing new initiatives in the field of taxation at EU level is no walk in the park. Over the years, unanimity has hampered progress on important tax initiatives needed to strengthen the Single Market and boost EU competitiveness. Attempts to introduce a common consolidated base of taxation or indeed a harmonised tax on financial transactions remained largely a topic of communication rather than concrete actions. Historically, the standard decision-making process was based on unanimity. As the EU enlarged and its scope became broader and deeper, it became extremely difficult to take decisions. Over the years, the need for unanimity was replaced by qualified majority in almost all policy areas related to the Single Market, except for taxation.

The possibility of "enhanced cooperation", introduced by the Lisbon Treaty should have provided a way out of this unanimity deadlock. This mechanism allows a smaller group of EU Member States (minimum 1/3rd) to go ahead with a joint initiative without the others. Using this mechanism, ten countries, including Belgium, France, Germany and Italy, revamped the idea in 2013 with the ambition for a joint introduction of an FTT. But even in the smaller group it was impossible to find a consensus. Especially the potential impact on pension funds remains a great cause of concern for certain Member States.

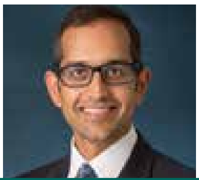
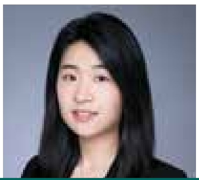
In 2020, the COVID-19 pandemic and the economic fallout incentivised Germany to put the FTT back on the agenda. The FTT could generate an important part of the much-needed funds to finance the recovery package. The German proposal, which is largely based on the French national tax introduced in 2012, focuses mainly on share transactions and exempts derivative products. This rather limited scope has eroded the projected annual revenue base of the tax (approximately €4 billion). A large group of MEPs has already called for Member States to show more ambition.

However, the Portuguese Presidency, which succeeded Germany on 1 January 2021, prefers a cautious approach. It aims to search for a broad consensus (among all 27 Member States) on a compromise proposal based on an FTT that has already been successfully introduced (eg in France and Italy) and secured with minimal distortions to the financial markets. In other words, start with a minimal solution and gradually go further from there when the time is right.

The creation of a fully harmonised Capital Markets Union has been a top priority in the EU for a long time because it is a missing piece in the EU Single Market puzzle. Ensuring equal fiscal treatment of financial transactions will in any case be essential to achieve this goal.

Sven Renders is Advisor, Corporate Public Affairs, KBC Group NV.

Asian international bond markets: development and trends


By **Mushtaq Kapasi, Yanqing Jia** and **Andy Hill**

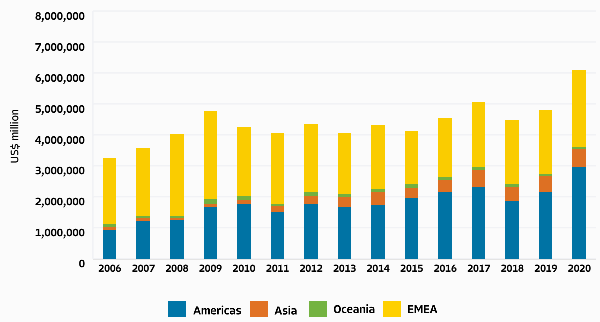
In March 2021, ICMA published its report on *Asian International Bond Markets: Development and Trends.* The report draws on numerous interviews with market participants as well as discussions with the ICMA Asia-Pacific Bond Syndicate Forum and ICMA Asia-Pacific Legal and Documentation Forum. It has been produced with the support of the Hong Kong Monetary Authority.

The report aims to provide global market stakeholders with an overview of development and recent trends in the fast-growing international bond market in Asia. This report also supplements two recent ICMA reports: *The Asia-Pacific Cross-Border Corporate Bond Secondary Market* (2018) and *The Internationalization of the China Corporate Bond Market* (2021).

Introduction

Annual issuance of cross-border bonds from Asia has increased more than fivefold from USD107 billion in 2006 to USD575 billion in 2020. In an effort to understand this remarkable growth, the report explores the evolution of the international bond market in Asia over the last 15 years and the influencing factors contributing to the current picture of overall regional market activity.

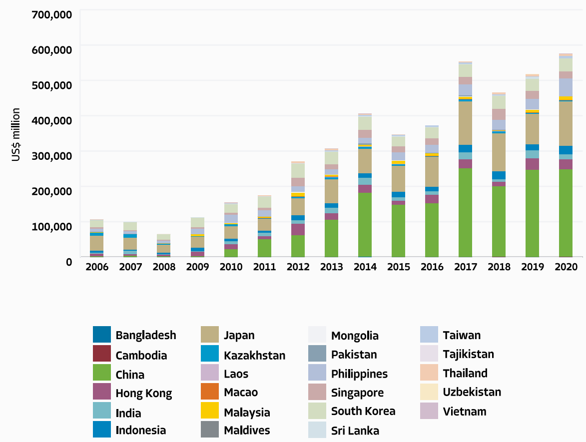
Figure 1: Global international bond issuance – by region (deal nationality)



Source: ICMA analysis using Dealogic data (January 2021)

The report is in two parts, covering the primary and secondary markets. For the primary markets, the report examines issuances through multiple geographical lenses, by the location of arrangement and execution, the location of listing, the issuer's major place of business and the issuer entity's legal place of incorporation. China, India, ASEAN, and Japan, the main subregions in Asia, have all witnessed an increase in issuance volume over the past 15 years. Among them, international bond issuance from China has increased dramatically and now accounts for 40% of the international issuance volume in Asia. The growth of international bond market in Asia has been fuelled in large part by the steady entry of new issuers to the market.

Figure 2: International bond issuance in Asia – by deal nationality

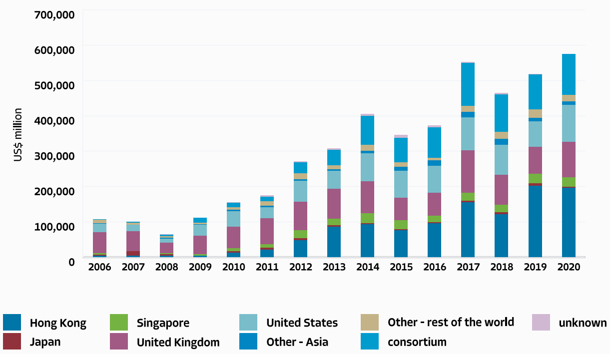


Source: ICMA analysis using Dealogic data (January 2021)

Primary markets

The expansion of the international bond market in Asia has been supported by an increasing and more diverse investor base as well as the established professional services provided by lead managers and listing venues. Over the years, Asian financial centres have played a larger role and gained market share in arrangement and listing.

Figure 3: International bond issuance in Asia (deal nationality) – by main location of arrangement



Source: ICMA analysis using Dealogic data (January 2021)

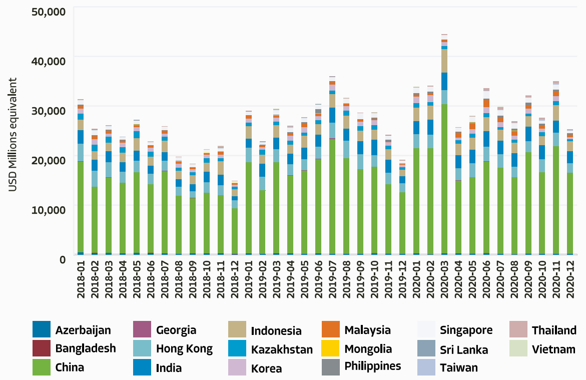
Secondary markets

With respect to the secondary market, the report assesses liquidity conditions and then market structure and the dynamics that affect market liquidity. It also provides a short overview of recent market performance, particularly in light of the 2020 COVID-19 related turbulence. Quantitative trade data for Asia international credit suggest a relatively active and healthy secondary market. Occasional spikes in activity all correlate closely with "risk-off" periods and a widening of regional credit spreads. The data further reveal the dominance of Chinese issues in the secondary market, very much reflecting the make-up of the primary market.

However, views on liquidity tend to be more nuanced among those interviewed in the market. The ability to trade in reasonable size is largely contingent on the issue size, and also whether it is a bid or an offer (with the former tending to be more liquid). The number of dedicated market makers is also an important consideration, with interviewees noting that in the case of Chinese names, this can be extremely competitive, with both global and regional liquidity providers.

In terms of market performance, the Asia international credit market tends in general to track the movement of other international USD and hard currency credit markets. At a generic level, spreads tend to be driven more by international monetary policy than regional considerations, which continues to raise concerns among market participants about valuations and a disconnect between market levels and underlying fundamentals. However, sentiment remains positive, and investor demand for Asian bond issuance in the international market continues to grow.

Figure 4: Asia international credit (NFCs) secondary market traded volumes by country of risk



Source: ICMA analysis using Trax data from MarketAxess (December 2020)

Conclusion

The last 15 years have seen remarkable growth in the Asia cross-border bond market. Much of this rapid development can be attributed to the rise of Chinese issuers tapping the international bond markets as a means to diversify their financing structures, to fund their global expansion, as well as to build an international brand on the world's capital markets. But it is not just a Chinese story, and recent years have seen a wider range of issuers from countries where domestic markets have historically dominated, such as India and the ASEAN nations.

Much of this trend can also be attributed to the internationalisation of the investor base. While it is difficult to quantify, or even define, the split between Asian and international investors, interviewees paint a picture of a more diverse investor landscape, with greater cross-border investor flows within the region.

These developments have helped to solidify a truly Asian international bond market. This is increasingly reflected in both the dominance of regional centres for arranging deals, in particular Hong Kong, and also in the way that secondary market liquidity is provided, with a number of global banks consolidating their position as pan-Asian market makers. The adoption of new technologies and e-trading, particularly post-pandemic, should further support this. As regional issuers see increasing opportunity to diversify their sources of funding, international investors become ever more familiar with Asian credits and look to diversify their risk, and as the market structure, both primary and secondary, becomes ever more defined and efficient, we can only expect the Asian international bond market to continue to expand and deepen.

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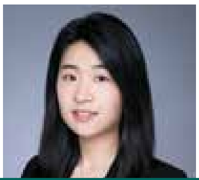
Internationalisation of the China corporate bond market

By **Andy Hill** and **Yanqing Jia**

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In January 2021, ICMA published its report on *The Internationalization of the China Corporate Bond Market*. Given the increasing importance of China in the global bond markets, particularly in light of significant reforms and initiatives to attract foreign investors, as well as the inclusion of China in major global bond indices, ICMA recognised that there was a need to focus more closely on the trends, opportunities, and challenges related to the internationalisation of the China corporate bond market, both from an onshore and offshore perspective. The report combines data and analysis with qualitative input provided by market stakeholders through focused interviews.

Onshore market

China's onshore bond market, at approximately $15 trillion equivalent of outstandings[1], is the second largest in the world, after the US. ICMA estimates the overall size of the outstanding onshore credit bond market to be approximately valued at $5.8 trillion of which $3.7 trillion are non-financial corporates and $2.1 trillion are financial bonds. Yet while foreign investors continue to increase holdings of government and policy bank bonds (now some 3% of the total market), it is estimated that overseas holdings of corporate bonds constitute less than 1% of the market.

There are three main routes via which the international investor community can access the China onshore bond market: (i) Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (QFII/RQFII); (ii) China Interbank Bond Market (CIBM) Direct; and (iii) Bond Connect. Interviewees outline the pros and cons of each of these, and some suggest that ideally there should be one single point of entry for foreign investors. Ongoing initiatives to make the QFII/RQFII regime less operationally burdensome, as well as to connect the exchange and interbank markets, are intended to open the overall bond market further to foreign investors and can only be helpful in providing global access to the China credit bond market.

Participants indicate that one of the main draws for investing in China's corporate bond markets is the strong economic backdrop. While the rate of GDP growth has slowed over the past decade, it remains on a strong upward trajectory. Interviewees also note that, despite the extensive lockdown imposed in early 2020 in response to the COVID-19 pandemic, this proved to be effective in containing the spread of the virus, and by the second quarter the economy was back into growth mode.

Interviewees also cite the relatively high nominal returns of China's onshore bond markets, especially in comparison with more developed global bond markets where yields are close to zero or even negative, including higher rated corporate bonds. However, interviewees also note that while nominal returns are competitive, on a relative value basis onshore credit markets are expensive, particularly when compared to the offshore market.

A major catalyst for foreign inflows into the onshore bond market since 2019, particularly passive investment flows, has been the inclusion of China in various global bond indices. Interviewees suggest that these anticipated inflows off the back of index inclusions are likely to be conservative, with some suggesting $600 billion or more of passive investment flows are still to find their way into the onshore market.

Interviewees cite challenges with assessing the credit quality of underlying corporates as one of the main barriers to entry to the onshore market. There are nine domestic credit rating agencies (some state-owned), which adds to the confusing landscape, but perhaps more disconcerting is the general skew to the higher end of the credit spectrum and the resulting lack of credit differentiation. This implies the need for investors to dedicate time and resources to their own proprietary credit analysis.

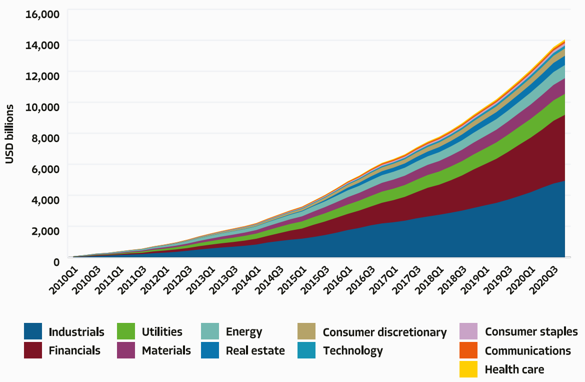
Intertwined with the challenge of assessing credit quality is the incidence and outcome of corporate defaults. Prior to 2015 corporate defaults were relatively unheard of, but even as the

1. Figures quoted in this article are as of end of November 2020.

credit market began to grow, there was still an assumption, and observation, that particularly in the case of State-Owned Enterprises (SOEs), the Government would intervene to backstop any company in difficulty. Since 2018 it has become clear that the State has taken a less interventionist stance, and while defaults remain relatively few, they are no longer the rarity they were. However, interviewees point out that the increase in corporate defaults is not in itself a bad thing and is an important element of a maturing market.

Interviewees consistently cite a lack of secondary market liquidity as a major barrier to the internationalisation of the onshore credit market. This lack of liquidity is attributed to a number of factors, including bifurcated liquidity across exchange and interbank markets, a fragmented landscape of market makers, small infrequently traded issues that rarely come back into the market, a lack of supply of longer maturities, concerns around market transparency and opacity of price formation, and the absence of both a credit repo specials market and a Single Name - Credit Default Swaps (SN-CDS) market.

Figure 1: Cumulative onshore credit bond gross issuance since 2010



Source: ICMA analysis using Wind data (November 2020)

Offshore market

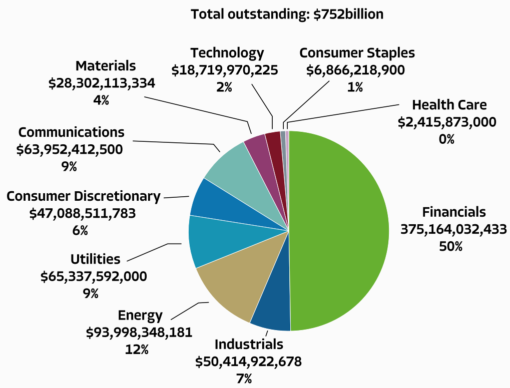
Since 2010, China has come from virtually nowhere to dominate the Asia Pacific international corporate bond market. ICMA estimates the size of the offshore China corporate bond market to be approximately $752 billion equivalent nominal outstanding, or around 30% of the total APAC international corporate bond market and 38% of APAC international USD issuance.

Much of the impetus for Chinese corporates to tap the international debt markets is the result of China's rapid global economic expansion, and the need to fund overseas investment and acquisitions, primarily in USD. Furthermore, it is suggested that while in many cases Chinese corporates could fund themselves through the onshore market, potentially at better levels, there has been a big push in recent years, particularly at the local government level, for Chinese credits to establish themselves as familiar names in the international market.

Interviewees suggest that initially as the international market began to grow, investors were almost exclusively the offshore entities of Chinese investment firms, securities houses, and private banks looking to invest their USD. These investors were familiar with the names coming to market and comfortable with the more conservative international credit ratings. However, this investor base appears to be diversifying in recent years, with more regional and global asset managers looking to diversify their portfolios while seeking out higher returns.

Interviewees paint a mixed picture of liquidity in the offshore China corporate bond market. This is against a backdrop of an international APAC credit market where participants already report challenged secondary market liquidity that is intrinsically skewed toward the bid side of the market. Interviewees also point to smaller issue sizes, the propensity for Chinese investors to hold to maturity, the lack of a developed SN-CDS market, and patchy repo availability as significant constraints on secondary market liquidity. That said, several suggest that liquidity in the offshore credit market is comparably better to that in the onshore market.

Figure 2: China offshore corporate bond market by sector



Source: ICMA analysis using Bloomberg data (November 2020)

Conclusion

While barriers to the $5.8 trillion onshore credit market for international investors appear to be multiple and many are likely to persist in the short term, they are not insurmountable. As international investors and investment firms become more comfortable investing and operating in the rates segment of the onshore, so it would seem inevitable that in time they will begin to look further along the credit curve. The potential for transforming the China onshore credit market into a truly global market is significant.

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Bank of China's pioneering issue of bonds applying the Climate Transition Finance Handbook

By **Bank of China**

S A In January 2021, Bank of China took the pioneering step of issuing the first transition bonds from China. These were also the first publicly offered bonds applying the elements set out in ICMA's Climate Transition Finance Handbook. Issuing through Bank of China's Hong Kong Branch, the bank raised $780 million in two tranches. A three-year dollar portion raised $500 million, while the two-year dim sum bonds were worth CNY1.8 billion ($278 million). Bank of China, BNP Paribas, Crédit Agricole CIB and HSBC were the global coordinators, lead managers and bookrunners on both the dollar and CNY tranches. Ernst & Young issued an attestation report as the third-party verifier of the bonds.

The need for developing transition finance

In recent years, many countries have signed up to the Paris Agreement and announced carbon-neutral targets to be met around the middle of the 21st century. In order to achieve the goals set by that Agreement, large-scale de-carbonization of electricity, transportation, construction and industrial activities must be accelerated right across the real economy. Moreover, the financial services sector must be transformed in parallel to meet the financing needs that will arise from this much needed transition. The development of transition finance is an indispensable part of and key link in the process of achieving the carbon neutrality target.

Transition finance is still, nevertheless, at a relatively early stage of development. However, since 2017, a number of different entities have issued bonds related to climate transition. In terms of climate response action, we think transition bonds and green bonds greatly complement each other. Moreover, encouraging the rapid development of transition bonds and synchronising their development with green bonds is consistent with achieving a comprehensive, balanced approach to a green, low-carbon economy. Since its release in December 2020 by ICMA, the Climate Transition Finance Handbook has served as an important reference document for global market participants and sets out guidance on transition finance for issuers, including Bank of China.

Issuing transition bonds in accordance with the relevant guidelines

In early 2021, Bank of China established its Transition Bonds Management Statement (the "Management Statement"), where it disclosed that any transition bonds issued by Bank of China would be aligned with the ICMA Climate Transition Finance Handbook (2020) disclosure recommendations and would reference the four pillars of ICMA's Green Bond Principles (GBP). Furthermore, it also referenced the TEG Final Report on the EU Taxonomy to identify specific transition activities and emissions thresholds and incorporates the "Avoidance of Carbon Lock-in" and "Do No Significant Harm" principles. The bonds to be issued under the Management Statement aim to fund eligible transition projects in line with these disclosures and strategic pathways towards carbon neutrality and are consistent with the strategies of those countries or regions where the projects are located.

The Management Statement further set out Bank of China's transition bonds' alignment with the relevant principles at both issuer and bond level.

At the issuer level, the Management Statement demonstrates how the transition bonds issued by Bank of China adhere to the ICMA Climate Transition Finance Handbook (2020) disclosure recommendations, elaborating on all four key elements, namely the issuer's climate transition strategy and governance, the business model's environmental materiality, the climate transition strategy to reference science-based targets and pathways, and providing transparency on the implementation of the transition.

At the bond level, the Management Statement elaborates on how Bank of China references the four pillars of the GBP:

- *Use of Proceeds:* The Management Statement refers to the industry classification set out in the TEG Final

Report on the EU Taxonomy, and specifies, in detail, the project categories, qualifying conditions and examples, as well as quantitative indicators and thresholds for eligible projects in selected industries. Bank of China sets different quantitative indicators and thresholds according to the location of the projects. These take account of the different pathways to achieve carbon neutrality and the varying availability of project-level data across countries and regions. It is also worth noting that the locations of eligible natural gas related projects are limited to countries and regions, where natural gas is considered a part of the local energy transition trajectory under the International Energy Agency's Sustainable Development Scenario, such as China. The Statement also explicitly lists excluded projects.

- *Process for Project Evaluation and Selection:* The Management Statement describes the project screening criteria and the process for project selection.
- *Management of Proceeds:* The Management Statement explains the fund management mechanism for the proceeds of the bonds.
- *Reporting:* Bank of China undertakes to manage the transition bonds in accordance with the Management Statement, and to disclose the allocation of funds, the environmental impact of qualified projects, and other relevant information on its official website on an annual basis.

With the continuous development of a green, low-carbon economy, and as sustainable technologies and relevant standards evolve, Bank of China will regularly review and update its project categories, eligibility criteria, quantitative indicators and thresholds to reflect such developments.

Some observations post-issuance of the transition bonds

This bond issue represented a very meaningful commitment by Bank of China and attracted the attention of the financial media both at home and abroad. It triggered a market debate on transition finance and carbon emission reduction target pathways. For example, during the bond roadshow, some investors' attention was focused on the selection criteria for eligible projects in traditional, relatively high carbon emitting industries. Market participants also paid particular attention to the following aspects of the issue:

First, whether to accept different transition pathways. Different countries and regions differ significantly in terms of energy structure, industrial development, etc. Acknowledging and recognizing different transition pathways and formulating transition project screening criteria appropriate to local conditions might be more conducive and efficient in promoting the development of transition finance and ultimately realizing net zero emissions, rather than adopting a single, unified transition pathway.

Second, the standards applied to defining qualified transition projects should be clear and consistent. At present, most of the transition finance-related standards or guidelines published by various countries, regions or organisations have not set forth clear eligibility standards for transition projects. Therefore, we believe that setting standards for eligible projects with specific quantitative indicators (ie emissions thresholds) could help investors to better evaluate the eligibility and positive environment impact of the transition projects.

Third, there should be further improvement of disclosure rules. The ICMA Climate Transition Finance Handbook (2020) sets out relevant recommendations on disclosure and lists the recommended information and indicators. In future, it would be useful to have examples or disclosure templates. These would help issuers have a clearer understanding of the information to be disclosed and possible formats to adopt.

Fourth, supporting policies and incentives for transition finance need to be enhanced. To achieve the goal of carbon neutrality, we propose improving the incentives and mechanisms relating to companies and financial institutions engaging in transition finance. For example, financial institutions could be incentivised by including transition finance in their regulatory prudential assessments and supervision or weighted favourably in the calculation of their risk capital requirements.

Conclusion and outlook

The issuance of this bond also served as an important catalyst for Bank of China's work on sustainable and transition finance. Bank of China is now preparing for environmental and climate risk stress testing and working on developing clearer, science-based climate transition targets and pathways. In future, Bank of China will continue to improve the integrated services and deepen the innovation of green finance products and strive to make contributions to the realization of net zero carbon emissions.

Potential of Sukuk for a green and resilient recovery

By **Dr. Zamir Iqbal**

The Islamic Development Bank (IsDB), a Multilateral Development Bank with 57 member countries across four continents, promotes *Sukuk*, (Islamic bond), as an alternative fixed income instrument that offers value and diversification into the Islamic capital market. This article introduces Sukuk and explains why it could play an important role for a sustainable recovery from the pandemic.

Islamic Finance

Islamic finance is a risk-sharing and values-based financing for real economic activities. It can also be referred to as ethical or responsible financing as universal values such as transparency, sustainability, solidarity, and compassion are at its heart to promote social and economic justice. The Islamic finance industry has almost tripled in the past decade, with an asset estimate of $2.88 trillion recorded in 2019 projected to reach $3.69 trillion by 2024 (according to Reuters).

High growth markets of Islamic finance are concentrated in the Middle East and Southeast Asia, and conventional issuers are increasingly getting involved in order to unlock an investor base that prefers the additional layer of Shariah-compliance. A recent example of a conventional issuer is a successful Sukuk issuance of GBP500 million by the UK Government on 25 March. This is the UK's second sovereign Sukuk sale.

Various segments of Islamic finance cater to diverse financing needs with a range of products and instruments. Retail banking is operated on the basis of cost-plus financing, leasing/instalments and consumer finance products, while in the corporate and financial institutions universe, commodity-based instruments and Sukuk with varying structures are popular.

Sukuk

In the Islamic capital market, Sukuk is the primary instrument that offers fixed income characteristics similar to those of a senior unsecured debt obligation. In commercial terms, procedures and issuance process, it is identical to conventional bonds and does not require any particular IT or risk systems upgrades. Structures of Sukuk are certified by a well-defined governance framework to ensure compliance with Islamic Law.

Sukuk can be structured to be "asset-based" or "asset-backed". An asset-based Sukuk, which is the most dominant structure in the market, uses an underlying pool of assets as a reference for the principal issuance, with recourse to the issuer's credit and not to the asset pool. This structure ranks *pari passu* to the issuer's senior debt obligations. On the other hand, an asset-backed Sukuk offers direct recourse to the underlying assets and has been implemented sparingly.

Islamic Development Bank

IsDB is an AAA-rated supranational issuer and multilateral development financial institution with 57 member countries and a mandate of delivering social and economic development with a focus on sustainability in its member countries and Muslim communities worldwide. Its overarching pillars of activity include building partnerships and promoting global development, fostering collaboration, enhancing global value chains and leveraging on science, technology and innovation. The Bank touches the lives of one in five of the world's population and is one of the world's most active MDBs and a global leader in Islamic finance.

IsDB Sukuk

To fulfil its funding requirements, IsDB issues Sukuk under its $25 billion Medium Term Note (MTN) Program, which is listed on Euronext Dublin, Nasdaq Dubai and Bursa Malaysia (Exempt Regime). IsDB issued its first public Sukuk in 2003.

IsDB Sukuk are "asset-based" (senior unsecured debt obligations), and the structure is rated AAA by S&P, Fitch and Moody's. To date, the Bank has issued more than $33 billion worth of Sukuk, of which around $20 billion is currently outstanding.

IsDB has recently established a bankruptcy-remote Special Purpose Vehicle (SPV) domiciled in Luxembourg to expand its Sukuk footprint in the European Economic Area (EEA). The SPV, which acts as a trustee on behalf of Sukuk investors, will be used to issue Sukuk aimed at seeking ECB-eligibility for Eurosystem credit operations.

Green and Sustainability Sukuk

Calls to tackle global challenges such as climate change and, recently, the COVID-19 pandemic have brought about a reorientation of the capital markets where impact and sustainability have taken the front seat. The Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines developed by ICMA have shown the way for a voluntary standardised market response to address the global challenges.

In the same vein, in October 2019 IsDB created its Sustainable Finance Framework (SFF) that adheres to the Principles. The SFF enables IsDB to issue Green and Sustainability Sukuk that can play an important role for effective resource mobilization for climate action, green growth and comprehensive social development. The SFF was assigned a Medium-Green Shading by CICERO, which provided an external Second Party Opinion (SPO) on the SFF.

Under the SFF, IsDB issued its debut Green Sukuk in November 2019, a 5-year paper raising EUR1 billion priced at MS+28 bps. Proceeds from the debut green issuance were deployed by IsDB towards a range of climate-change and green projects in its 57-member countries. These include projects for renewable energy, clean transportation, energy efficiency, pollution prevention and control, environmentally sustainable management of natural living resources and land use and sustainable water and wastewater management.

Following the COVID-19 outbreak, IsDB issued the first AAA-rated 5-year Sustainability Sukuk in the capital markets, raising US$1.5 billion priced at MS+55 bps. Proceeds from the debut sustainability issuance will be exclusively deployed by IsDB towards social projects under IsDB's Sustainable Finance Framework, with a focus on "access to essential services" and "SME financing and employment generation" categories under the umbrellas of "SDG-3: Good Health and Well-Being" and "SDG-8: Decent Work and Economic Growth"' for its 57 member countries, to assist them in tackling the aftermath of the COVID-19 pandemic.

As an ethical financing, IsDB Green and Sustainability Sukuk present a unique opportunity for investor base that is focused on Socially Responsible Investments (SRI) and Environmental, Social and Governance (ESG) credentials for promoting sustainable and resilient recovery from the pandemic as well as putting the Sustainable Development Goals (SDGs) back on track.

Dr. Zamir Iqbal is Vice President (Finance) and CFO, Islamic Development Bank.

Summary of practical initiatives by ICMA

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

Primary markets

1 *Primary Market Handbook and post-Brexit:* ICMA circulated and published for members and Handbook subscribers on 17 December 2020 updated standard language reflecting the end of the post-Brexit transition period. ICMA also updated the ICMA Agreement Among Managers version 1 and version 2 to include relevant recognition of bail-in clauses for the end of the post-Brexit transition period.

2 *Prospectuses:* ICMA responded to the UK call for evidence on the UK Listing Review on 18 December 2020. ICMA primary market members are also considering questions relating to ESG-related disclosure in prospectuses and market practice related to prospectuses for green, social and sustainability bonds. On 3 March 2021, ICMA responded to the European Commission's ESAP consultation, mainly from the perspective of prospectus information.

3 *Book updates:* Following Primary Market Handbook publication of a basis for book updates in the European context, ICMA published an Asian equivalent on 17 December 2020.

4 *New issue processes:* ICMA is intending to respond to a Hong Kong Securities and Futures Commission consultation on its potential code on bookbuilding and placing. ICMA has also been working to help underwriters to transition to a new method for recording allocation justifications in the context of MiFID II/R. On 16 March 2021, ICMA commented on the FMSB's draft standard on sharing of investor allocation information.

5 *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; ECB Debt Issuance Market Contact Group (DIMCG) discussions; and reforms to the ICSD syndicated closing process following CSDR implementation.

6 *Primary markets technology directory:* ICMA's directory covers existing and emerging technology solutions in primary markets and was initially launched in December 2018. It is reviewed regularly and the latest update was published in October 2020. The aim is to help inform ICMA members and thereby create greater transparency. The directory is available on the ICMA website.

Secondary markets

7 *Consolidated tape for EU bond markets:* Early in 2020, ICMA published a report into considerations surrounding the establishment of an EU consolidated tape for bond markets. This report was in response to a request from DG FISMA in the European Commission for a bespoke study assessing the feasibility of implementing a consolidated tape for EU post-trade raw bond data. On 20 January 2021, DG FISMA announced that, in conducting a further review of MiFID II/R, this would include plans to design and implement a consolidated tape for corporate bonds.

8 *MiFID II/R responses to ESMA:* ICMA's MiFID II/R Working Group has responded to two ESMA consultations: *Obligations to Report Transactions and Reference Data;* and *Functioning of Organised Trading Facilities (OTFs).* The latter covered a much wider scope than OTFs, including the potential forced authorisation of software and technology providers as trading venues: eg information networks.

9 *CSDR mandatory buy-ins:* In February 2021, ICMA submitted its response to the European Commission's targeted consultation on CSDR. ICMA's response focuses primarily on the mandatory buy-in element and argues that this should not be implemented as currently designed and scheduled before undertaking a detailed market impact analysis. ICMA also held the pen for a cross-association letter to the European Commission further outlining concerns about the current implementation schedule in light of its CSDR Review.

10 *CSDR buy-in agents*: ICMA has prepared a briefing note outlining the implementation challenges stemming from the CSDR requirement to appoint a buy-in agent at the start of the buy-in process. The concern is that there will not be an adequately developed market structure to support the buy-in process following go-live.

11 *ICMA Secondary Market Rules & Recommendations (SMR&Rs):* ICMA is in the process of finalising a member consultation framework for updating its Buy-in and Sell-out Rules (part of the ICMA SMR&Rs) to align with and support implementation of the CSDR mandatory buy-in provisions. The consultation has been put on hold pending the CSDR Review.

12 *Transparency and liquidity in the European bond markets*: ICMA has published a discussion paper that explores the interaction between bond market transparency and liquidity, which builds on recent work undertaken by the ICMA Secondary Market Practices Committee and MIFID II/R Working Group.

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

14 *Bond market transparency directory:* ICMA has expanded its bond market transparency directory to include pre-trade reporting obligations, in addition to post-trade 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 trade reporting transparency regimes, as well as details on reporting fields and exceptions.

15 *ETP directory:* ICMA's directory of electronic trading platforms (ETPs) lists electronic trading venues, execution and order management systems (EMS/OMS) and information networks available for cash bonds. It is intended to help market participants compare the capabilities of different solutions to determine which platforms best suit their investment and/or trading strategies. The latest version was published on 16 December 2020 and is available on ICMA's website.

16 *The internationalisation of the China corporate bond market:* In January 2021, ICMA published a report that explores the growth and development of China's onshore and offshore corporate bond markets.

17 *Asian international bond markets: development and trends:* In March, ICMA published a report that examines the growth and development of the Asia cross-border corporate bond market. The report was produced in collaboration with the Hong Kong Monetary Authority, who approached ICMA with the initiative.

Repo and collateral markets

18 *ERCC elections:* On 10 February 2021, ICMA announced the results of the annual elections to the European Repo and Collateral Council (ERCC) Committee. 19 candidates were elected to form the new ERCC Committee for a term of office of approximately one year ending on the day the results of the 2022 ERCC elections are announced.

19 *Repo year-end report:* On 13 January, the ICMA ERCC published a report on the performance of the European repo market at year-end 2020, focused on the euro, sterling, US dollar and Japanese yen markets and based on market data and accounts provided by market participants (both sell-side and buy-side).

20 *GMRA and CSDR mandatory buy-ins:* ICMA is in the process of developing an Annex to the GMRA to support implementation of the CSDR mandatory buy-in provisions.

21 *SFTR implementation:* On 11 January, the fourth and final phase of SFTR reporting went live as non-financial counterparties started reporting in the EU, concluding the phased implementation process which started in July 2020. ICMA continues to maintain a log of the key reporting issues encountered by firms. This is regularly shared with ESMA and some NCAs.

22 *Updated version of ICMA's SFTR recommendations:* On 17 February, the ICMA ERCC published the sixth edition of the ICMA *Recommendations for Reporting under SFTR*. This detailed ICMA guide has been developed by the ERCC's SFTR Task Force to help members interpret the regulatory reporting framework specified by ESMA and to set out detailed complementary best practice recommendations which provide additional clarity and address ambiguities in the official guidance.

23 *SFTR public data:* ICMA continues on a weekly basis to collect, aggregate and publish the SFTR public data released by the trade repositories (TRs). On 14 January, ICMA published for the first time separate data sets for UK SFTR and EU SFTR, as a result of the end of the post-Brexit transition period which led to a split of SFTR into an EU and a UK version. The SFTR public data complements existing ICMA publications on repo, such as the semi-annual European repo survey.

24 *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).

25 *Intraday liquidity:* The ERCC Operations Group is actively considering the challenges around intraday liquidity management and has agreed a first set of best practice recommendations to address these. The

recommendations have been incorporated into the latest edition of the ERCC's *Guide to Best Practice in the European Repo Market,* which was published on 30 March.

26 *Settlement efficiency:* On 26 February, the ERCC held a large cross-industry workshop to discuss ways to further improve settlement efficiency in Europe. The workshop brought together a wide range of market participants, including the relevant market infrastructures. The ERCC Operations work on intraday liquidity served as a useful baseline for the discussion.

27 *FinTech mapping directory for repo and cash bonds:* ICMA has conducted a review of the directory, which currently lists over 170 solutions across 10 categories comprising collateral management, corporate actions, exposure agreement, intraday liquidity monitoring and reporting, matching, confirmation and allocation, and reconciliations, but also ancillary areas such as static data and SSI workflow and communication and KYC onboarding. The latest version of the directory was published in July 2020 and is available on ICMA's website.

28 *Repo trading technology directory:* In light of increasing electronification of repo markets, ICMA has conducted a mapping exercise of electronic trading platforms. In its latest revision, in June 2020, the scope has been extended to include all technology solutions for repo trading such as order management systems. The directory is intended to help market participants understand what execution venues and other technology solutions are available for repo trading, product scope, as well as differences in trading protocols, clearing and collateral configurations. The directory is available on ICMA's website.

29 *ICMA Asia-Pacific repo market report:* ICMA is preparing a report on developed and emerging repo markets in Asia-Pacific by jurisdiction, with summaries of regulatory landscape, infrastructure, market size and liquidity, and relevant law and regulation.

30 *ESG and repo & collateral*: ICMA is exploring the potential for ESG considerations from the perspective of the repo and collateral markets, and is working on a related discussion paper, which is due to be published shortly.

31 *ERCC Newsletter:* In November, ICMA launched a new monthly Repo and Collateral Newsletter with updates on the key initiatives and workstreams undertaken by the ERCC as well as other relevant repo market developments.

32 *ERCC General Meeting:* The ERCC held its Annual General Meeting on 30 March 2021 as a virtual livestreamed event hosted with the support of LCH SA. Th event included two panel discussions on relevant repo market developments, as well as a keynote address by Fiona van Echelpoel (ECB).

Short-term markets

33 *ICMA Commercial Paper Committee:* In March, ICMA reconstituted its ECP Committee to include the broader commercial paper market, including financial and corporate issuers, dealers, investors and infrastructures. This initiative follows an ICMA workshop, *The Commercial Paper Market Reimagined,* which was held in November 2020. The ICMA Commercial Paper and Certificates of Deposit Committee (CPC) intends to publish a white paper in the coming months that will map the current structure of the market and provide recommendations for market development.

Sustainable finance

34 *Release of the Climate Transition Finance Handbook:* To support the growth of climate transition finance, the GBP Executive Committee launched in December 2020 clear guidelines on the disclosures that should be made by issuers on their climate change strategy when raising funds in debt capital markets. The new Climate Transition Finance Handbook clarifies the information that should be made publicly available to investors in connection with the GBP, SBP, SBG or SLBP.

35 *ICMA's response to SFC consultation paper on climate risks*: On 30 October 2020, the Hong Kong SFC launched a consultation on proposed requirements for fund managers to take climate-related risks into consideration in their investment and risk management processes and make appropriate disclosures. Supportive of SFC's approach to introduce regulatory requirements for fund managers, ICMA responded to the consultation on 15 January 2021. The response highlights some challenges faced by fund managers, including climate risk modelling and lack of reliable issuer-level data, and recommends synchronising the effective date of reporting requirements for issuers and fund managers.

36 *Release of the SLBP Q&A document:* The GBP Executive Committee published on 17 February new Q&As for sustainability-linked bonds. These are designed to promote understanding of this important new financial instrument and its place in an issuer's overall sustainability strategy, as well as to encourage development in this rapidly evolving new market.

37 *ICMA's note on the ESAs' final recommendations for the RTS of the SFDR:* ICMA issued a note following the publication of the ESAs' final recommendations for the regulatory technical standards (RTS) of the Sustainable Finance Disclosure Regulation (SFDR) in February 2021. The note explains the next steps regarding the decision-making process and points out implementation challenges which members and policy makers may want to consider.

38 *Taxonomy consultation by the Green Finance Industry Taskforce in Singapore:* Convened by the Monetary Authority of Singapore to accelerate the development of green finance, the GFIT published a consultation paper on *Identifying a Green Taxonomy and Relevant Standards for Singapore* and ASEAN. On 11 March, ICMA submitted a response on behalf of the Sustainable Finance Committee, also reflecting views of ICMA regional members and the GBP Executive Committee.

Asset management

39 *AMIC podcasts:* ICMA has continued to stream a series of monthly podcasts in which Robert Parker, Chair of the ICMA Asset Management and Investors Council (AMIC), has reviewed market events in the context of the COVID-19 pandemic, with a specific focus on central bank policy measures, economic data and the impact on investors. AMIC has also recorded a podcast with Philippe Waechter, Chief Economist at Ostrum Asset Management, on his outlook on the economy in 2021 in the context of the COVID-19 pandemic.

40 *AMIC event on the lessons from the COVID-19 crisis from a fund liquidity perspective:* ICMA hosted a virtual webinar with Steffen Kern, ESMA, on COVID-19 and the lessons from a fund liquidity perspective. He discussed ESMA's key findings during the market crisis, risks to consider in the coming year and the policy lessons learned.

41 *AMIC response to the European Commission consultation on the review of the Alternative Investment Fund Managers Directive (AIFMD):* In its response to the Commission, AMIC argues in favour of legislative stability, given (i) the findings of the recent COVID-19 crisis that there was no suspension in the case of 174 AIFs scrutinised by ESMA in its report to ESRB; and (ii) the recent complementary measures already adopted at EU level (eg liquidity stress-testing guidelines and cross-border distribution of funds package), which are yet to be fully implemented and assessed. AMIC calls on the Commission to focus on vehicles which, with changes, could foster growth in European capital markets rather than those which have been successful in encouraging the EU's competitiveness and attractiveness.

42 *AMIC response to the European Commission consultation on the review of the European Long-Term Investment Fund (ELTIF) Regulatory Framework:* AMIC welcomed this review and encouraged the EU to take a bold approach given that no more than 28 ELTIFs have been launched since 2015. Among AMIC members who oversee asset classes that could be eligible to ELTIFs, only three members have launched ELTIFs (nine in total). AMIC believes the need for investment into long-term assets has increased and that ELTIFs could be instrumental for investment into small and medium-sized companies and infrastructure, including sustainable projects/assets.

43 *AMIC workshop on ESG disclosures for securitised assets:* The lack of ESG transparency for securitised assets has been identified as a key issue by some AMIC members at a time when clients are increasingly conscious about their ESG footprint and as regulators set new transparency requirements for the buy side. AMIC hosted a workshop to discuss most relevant KPIs by types of asset in order to meet asset owners' preferences and ensure that the EU framework will be relevant for assets across the globe. AMIC is currently preparing a statement as a call to action for regulators and relevant market participants to consider prioritising ESG disclosures for securitised assets.

44 *ICMA response to the IOSCO ETF survey:* AMIC and secondary market ICMA colleagues held a joint workshop on ETFs to prepare their response to the IOSCO ETF survey. ICMA members consider that, during the COVID-19 crisis, ETFs behaved as expected and acted as an important price discovery tool. Thanks to their "second layer" of liquidity, bond ETFs were able to integrate information more quickly than underlying bond markets and gave a clearer picture on what was going on in the market.

FinTech in capital markets

45 *CDM for repo and bonds:* ICMA and the newly formed Steering Committee began the initial CDM modelling phase for repo and bonds at the start of March. The first phase will be focusing on standard fixed-term repo transactions, including trade execution, clearing and settlement (and outright bond transactions). The duration of the initial phase is 18 weeks, including a showcase event to demonstrate implementation of the CDM and its benefits in June/July.

46 *FinTech Advisory Committee (FinAC):* ICMA's FinAC reconvened in its new composition on 28 January 2021. Seven new members were invited to join the Committee and three firms replaced their Committee representatives. The aim of the Committee's expansion was to ensure regional diversity as well as consistent engagement across ICMA's various constituencies and to complement the Committee's subject matter expertise. Strategic priorities for 2021 are twofold: (i) promote common data standards to enable process automation along the securities lifecycle, and (ii) tokenisation of bonds and digital currency, understanding the implications for market practice and adoption challenges. The second meeting of ICMA's FinAC took place on 26 March, focusing on electronification in the Chinese interbank bond market, central bank digital currency initiatives in Asia, and ESG data harmonisation.

47 *ECB FinTech Task Force:* ICMA, through the ERCC Operations Group, continues to be represented on the ECB's FinTech Task Force, a sub-group of the AMI-Pay and AMI-SeCo. ICMA has contributed, for example, to the mapping exercise of DLT solutions, as well as to the report on *The Use of DLT in Post-Trade Processes.*

48 *IOSCO FinTech Network*: ICMA continues to participate in the IOSCO FinTech Network. However, membership of the new Decentralised Finance (DeFi) workstream is limited to regulators only. ICMA expects to participate through AMCC stakeholder engagement.

48 FinTech meetings with regulators: On 28 January, ICMA held a virtual meeting with the SEC to exchange views on FinTech, discuss objectives of the IOSCO FinTech Network's new DeFi workstream which is led by the SEC, and ICMA's potential contributions going forward.

49 *ICMA virtual roundtable on data standards in primary markets:* ICMA held an invitation-only roundtable on 7 December 2020, bringing together relevant vendor firms, representatives from ICMA's primary market constituencies as well as ICMA's Market Infrastructure Advisory Group (MIAG). The purpose of the roundtable was to identify obstacles to STP and gaps in terms of data standards, explore the need for harmonisation, and discuss to what extent ICMA templates can be leveraged. A key take-away from the roundtable was that a "common data dictionary" or common language would lay the foundation for interoperability, facilitate onboarding and communication, whilst promoting competition. ICMA is considering next steps.

50 *ICMA virtual roundtable on FinTech and sustainable bond markets*: ICMA held an invitation-only roundtable on 2 December 2020, bringing together a group of selected market stakeholder representatives from ICMA's broad membership, including issuers, investors, underwriters and technology/data providers. The objective was to gain perspectives on how technology can be leveraged to further sustainability in bond markets, explore key trends and drivers, but also challenges and opportunities. An article was published in the ICMA Quarterly Report Q1 2021.

51 *DLT regulatory directory:* ICMA has updated its DLT regulatory directory with several new regulatory and legislative developments, national blockchain initiatives, publications and consultation papers. The directory was initially published in December 2019 and seeks to provide a non-exhaustive overview of developments in selected jurisdictions across Europe, North America, and Asia-Pacific.

52 *FinTech Newsletter:* ICMA's FinTech Newsletter, launched in June 2020, provides a quick summary of ICMA's cross-cutting technology initiatives across its key market areas. It also provides insights into regulatory updates, consultation papers, news and other publications, and upcoming meetings and events. It is published on a 4-6 weekly basis.

53 *FinTech regulatory roadmap:* ICMA has updated its FinTech regulatory roadmap, a compilation of key regulatory, legislative and innovation initiatives relevant to debt capital markets at global, EU and national level.

54 *FinTech and sustainable finance library*: ICMA has compiled a non-exhaustive list of recent publications on FinTech and sustainable finance, with a focus on bond markets. The library intends to complement other ICMA members' resources and help inform broader discussions on this topic. The library aims to highlight the current views from academic, market, and official sector studies on the potential of FinTech to further sustainable debt capital markets.

Transition from LIBOR to risk-free rates

55 *Official sector sponsored working groups:* ICMA continues to participate in the Working Group on Sterling Risk-Free Reference Rates (and to chair the Bond Market Sub-Group), the Working Group on Euro Risk-Free Rates (as an observer) and the National Working Group on Swiss Franc Reference Rates. ICMA is also in regular contact with the ARRC FRN Group in the US and national working groups in Asia. ICMA participated in the FSB Official Sector Steering Group meeting with trade associations on 19 February.

56 *Tough legacy proposals:* On 18 January, ICMA responded to the UK FCA consultation on proposed policy with respect to the exercise of the FCA's powers under the proposed new Article 23D of the UK Benchmarks Regulation. ICMA also responded on 15 March to HM Treasury's consultation on supporting the wind-down of critical benchmarks. ICMA has continued to engage with various official sector contacts and members in relation to the "tough legacy" proposals put forward by authorities in the US, the EU and the UK.

57 *Communication with members:* ICMA published a webinar and podcast on the global transition from LIBOR to risk-free rates in the bond market on 5 February; and continues to keep members up to date on its work on the transition to risk-free rates via a dedicated webpage, the ICMA Quarterly Report, regular ICMA committee and working group meetings and e-mails to the ICMA Benchmark Group.

58 *Reserve Bank of Australia (RBA) consultation on BBSW fallbacks:* The RBA will require new securities that reference BBSW, the leading benchmark in the Australian markets, to include fallback provisions to be eligible collateral for repo with the RBA. ICMA consulted key members and met the RBA bilaterally on 9 March to discuss industry experience with LIBOR fallbacks and repo eligibility criteria.

59 *ICMA Bloomberg Guide to Tough Legacy Bonds in Asia-Pacific:* ICMA and Bloomberg are planning jointly to produce a guide in May covering current exposures in LIBOR-referenced FRNs across the Asia-Pacific region, including high-level analysis of issuer type, currency, governing law and applicable fallbacks.

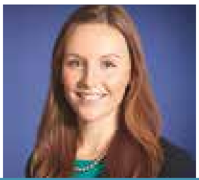
60 *Coordination with other trade associations:* ICMA continues to participate in regular calls of the Joint Trade Association LIBOR Working Party established by the LMA, as well as regular calls of the APAC Benchmark Working Group established jointly by ICMA, ASIFMA, ISDA and APLMA.

Other meetings with central banks and regulators

61 *ICMA Regulatory Policy Committee (RPC):* Tom Duggan and Fayyaz Muneer, HM Treasury, joined the virtual meeting of RPC on 11 March for a discussion with members.

62 *Other official groups in Europe:* 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 Platform on Sustainable Finance; through Lee Goss on the ECB Debt Issuance Market Contact Group (DIMCG); 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).

Primary Markets


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

EEA and UK Prospectus Regulation developments

The EEA Prospectus Regulation changes proposed as part of the Capital Markets Recovery Package (also known as the "quick fixes") have now been published in the *Official Journal* as Regulation (EU) 2021/337 and have entered into force.

The central pillar of the changes is the introduction of a new EU Recovery Prospectus, which is designed to facilitate certain secondary equity issues. The EU Recovery Prospectus is not available for issuance of debt securities.

Certain other targeted amendments have also been made to the EEA Prospectus Regulation, including: (i) changes to the obligations on financial intermediaries to inform investors of certain information related to prospectus supplements and the associated period for withdrawal rights; and (ii) an increase in the threshold for the exemption from the obligation to publish a prospectus for offers of non-equity securities issued in a continued or repeated manner by a credit institution.

These changes are not expected to have a significant impact for ICMA members operating in the wholesale debt space.

One aspect that is likely to be of interest to ICMA members is the inclusion of a recital related to ESG disclosure. While this will have no immediate, operative effect, the recital states that information on ESG matters by companies has become increasingly relevant for investors and the Commission should, in the context of its next review of the EEA Prospectus Regulation (which is due by 21 July 2022), assess whether it is appropriate to integrate sustainability-related information in the EEA Prospectus Regulation. Issues relating to current market practice for ESG disclosure in prospectuses is a live topic of discussion among ICMA primary market members.

Although it did not form part of the European Commission's original proposal, Regulation (EU) 2021/337 also included an amendment to the EEA Transparency Directive giving Member States the option to postpone, by one year, the requirement for listed companies to prepare annual financial reports in the European Single Electronic Format for financial years beginning on or after 1 January 2020. This is not considered to be problematic from the perspective of ICMA's primary market members.

In the UK, the results of the UK Listing Review were published on 3 March 2021 and welcomed by the FCA. As reported on page 43 of the last edition of this Quarterly Report, ICMA had responded to the corresponding consultation in December 2021.

The main focus of the UK Listing Review consultation appeared to be the UK equity markets. This was borne out by the recommendations issued in March, which relate primarily to equity issuances. However, the Review also recommended that HM Treasury conduct a fundamental review of the UK prospectus regime considering, as a minimum, the following areas:

- changing prospectus requirements so that in future, admission to a regulated market and offers to the public are treated separately;
- changing how the prospectus exemption thresholds function so that documentation is only required where it is appropriate for the type of transaction being undertaken and suits the circumstances of capital issuance; and
- use of alternative listing documentation where appropriate and possible, eg in the event of further issuance by an existing listed issuer on a regulated market.

The Review also recommended that, as part of the review of the prospectus regime, HM Treasury should consider whether prospectuses drawn up under other jurisdictions' rules can be used to meet UK requirements.

The Review recommends that the goal of the reform of the UK Prospectus Regulation should be an approach much closer to the one that existed in the UK before the introduction of the EEA Prospectus Directive and Prospectus Regulation. The Review considered but dismissed making "tweaks" to the UK prospectus framework (such as raising exemption thresholds, which appeared to have been suggested primarily from an equity angle) in favour of more fundamental reform that separates the requirements for admission to a regulated market from offers to the public.

If taken forward, the recommendations mean that the UK Prospectus Regulation regime could depart quite significantly from the EU regime.

Related to this, the ICMA response to the UK Listing Review noted that many issuers of wholesale vanilla bonds will wish to continue to access funding on a pan-European basis (ie in both the EU and the UK), as they have done for many years. It is therefore important that any changes that are made to the UK prospectus regime are made in such a way that preserves the smooth functioning of the pan-European wholesale market for new bond issues.

ICMA primary market members have long been focused on the regulation of bond prospectuses and listing requirements and will be interested to see how the recommendations in the UK Listing Review are taken forward by HM Treasury.

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The European single access point

On 2 March, ICMA responded to the European Commission's five week consultation on establishing the European single access point (ESAP) for companies' financial and sustainable investment-related information made public pursuant to EU legislation. ICMA had previously provided feedback on the ESAP topic in its 25 June 2020 response to the Commission's consultation on a new digital finance strategy for Europe / FinTech Action Plan (regarding questions 27/28) and in its 30 June 2020 feedback to the High-Level Forum Report on CMU (regarding Recommendation 1).

ICMA's response to the ESAP consultation focused mainly on prospectus information under the EU's Prospectus Regulation (PR). The response also touched briefly on information under certain other EU regimes – namely the Transparency Directive (TD), Non-Financial Reporting Directive (NFRD), Market Abuse Regulation (MAR), Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs), Securities Financing Transactions Regulation (SFTR) and Regulation on Sustainability-Related Disclosures in the Financial Services Sector (SFDR).

Generally (though mostly from a PR perspective), the response was supportive of the ESAP concept but emphasised various aspects relating to its implementation (notably in terms of proportionality):

(a) inclusion of information under individual EU regimes should be subject to individual consideration in terms of (i) system compatibility and (ii) underlying need (given submission burdens and any existing access solutions);

(b) questions of non-IT form (including natural language), content, timing and legal/logistical responsibility (excepting ESAP's own hosting responsibilities following the receipt of information) should usually be left to the context of such individual regimes rather the ESAP structure;

(c) the ESAP should be open to, and not restrictive of, various submission IT/machine-readable formats/solutions – though there are difficulties around the European Single Electronic Format (ESEF – involving inline XBRL[1] tagging) and particular care is needed not to indirectly force either (i) the standardisation of financial instrument terms or (ii) subjective/simplistic (and so potentially misleading) summarising/labelling of complex financial instrument terms;

(d) the ESAP should enable third party search platform access (the response citing in this respect the *Finding Prospectus Information Online* article from pages 40-41 of the Third Quarter 2020 edition of this Quarterly Report);

(e) various options arise in terms of who would submit information into the ESAP (between reporting companies, regulators and infrastructures already involved in information dissemination flows);

(f) the potential for ESAP inclusion to formally constitute the "availability to the public" that is required under various EU regimes;

(g) administrative responsibility should rest with the authorities, but involve stakeholder input;

(h) any costs to submitters/reporting companies should be controlled to be proportionate (bearing in mind that the ESAP would effectively be operating on a monopoly basis), but ESAP content should be free to view.

Regarding PR information specifically, the response fully agreed on immediate inclusion within ESAP scope and commented on basic submission labels/search criteria: (i) "prospectus", "base prospectus", "supplement", "final terms" as document type, (ii) issuer name, (iii) issuer LEI, (iv) ISIN (except for base prospectuses and related supplements) and (v) document date. In this respect, the response again cited the *Finding Prospectus Information Online* article from pages 40-41 of the Third Quarter 2020 edition of this Quarterly Report. The response also noted that individual exchange-regulated markets should be able to opt in to the ESAP in relation to PR-like information arising in the context of their own admissions to trading.

It is however possible that PR information might not be treated as a first priority for the ESAP as, unlike information under other regimes, there is already a database in existence: ESMA's prospectus register. Its search criteria are stated to include issuer name (in full or in part), issuer LEI and ISIN. However, the register webpage states that "in the current release of the prospectus register, it is only possible to search for final terms and translations of summaries using the "host Member State(s)" as a search criterion" and that "it may not be possible to search for the final terms submitted by some competent authorities [that] are still working on adopting their systems to submit final terms to the new prospectus register." This may change (as reported in the Fourth Quarter 2020 edition of this Quarterly Report) as NCA obligations to provide certain prospectus-related data to ESMA in XML[2] format (under Article 12 and Annex VII of Commission Delegated Regulation (EU) 2019/979) are passed through to issuers.

Regarding the other EU regimes cited above, the response:

- TD – somewhat agreed on later inclusion, to the extent ESAP submission formally constitutes "public availability";

1. eXtensible Business Reporting Language.
2. eXtensible Mark-up Language.

- NFRD – fully agreed on inclusion, citing ICMA's 15 July 2020 response to the Commission's consultation on the Renewed Sustainable Finance Strategy;
- MAR – somewhat agreed on later inclusion, to the extent ESAP submission formally constitutes "public availability";
- PRIIPs – somewhat disagreed on inclusion, noting it may be prudent to await the outcome of the pending PRIIPs regime review given public comment on the risk of such documents being misleading;
- SFTR – somewhat disagreed on inclusion, noting public data is already made available in a standardised and centralised way by the trade repositories; and
- SFDR – somewhat disagreed on inclusion, noting (i) the performance of financial market participants against KPIs are not relevant to investors as they invest via financial products and not directly in financial market participants (if and when they do, NFRD is there to provide the necessary information) and (ii) KPIs are backward-looking and give no sense of direction of travel to investors.

ICMA will continue to engage on the ESAP topic as it develops.

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The CMRP: MiFID II/R product governance

Following the European Council, Parliament and Commission consensus on MiFID II/R amendments (notably the scope alleviation of the product governance regime) reported in the last edition of this Quarterly Report, a consequent amending directive was published in the EU's *Official Journal* on 26 February. The final version seemed to involve no material changes from the consensus relating to the scope alleviation of the product governance regime.

National transposition is due to take effect by 28 February 2022, and in this respect ICMA will consider any implications regarding the product governance materials in the ICMA Primary Market Handbook. However, it may be that no actual amendments are needed, to the extent that the alleviation means that the ICMA materials are either used (when transactions are in scope) or not (when transactions are out of scope).

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UK audit reform and comfort letters

On 18 March, the UK Government published a consultation on proposals focused on restoring trust in audit and corporate governance. Whilst the subject of this consultation does not directly relate to new bond issuance, it contemplates operational separation between audit and non-audit practices. It is unclear whether this might potentially raise questions of continuity in auditors providing comfort letters to underwriters in the context of new bond issues. This is because such comfort letters, effectively following on from statutory audits, ought to continue being delivered by audit practices following any separation from non-audit practices. ICMA is initially seeking to understand whether such questions are likely or not to arise in practice in order to determine whether it will respond to the consultation by its 8 July deadline.

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Sustainability-Linked Bonds Workshop

ICMA hosted a Sustainability-Linked Bonds Workshop on 25 February 2021 for members of the ICMA Financial Institution Issuer Forum (FIIF) and Corporate Issuer Forum (CIF). This was the first such joint event for the FIIF and the CIF and, given the commonality of interests in sustainability-linked bonds (SLBs), it is unlikely to be the last.

The ICMA Sustainability-Linked Bond Principles, which are voluntary process guidelines, are considered to be a very good and useful starting point for the issuance of SLBs, capable of allowing for innovation and appealing to a wide variety of issuers.

But one additional focus of the event was on how SLBs fit with financial institutions' funding profiles. In the regulatory capital context, the key step-up feature of an SLB could be considered to be an "incentive to redeem"; and while regulators are generally supportive of sustainable financing in the funding space, a change in capital rules is likely to give rise to concerns over unintended consequences. This is a developing topic for banks, with more work on the regulatory side and more guidance from the EBA expected.

The correct level of ambition of KPIs is important and can be ensured by careful and correct calibration of KPIs. Advance engagement with investors on an agreed framework and KPI calibration is to be encouraged, but of equal importance is better and simpler explanation of KPIs and how they are expected to be achieved by reference to peer comparability. However, issuers should not be too concerned if they do not meet their targets.

Increased issuance levels, diversity in issuers and targets and organic standardisation and comparability, all of which ought to result from more and more issuance, were all cited as potentially helpful to the development of the SLB market.

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FMSB transparency draft: allocation sharing

On 16 March, following prior reporting in the 2021 First Quarter edition of this Quarterly Report, ICMA submitted its comments on the FMSB's Transparency Draft Standard: *Sharing of Investor Allocation Information in the Fixed Income Primary Markets*.

The response noted, in terms of scope of the standard, that some bulk sharing of allocation data might occur after the day of pricing and/or in the context of sovereign, supranational or agency (SSA) issuance and that these might be cases where syndicate banks might potentially apply the standard on a voluntary basis.

The response also highlighted some technical inaccuracies/ambiguities on the basis that: (i) secondary trading can precede primary issuance; (ii) "grey market" is an ambiguous concept, with "pre-FTT trading" more accurately reflecting what is being contemplated; (iii) allocations follow investor "orders" and not "indications of interest"; (iv) syndicates are only formed by issuers; (v) only senior syndicate banks (not junior/mezzanine banks) have access to, and so are able to share, allocation data; (vi) there is internal segregation between syndicate banks' "private" and "public" sides. The response suggested specific drafting amendments in this respect.

The response also noted there will be consequential implementation logistics around issuer opt-outs from allocation sharing. More significantly, the response concurred that, absent delivery of an advanced technical solution operating across syndicate banks, more than an insignificant proportion of investors electing to opt out may result in no allocation sharing at all. This could have an adverse effect on market making and so on after-market liquidity/volatility and in turn on investors marking their portfolios to market. Lastly, the response noted syndicate banks may seek to synchronise their implementation timing to minimise investor-facing inconsistency.

ICMA will continue to engage on this topic as it develops.

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A Hong Kong SFC bookbuilding consultation

On 8 February, Hong Kong's Securities and Futures Commission (SFC) launched a consultation on a proposed addition, relating to ECM and DCM bookbuilding and placing activities, to its binding code of conduct for SFC licensed and registered persons. The SFC noted that this follows on from IOSCO's review of conflicts of interest and associated conduct risks during the capital raising process and from the SFC's own thematic review and soft consultations with some industry participants.

In this respect the SFC consultation is the latest in a long line of regulatory initiatives regarding syndicated bond issuance over the past 10 years: (i) the EU's MiFID I review, (ii) the UK's Fair and Effective Markets Review, (iii) the UK FCA's Wholesale Sector Competition Review, (iv) the UK FCA's Investment and Corporate Banking Market Study, (v) various consequential (and continuing) workstreams of the UK-based Fixed Income, Currencies and Commodities Markets Standards Board (FMSB), (vi) the IOSCO review mentioned above and (vii) the report of the Australian Securities and Investments Commission (ASIC) on allocations in debt capital market transactions. ICMA has engaged on each of these initiatives (except for the ASIC one) from the DCM perspective and reported on them in various past editions of this Quarterly Report (most recently on IOSCO and ASIC at page 38 of the 2020 Fourth Quarter edition), attempting throughout to foster consistency in regulators' understanding of, and approaches to, international syndicated bond issuance practices.

The SFC proposals contemplate an early fixing of syndicate member appointments as either an "overall coordinator" (OC) responsible for advising the issuer and managing the syndicate, or otherwise just as a "capital market intermediary" (CMI) responsible primarily for distribution. Significantly and unusually, the OC role is proposed to involve responsibility over the other, CMI, syndicate members. The proposals also include specific suggestions relating to internal orders, X orders, order inflation, book updates, rebates, allocations and hedging. Most of these topics have been discussed extensively by the ICMA Asia Pacific Bond Syndicate Forum (ABSF) and ICMA Asia Pacific Legal & Documentation Forum (ALDF), which support the intention of the SFC consultation to encourage a transparent and robust price discovery process as well as fair allocation in the bond syndication process.

ICMA is seeking in its consultation response to address current problematic practices in the APAC market whilst also enabling Hong Kong to continue effective participation in the international bond primary markets. This could involve either an alignment of the substantive requirements, particularly the roles of the "overall coordinator" and "capital market intermediary", to global market practice, or a narrowing of scope to more 'domestic' transactions.

ICMA is working primarily through the ABSF and ALDF, and consulting with the wider membership and other APAC stakeholders, to submit a response by the 7 May deadline.

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Secondary Markets

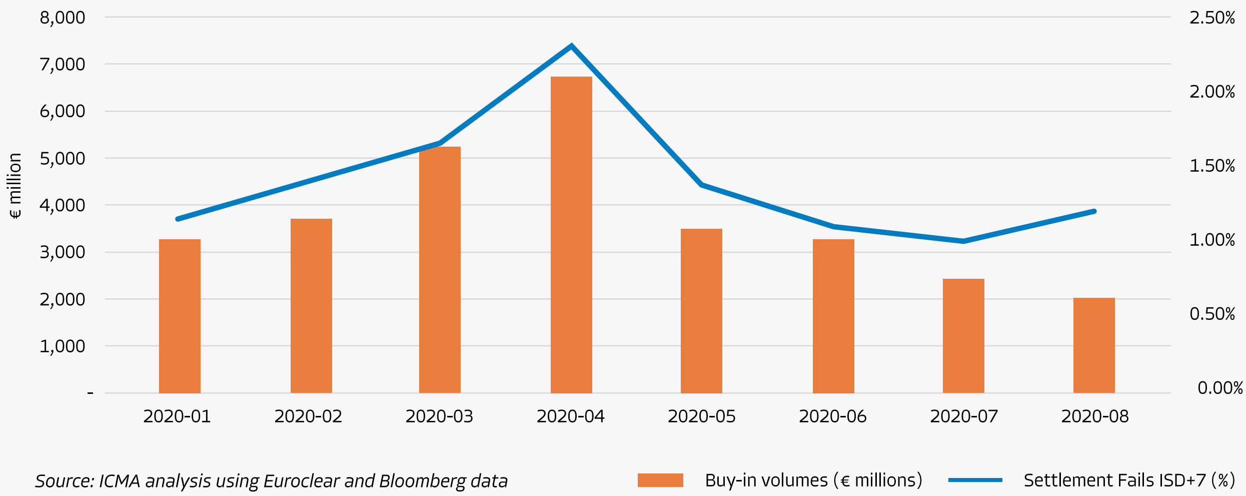
by **Andy Hill, Elizabeth Callaghan and Lisa Cleary**

CSDR mandatory buy-ins

CSDR Review

In February 2021, ICMA responded to the European Commission's targeted consultation on the Review of CSDR. ICMA's response focuses exclusively on the section relating to Settlement Discipline, in particular the provisions relating to mandatory buy-ins, which ICMA points out is market Regulation, not post-trade regulation. In its response ICMA provides data and analysis to illustrate the expected impacts of the mandatory buy-in regime on EU bond market pricing and liquidity, and the costs that will be incurred by investors and potentially issuers. The response also seeks to evidence the procyclical and destabilising effects the regime would have had during the March-April 2020 COVID-19 market turmoil.

Estimated Volume of buy-ins under CSDR Non-Financial Corporates Jan-Aug 2020 (Total value: €30.2 billion)



Source: ICMA analysis using Euroclear and Bloomberg data

As well as noting extensive cross-industry work, which is already under way, to improve settlement efficiency in the EU, ICMA recommends that the implementation of the CSDR settlement discipline measures focuses on the cash penalty mechanism. It is suggested that the regulatory authorities monitor the impact of cash penalties on both settlement efficiency rates and market liquidity over an appropriate time period, then recalibrate the penalty levels as required. During this time, mandatory buy-ins should not be implemented.

Joint Association Letter to the European Commission about implementation timing

In March 2021, ICMA and 14 other trade associations[1] representing a wide range of stakeholders in the European and global financial markets wrote to the European Commission and ESMA raising concerns about the implementation of the mandatory buy-in requirement under the EU's CSDR Settlement Discipline Regime. The current mandatory buy-in requirement, which is due to come into force on 1 February 2022, is widely felt to require a thorough reassessment as to its appropriateness and is currently the subject of a European Commission Review (see above). Any proposed legislative amendments to the mandatory buy-in requirement are not expected until the end of 2021 at the earliest.

The letter points out that the implementation of the CSDR mandatory buy-in regime is a significant undertaking for the entire financial market, not only in Europe, but globally, involving not only extensive system developments, but also major client outreach across multiple markets and jurisdictions to undertake contractual papering and remediation. Implementing the mandatory buy-in requirements whilst the authorities concurrently review and revise the Regulation will at best result in ongoing implementation efforts and investment being rendered redundant, while at worst it will mean repeating the exercise. The letter notes that creating such uncertainty around a regulatory implementation project of this profile and scale is damaging to the development and reputation of the EU's financial markets. The associations suggest that a far more robust approach would be to make the required revisions to the CSDR mandatory buy-in regime before attempting implementation.

Implementation in the bond and repo markets

While the industry awaits the results of the CSDR Review and the likely changes to the mandatory buy-in framework, as well as a number of outstanding requests for critical clarification related to scope and application of the Regulation, the current timeline means that implementation efforts will have to proceed on a worst-case basis if market participants are to be compliant by the current go-live date of 1 February 2022.

ICMA is supporting implementation in the international bond and repo markets by providing both a contractual framework and market best practice. It is doing this by revising its Buy-in Rules, part of the ICMA Secondary Market Rules & Recommendations, that are widely used in the international bond markets, as well as through the development of a GMRA CSDR Annex in the case of in-scope repos. This work is being undertaken jointly by ICMA's CSDR Settlement Discipline Working Group and the CSDR Legal Working Group.

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EU consolidated tape for bond markets

Last year ICMA created a buy-side, sell-side, trading venue and data provider member-based taskforce to produce a bespoke consolidated tape (CT) report for the Commission, at the Commission's request. There was consensus agreement amongst the CT taskforce (Taskforce) members that a trustworthy, affordable, and centralised EU bond consolidated tape would not only improve transparency but also assist decision-making and provide market insights to end-investors, large or small, professional or retail.

Adoption of an appropriate centralised post-trade market structure (which is currently fragmented across the different APAs and trading venues) would enhance investor confidence. More specifically, with a fully functioning post-trade bond CT, benefitting from good quality data, optimised liquidity assessment and fine-tuned transparency regime, market participants could have the confidence to successfully use the post-trade bond data, provided by a CT provider (CTP), for pre-trade price discovery and post-trade execution analysis.

The Taskforce outlined four governance models for a CTP, all of which could work, but the key element is a public/private partnership. This would allow industry participant expertise to work alongside regulators to enable the CTP to become a successful going concern.

Earlier this year, on 19 January, the European Commission announced that it will review MiFID II/R in 2021 and the review will also include "the design and implementation of a consolidated trading tape, in particular for corporate bond issuances – a central database, which aggregates the various post-trade data sources into a single view". This announcement regarding a centralised data source for post-trade corporate bond data is indeed welcome and a sign that ICMA's advocacy on this topic hit its mark.

In subsequent discussions with the Commission, it was communicated bilaterally that, in terms of timing for the MiFID II/R review, the Commission will spend Q1/Q2 with impact assessments. Then Q3 will be devoted to potential legislative measures. The resulting legislative outcomes

1. The contributing associations are AFME, AGC, ASSOSIM, EACB, EAPB, EBF, EDMA, EFAMA, EVIA, FIA, FIA EPTA, ICI GLOBAL, ICMA, ISDA, and ISLA.

will most likely be presented in Q4. The Commission further communicated its view that regulatory (including Level 1 changes) and data quality solutions should be in place before any Commission CTP tender process commences or indeed bond CTP technology development begins.

ICMA shared with the Commission its contrary view. Regulatory and data quality efforts should work in *tandem* with technology development. For example, ICMA suggested a "test bond CTP" could be developed in an NCA "regulatory sandbox" (described below). The willing NCA could then gain a deeper understanding of the RTS 2 post-trade data consistency format challenges and impediments to aggregation and be able to assist where appropriate. Through this iterative fact-finding process, the data quality and aggregation obstacles could be overcome or at least begin to be solved. In addition, the Commission could through "observer status" view the preliminary aggregated post-trade data, providing them with perhaps a more accurate overview of the market, which could assist their bond market endeavours.

As stated in ICMA's FinTech briefing paper from September 2018, "regulatory sandboxes"' are "controlled testing environments, sometimes featuring regulatory forbearance and alleviation through the use of legally provided discretions by the supervisory agency. The testing environment may involve limits or parameters within which the firms must operate (eg restrictions on the time a firm may operate in the sandbox)". As such, there is more room for innovation as regulatory barriers are avoided.

Recently, ICMA reconfirmed its view that the key element for condensing the timescale for a post-trade bond CTP to emerge are *tandem* progression for both technology development and legislative advancement, while at the same time data quality can be improved through technology development efforts.

Upon the completion of the Commission MiFID II/R review work (often referred to as the "MiFID Refit") currently under way, the proposed plan is to have a viable candidate bond CTP standing by, ready to leave the sandbox environment for the Commission tender process or to directly register as the official regulated bond CTP.

While the concept of building a "test bond CTP" in a regulatory sandbox is in its early days, one NCA has expressed interest in exploring whether or not a "test bond CTP" could be built in its regulatory sandbox and has contacted ICMA. If all relevant parties agree to a way forward for the "test bond CTP", ICMA looks forward to working with concerned parties and further helping to facilitate an EU CT for bond markets.

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ICMA response to ESMA algo consultation

Early in March 2021, ICMA's MiFID II Working Group (MWG) provided feedback to ESMA regarding its consultation on the impact of algorithmic trading. ICMA's MWG algo taskforce (Taskforce) member response is based on consensus view and relates solely to bonds. The Taskforce represented buy-side and sell-side investment firms, trading venues and software and technology providers. There is a unique value in conveying a broad view from across the bond market industry. A summary of the ESMA consultation paper Taskforce response, with key views from a bond algo perspective, follows.

The motivation for regulating algo trading is the mitigation of risks such as market-wide disruption or destabilisation. However, unlike equity markets, the bond market use of technology often does not fit the execution algorithm definition and does not carry the same systemic risk or disruption potential. Even if the terminology of an "algorithm" is used, it is often automations without the ability to generate new orders/"child" orders (parent orders sliced into smaller child orders electronically through algorithms) or to trigger executions.

Therefore, ICMA's Taskforce considers the algo scope expansion, as described in this consultation paper, is not needed in relation to algo trading in bond markets. In practice, testing is working well today in bond algos and the ESMA-proposed expansion to off-venue trading would increase costs and burdens for market participants unnecessarily. There is a limited risk of contagion in bond markets from over-the-counter (OTC) algos. For example, there is usually a human element in creating a price in bond algos.

The Taskforce in addition commented that the current EU Member State structured approach to algo risk assessment for bond algos works well today and the individual NCA rules are not deemed too burdensome to comply with.

Regarding algos, primary dealers and market makers, ICMA recommended that, instead of exempting primary dealers from market-making obligations on trading venues/venue, it would be more appropriate to exempt the EU government bond asset class as a whole from MiFID II/R market-making obligations, and corporate bonds in the future.

Finally, the Taskforce considered that ESMA should not have any excessively prescribed algo self-assessment formats, though all self-assessments should be diligently performed and provided to NCAs, upon request, "without undue delay".

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Update to bond market transparency directory

ICMA has updated its Bond Market Transparency Directory to include the latest guidance provided by the FCA in its Post-Brexit Transparency Workshop held on 11 March 2021. The FCA intends to use the annual LIS and SSTI thresholds expected to be published by ESMA in April. The FCA intends to determine an instrument traded in the EU and UK liquid only if it is liquid on both ESMA and FCA calculations. It will fall to trading venues whether to follow FCA liquidity determinations or only refer to ESMA determinations. The FCA is expected to publish a consultation by the end of April to address changes to MiFID II/R rules in the UK, covering similar, but not identical considerations to the EU's MiFID II/R "quick fix".

The purpose of the mapping is to provide a consolidated view to compare both regulatory rules and best practice guidance on bond trade reporting transparency regimes, as well as details on reporting fields and exceptions in more than 15 jurisdictions globally. The directory is a non-exhaustive overview and is intended to be a living document with periodic reviews. The Bond Market Transparency Grid is available on ICMA's website.

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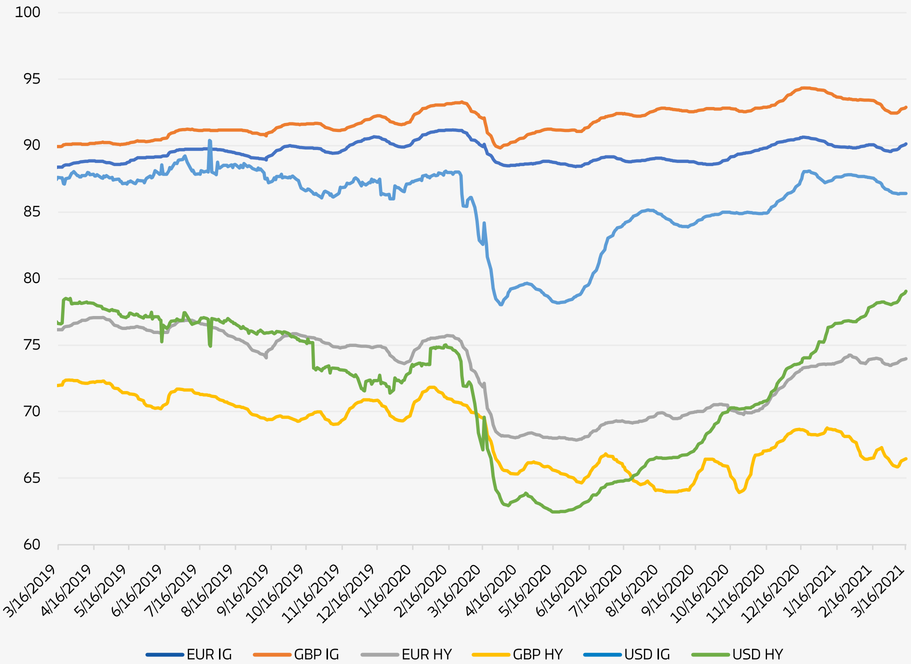
Corporate Bond Market Liquidity Indicators™

Tracker indicates moderate decline in credit market liquidity, except for USD HY

ICE Liquidity Indicators™



Source: ICE Data Services

Commentary

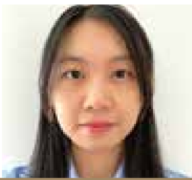
Following a steady improvement in Q4, IG credit market liquidity levelled off and decreased slightly in Q1. While liquidity in GBP HY dropped markedly and EUR HY remained unchanged, USD HY improved substantially and reached a two-year high, exceeding liquidity levels last observed in March 2019. Central bank intervention across the globe clearly appears to have had a stabilising effect on corporate bank market liquidity throughout 2020, notably the ECB's Pandemic Emergency Purchase Programme (PEPP), the Fed's unlimited US Treasury and agency MBS bond-buying scheme, and the Bank of England's rate cut and purchases of UK government and non-financial corporate bonds, amongst a range of other, targeted support measures.

In Q1 2021, inflation expectations seem to have been lifted by a number of factors, including the Biden Administration's USD1.9 trillion stimulus package, hope for an accelerated economic recovery as a result of vaccines roll-out and a cautiously positive monetary policy outlook in the US and the UK. At the same time, the resurgence of COVID-19 and extension of lockdowns across Europe have tainted the economic outlook, while rising yields of euro area government debt prompted the ECB to accelerate its bond-buying scheme. These factors combined appear to have had an adverse impact on corporate bond market liquidity in Q1, with the exception of the USD HY market which may have benefitted from favourable market conditions and investors' hunt for yield. It remains to be seen to what extent diverging regional dynamics will impact IG credit market liquidity in the medium term.

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

Repo and Collateral Markets





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

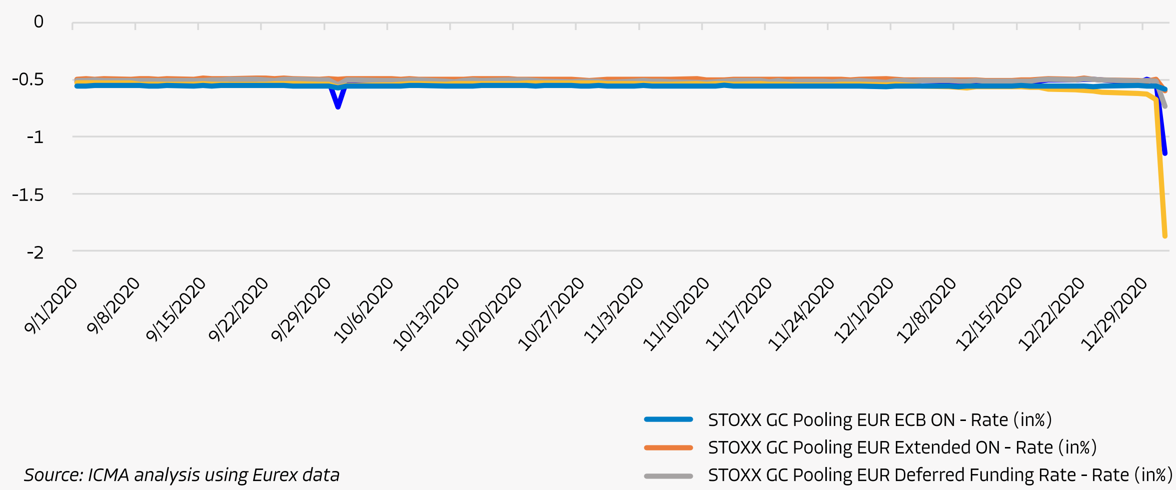
Repo market year-end report

In January 2021, ICMA published *The European Repo Market at 2020 Year-End*, the ERCC's now customary analysis of how the repo market performed over the turn of the calendar year. The report primarily provides an overview of the EUR repo market, while also covering GBP, USD, and JPY. The following is a summary of the EUR market analysis.

Prelude

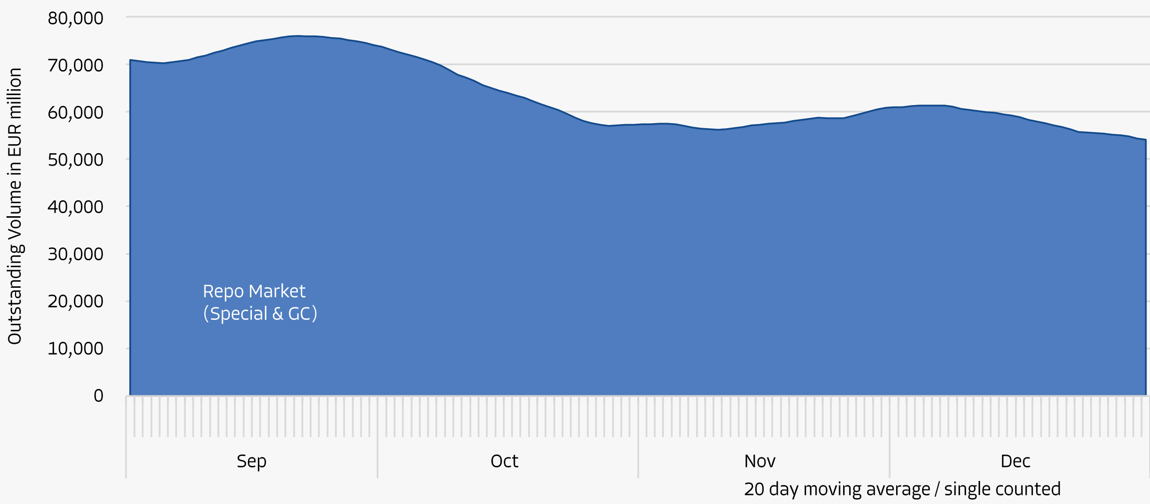
Concerns about potential year-end dislocations had begun to build as early as October and followed the largely unexpected spike lower in rates at the September quarter-end. Unlike the past relatively uneventful previous three "turns", market participants were wary of a potential collateral squeeze, citing significant excess reserves (which had increased from €1.7 trillion at the end of 2019 to €3.2 trillion by the end of October 2020) and a reduced supply of collateral (euro sovereign issuance less central bank purchases had taken €300 billion of collateral out of the market during 2020). A longer than usual (four-day) turn compounded any unease. Meanwhile, the EUR/USD cross-currency basis, which had been relatively flat since the extension of USD central bank swap lines following the March-April turbulence, had been steadily moving lower, implying much softer EUR rates over year-end (-5.5% at the start of December). Some participants had begun to fear a year-end similar to that of 2016.

EUR GC Repo Rates (Eurex)



Source: ICMA analysis using Eurex data

EUR repo outstanding volumes (Eurex)



Source: Eurex

Core

As year-end approached, term rates were implying around -2.6% for German General Collateral (GC) and -2% for French GC over the turn. On 29 December (two days before the turn), spot-next (S/N) – which is the most liquid trade date for specifics – saw German and French specials being offered around -4% and -3% respectively in the interbank market. However, rates quickly eased as offers chased the bids, and most specifics traded around the -2.5% level. While the spread of specials to GC widened, participants report few instances of particular ISINs coming under particular pressure.

On 30 December (one day before the turn), tom-next (T/N) – which is the most liquid trade date for general collateral – saw German and French GC open around -1.8% and -1.75% respectively, and gradually heading tighter over the course of the day to around -2.3% as liquidity thinned. On 31 December, overnight (O/N) rates averaged around -2% for both German and French GC, with specifics around -2.3%, but volumes were notably light.

Periphery

Heading into year-end, implied Italian and Spanish GC rates for the turn were around -1%. As the date arrived, Italian GC eased slightly from the implied, to trade between -0.85% and -0.75%, with specials trading around -1% to -1.25%. Spain, however, was the surprise market, with GC trading down to -1.25%. Spanish specials became particularly tricky, with several ISINs trading around -2% and some printing as low as -4%.

Much of the tightening in Italian and Spanish specials is attributed to collateral scarcity following the recent expansion of the ECB's TLTRO III, which has seen local banks allocating their holdings of domestic government bonds to benefit from the cheap carry.

Explanation

So while repo rates tightened by the greatest degree observed for several year-ends, the overall view was that it was a relatively uneventful and pressure-free turn; particularly in light of its build-up. This is attributed to several factors:

i. Given growing concerns around collateral scarcity, participants looked to place cash and cover shorts in the term market as early as possible, minimising their exposure to year-end liquidity pressures. In the case of short covering, much of this was executed on a collateral swap, or "switch", basis, meaning lenders avoided being left long cash. This can also be seen from the significant drop in trading volumes over year-end.

ii. Participants report reduced hedge fund activity from October onward, which again reduced the demand for both leverage and short-covering (as an indicator, the March Bund CTD basis implied repo remained relatively steady around -0.75% throughout the period).

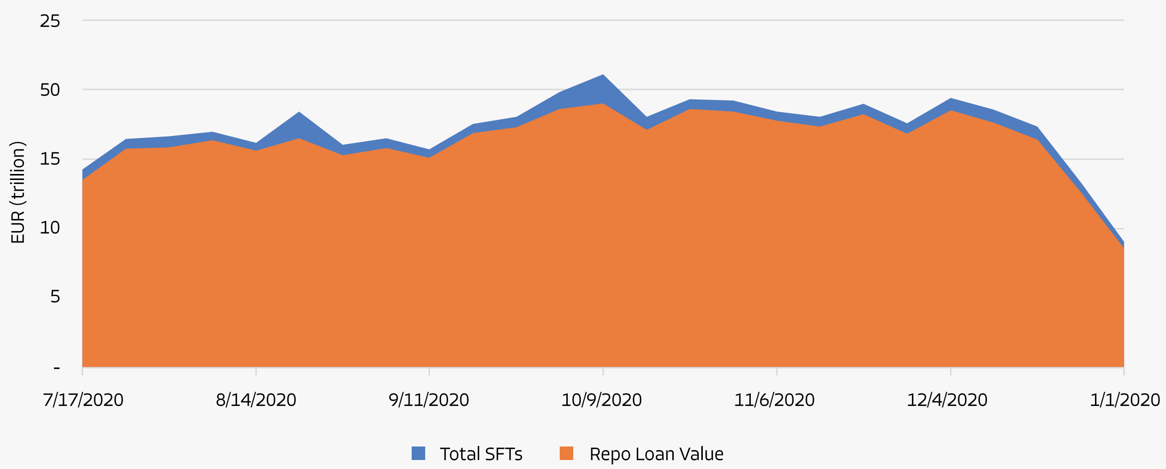
iii. Dealer balance sheets felt relatively unconstrained, perhaps helped by the temporary relief in the Leverage Ratio calculation. While a rallying US stock market raised concerns that some banks may reduce their repo activity in order to manage their Global Systemically Important Bank (GSIB) scores, this did not appear to materialise.

iv. The currency basis flattened in the final few days before year-end, removing any arbitrage opportunities that would have made EUR collateral cheap for holders of USD.

v. The improved accessibility of the ECB lending programmes, along with an easing of the cost of borrowing to a mere 5 basis point fee, almost certainly helped to provide a pressure value. Although central bank lending has generally been more attractive on a collateral switch basis, as we closed in on the year-end it was outright lending that took the pressure off GC and specifics and helped to subdue the turn. The easing of the collateral standards by the ECB programmes, such as the acceptance of Additional Credit Claims, also helped to ease the pressure on European Government Bond (EGB) collateral.

vi. At the margins, the increased use of sponsored clearing, allowing members' clients access to CCPs, possibly also removed some of the pressure from dealers' balance sheets, although participants note that uptake in Europe is still relatively limited, but gradually increasing.

New Reported Loan Values



Source: ICMA analysis using public trade repository SFTR data

Conclusion

Most participants appear relaxed about the 2020 turn, certainly compared to previous year-ends, also noting that the market had done a fairly good job in pricing in year-end rates in the lead-up, particularly for EUR. Many report that buy sides had looked to execute as much of their funding requirements as early as possible, while the banks went into year-end with more balance sheet than usual to play with. A common concern, however, relates more to conditions over the next twelve months, particularly in the case of the EUR market, given the widening of the PEPP envelope and the prospect of an even smaller EGB collateral pool; more so than the perennial uncertainty related to banks' balance sheets and dealer capacity.

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SFTR implementation

The fourth and final phase of SFTR reporting went live on 11 January 2021, as non-financial counterparties started reporting in the EU. This marked the end of a very successful implementation process for SFTR, which started with the initial go-live in July 2020. But it is not the end of the project. ICMA's ERCC through its SFTR Task Force continues to actively monitor reporting progress, work through remaining reporting challenges and discuss with regulators as the reporting rules continue to evolve.

Updated ESMA Q&A

ESMA continues to develop and publish additional guidance on SFTR reporting, in particular in the form of SFTR Q&As which were initially released in November 2020. On 28 January 2021, ESMA published an updated set of Q&As, adding three further topics to the list of questions addressed in the document. In total, the SFTR Q&As now cover questions on eight topics. This is an ongoing process to which ICMA actively contributes, having submitted a number of the questions addressed in the Q&As, including in relation to the reporting of settlement fails. The ESMA Q&As in turn feed back into ICMA's evolving best practices. In parallel, ESMA is also reviewing other important Level 3 guidance documents, including the validation rules and the XML schemas, which should be updated in the next weeks.

Sixth version of the ICMA SFTR Recommendations

On 17 February, the ERCC released the sixth edition of the detailed *ICMA Recommendations for Reporting under SFTR*. Compared to the previous version published on 29 October 2020, the updated guide reflects the end of the post-Brexit transition period on 31 December and the resulting split of SFTR into an EU and a UK version, which are both covered by the guide. The new version also incorporates further guidance released by both ESMA and the FCA. The SFTR Recommendations will continue to evolve to reflect ongoing discussions within the ERCC's SFTR Task Force as well as any further official guidance published by regulators.

Joint industry letter on issuer LEIs

On 8 March, ICMA, in association with ISLA, AFME and AMAFI, sent a joint communication to ESMA, various NCAs, and the FCA to reiterate concerns around the lack of availability of Legal Entity Identifiers (LEIs) for issuers outside of Europe. The letter was sent ahead of the end of a 12-month forbearance period on 13 April for the reporting of non-EEA issuer LEIs which had been granted by ESMA. As part of the letter, the associations submitted the results of a joint study to quantify the gap in the issuer LEI coverage for active ISINs. Although the industry has been trying proactively to help encourage LEI issuance, in some major non-European markets the gap is still very significant. The letter proposes possible solutions and seeks further guidance on the issue from regulators. In response to the letter, the FCA issued a statement on 6 April extending the forbearance period under UK SFTR by another year to 13 April 2022. On the EU side, further guidance from ESMA on the matter is pending.

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ERCC Operations: repo post-trade efficiency

Improving the efficiency of post-trade processes for repo is a key part of the mandate of the ERCC Operations Group. Over past months the group has focused extensively on the challenges around firms' intraday liquidity management and related opportunities for settlement efficiency. As a first result of this work, a number of best practice recommendations have been agreed and incorporated into the ERCC's *Guide to Best Practice in the European Repo Market*. These targeted updates to the Guide were published on 30 March, covering recommendations related to the shaping of settlement instructions, partial settlement and hold and release functionality.

While this is an important step towards a more consistent application of the relevant tools, settlement efficiency remains a major focus for the industry, particularly in view of the upcoming implementation of CSDR settlement discipline measures. The ERCC is currently discussing the scope for additional measures and recommendations to support a further reduction in the level and impact of settlement fails. On 26 February, the ERCC hosted a cross-industry workshop to discuss the issues at stake with a wide range of stakeholders, including sell side, buy side, market infrastructures and custodians. Based on those discussions, a number of additional recommendations are currently being finalised and will be communicated in due course. The challenges around settlement efficiency and the related ERCC recommendations were discussed in more detail in ERCC Annual General Meeting on 30 March with a panel of market experts.

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Repo market data

Landmark 40th survey of the European repo market

On 23 March, the ERCC released the results of its 40th semi-annual survey of the European repo market. The survey, which calculated the amount of repo business outstanding on 9 December 2020 from the returns of 60 financial institutions, sets the baseline figure for the outstanding size of the European market at EUR8,285 billion compared with EUR7,885 billion in June 2020 and down from the record high of EUR8,310 billion in the December 2019 survey. The December survey is a snapshot of the market at the end of an unusual year, with the COVID-19 pandemic having triggered market turbulence in February and March, and just before the end of the post-Brexit transition period. Survey results show the market tending to revert to long-term trends, although a few changes seem to have persisted, including the recent resilience of voice-brokered business and the sharp recovery in the share of core euro area government securities used as collateral. For a more detailed discussion of the latest survey results as well as the longer-term market trends over the past 20 years, listen to the latest ICMA podcast with Richard Comotto, the

survey author.

SFTR public data

Following the end of the post-Brexit transition on 31 December 2020, the public data has been split into separate EU and UK segments. ICMA continues to collect and aggregate the data on a weekly basis for both EU SFTR and UK SFTR. For a more detailed breakdown and related charts, please visit the ICMA SFTR public data page.

Repo market data hub

ICMA has updated its webpage to include a repo market data hub, which is refreshed on a monthly basis. Currently this includes:

- Euro Repo Funds Rate
- GBP Money Market Rates
- USD Repo Rates
- FX Basis Swaps
- LIBOR-OIS Spreads ("LOIS")

The data is sourced from Bloomberg and CME Group Benchmark Administration Limited.

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Repo and sustainability

Sustainability is rapidly evolving into a mainstream feature of the international capital market and its importance is set to increase further as the world is facing up to environmental and social challenges. There are undoubtedly many opportunities that come from embracing the concept of green and sustainable financing and the repo market clearly has an important role to play. The ERCC is currently finalising a discussion paper, along with a list of consultation questions, to explore the sustainability aspects of repo and collateral as well as to assess the existing opportunities and potential risks in this area. In particular, the paper looks at the role of repo in the sustainability context and explores whether the concept of a green and sustainable repo exists and, if yes, what that would look like. ICMA invites all interested stakeholders to respond and comment on the paper. The results will help the ICMA ERCC to identify areas of development and help to frame future workstreams, if required.

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ERCC elections and Annual General Meeting

On 10 February, ICMA announced the names of the 19 candidates who were elected to form the new ERCC Committee. The term of office of the new Committee will be approximately one year starting immediately and ending on the day the results of the 2022 ERCC elections are announced. The outcome is based on valid votes received from 79 out of the total 109 ICMA ERCC member firms, which marks a new record in terms of participation.

On 30 March, the ERCC held its Annual General Meeting. The livestreamed two-hour session, supported by LCH, featured a panel with the ERCC Chairs to discuss priorities for 2021, an overview of the results of ICMA's 40th European Repo Survey, as well as a discussion with market practitioners on the challenges and opportunities around settlement efficiency. Furthermore, ICMA was delighted to welcome Fiona van Echelpoel, Deputy Director General at the ECB, who delivered a keynote address, and Corentine Poilvet-Clediere, Head of RepoClear, Collateral and Liquidity at LCH SA, who provided the concluding remarks. A recording of the live event is available on the ICMA website, along with a number of short pre-recorded updates on other key ERCC initiatives not covered at the event itself.

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Short-term Markets

  

by **Andy Hill, Arthur Carabia and Katie Kelly**

ICMA Commercial Paper Committee

On 2 March 2021, ICMA held the inaugural meeting of its Commercial Paper Committee (CPC). The new Committee is a renaming and reconstitution of its longstanding Euro Commercial Paper (ECP) Committee. Whereas the ECP had historically been dealer-based and focused purely on the international ("Euro") element of the market, the CPC is intended to focus more broadly on the commercial paper (and certificates of deposit) market across Europe (both international and domestic), and is designed to encompass the broader ecosystem, including issuers (financial and corporate), investors, dealers, and relevant infrastructures.

"The CPC is intended to focus more broadly on the commercial paper (and certificates of deposit) market across Europe, and is designed to encompass the broader ecosystem".

Background

The formation of the CPC follows an ICMA workshop, *The European Commercial Paper Market Reimagined*, held on 4 November 2020. Involving representatives of the entire CP ecosystem, the objectives of the workshop were: (i) to look back on how the European commercial paper market performed during the peak of the COVID-19 crisis; and (ii) to identify possible initiatives, whether market-based or regulatory, that could help to develop the market.

At a follow-up meeting of workshop participants and other interested members, held on 9 December 2020, it was widely agreed that there was value in expanding the existing ECP Committee to encompass a broader range of stakeholders, including issuers, investors, and infrastructures, and that this newly constituted committee should play a pivotal role in supporting market development.

Scope, structure, and governance of the CPC

The ICMA CPC seeks to be the representative voice of the European and international Commercial Paper and Certificates of Deposit (CP/CD) market, bringing together all relevant stakeholders with the goal of supporting market development. It aims to do this by:

- providing a platform for dialogue and the sharing of ideas between market stakeholders;
- developing and supporting market standards and best practices;
- facilitating the dissemination of relevant information amongst members related to market developments and, where possible, data and research;
- promoting the best interests of the market with regulators, policy makers, and other key stakeholders.

At the 2 March 2021 meeting, members agreed to the proposed scope of the CPC. It was felt that, given that financial CP and CDs were considered to be largely interchangeable, the Committee's scope should also include CDs. It was further agreed that the focus should not necessarily be limited to Europe, particularly in light of the global investor and issuer reach of the ECP segment of the market.

In terms of structure, members felt that it should be kept largely informal, although member firms agreed to nominate one Principal Representative with the option of multiple

Alternative Representatives. It was also agreed that the Committee would have three co-chairs representing the three key constituencies. ICMA asked for members to volunteer for the position of co-chair. The three inaugural co-chairs of the CPC are: Jonathan Paxton, NatWest Markets (Dealers); Gregor Harwell, BlackRock (Investors); and Scott Creed, Lloyds (Issuer).

Deliverables

It was broadly agreed that the first deliverable of the CPC should be a white paper that builds on the conclusions of the Workshop and that: (i) maps the market landscape and structure pre-2020, highlighting any potential vulnerabilities; (ii) describes what happened during and following the March-April 2020 market turmoil (with reference to various central bank interventions); and (iii) makes recommendations for market development based on the lessons learned.

Members considered this initiative to be particularly important in light of the ongoing work being undertaken by the FSB and IOSCO related to how money market funds (MMFs) performed during the March-April 2020 market turmoil. A deadline for mid-May 2021 for finalising the paper was suggested.

ICMA's Asset Management and Investors Council (AMIC) also intends to establish a complementary Working Group focused on MMF regulation, which will be run in parallel to this initiative. The intention is that the two groups will interact closely.

The paper should further provide a platform for future CPC initiatives, particularly those aimed at addressing many of the identified challenges to the development of an efficient, well-functioning pan-European CP/CD market; and which can largely be attributed to acute market fragmentation, a need for improved transparency, and the absence of a liquid secondary market.

Members with an interest in the development of the Commercial Paper or Certificates of Deposit Markets are encouraged to join the new Commercial Paper Committee.

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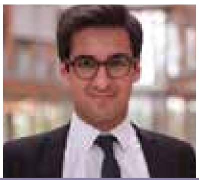
Sustainable Finance

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



Summary

Issuance in the sustainable bond market in the first quarter this year is showing a sharp increase over the same period in 2020 with the continuation of strong sustainability and social bond issuance alongside green bonds. Broader emerging 2021 themes are among others the global recognition of the sustainable bond standards supported by ICMA and the renewed interest in sustainability in the US market. We also note the multiplication of taxonomy initiatives globally and the strong interest in biodiversity focused investments.

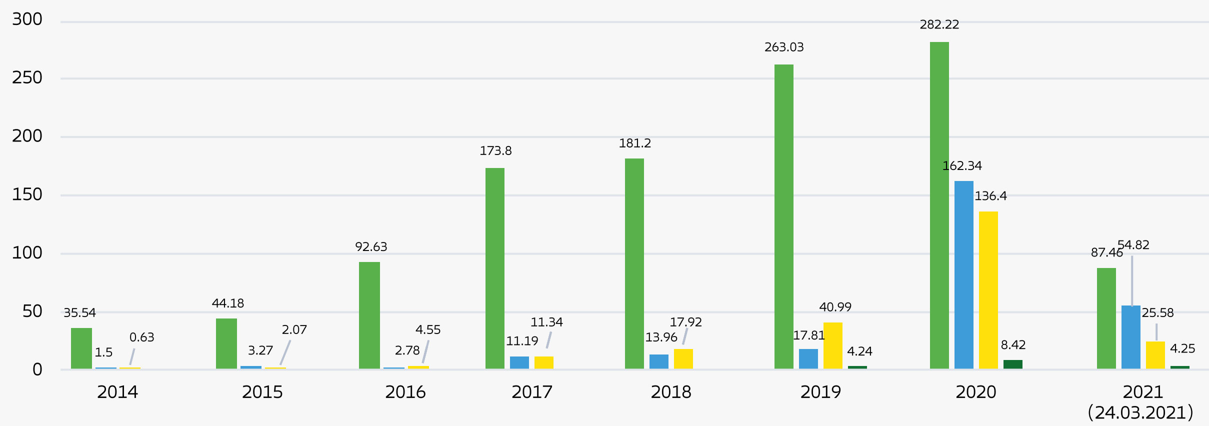
On the regulatory front, we continue to engage closely with the EU Platform while also being very active in regulatory consultations in Asia. Finally, the GBP Executive Committee is making progress with an ambitious agenda for 2021 already evidenced by important additional Sustainability-Linked Bond (SLB) related guidance released in February this year.

Sharp increase of sustainable bond market issuance in 2021 to date

As of 24 March 2021, sustainable bond volumes amounted to USD172.13 billion in 2021 representing nearly a 150% increase over the same period in 2020 (USD69.82 billion). Social bonds have continued their breakthrough growth with EU issuance of EUR23 billion in particular since the start of the year (and EUR62.5 since October 2020) to fund its SURE programme.

On the green bond market front, sovereign issues continue to grow, especially in Europe. Following the inaugural issuances from Germany and Sweden in 2020, Italy joined the market with the biggest single sovereign issuance in Europe, a EUR8.5 billion 24-year green bond (marked by over EUR80 billion in buy-side interest). France consolidated its position as the leading sovereign borrower in the green bond market with a new EUR7 billion 23-year transaction bringing its total green bond issuance to EUR39.5 billion. The UK and Spain are also expected to issue green bonds this year.

Sustainable bond market issuance: 2014 to 2021 year to date



Source: ICMA analysis based on Environmental Finance Database (in USD billion)

Interest in sustainability-linked bonds (SLBs) is also picking up quickly supported by important additional ICMA guidance released in February 2021 (see below). These inaugural SLBs are using mostly step-up coupon structures including H&M (retail fashion), Tesco (retailer), and Odjfell (shipping). SLBs have also seen interest in the emerging markets where companies active in logistics, real estate, and paper sectors joined this market segment. While most KPIs and SPTs have so far been linked to GHG emission reductions, we are also seeing further innovation around other environmental goals (circular economy with H&M and biodiversity with Klabin). Another innovative development is the alignment of issuances with both the GBP and the SLBP thereby becoming sustainability-linked green bonds. After Etihad last year, recently Japanese construction company Takamatsu and Austrian utility company Verbund issued bonds based on this innovative combined approach.

Issuer (business sector)	Issuance info / date	Sustainability performance targets (SPTs) and, where applicable, use of proceeds (UoPs)	Penalty clauses if SPTs not reached
Klabin (Paper)	USD500 m 10-y / Jan. 2021	By 2025, achieve the following three targets with relevance to SDGs: • Reduce water consumption by 16.7% (from 2018 baseline): SDG 6 – Clean Water and Sanitation; • Increase the percentage of solid waste reused and recycled to 97.5% (up from 94.3% in 2017): SDG 12 – Responsible Consumption and Production and, • Reintroduce or reinforce two extinct or endangered species in the company's forest areas: SDG 15 – Life on Land	Differentiated step-ups for each target: • water consumption: 12.5bps; • waste reuse and recycling: 6.25bps; and, • biodiversity: 6.25bps
New World Development (Real estate)	USD200 m 10-y / Jan. 2021	Achieving 100% renewable energy NWD's Greater Bay Area rental properties by 2026.	Purchase of carbon offsets equivalent to 25bps per annum between 2027 and 2031.
Odfjell SE (Shipping)	NOK850 m 4-y / Jan. 2021	Reach Average Efficiency Ratio (carbon intensity metric) of 8.18 or lower on 30 June 2024 in its Controlled Fleet	Redemption price to increase by 150bps
Tesco (Retailer)	EUR750 m 8.5-y / Jan.2021	Reducing Scope 1 and 2 Group GHG emissions by 60% by 2025 (from 2015 baseline)	Step up at 25bps
Simpar (Logistics and mobility)	USD625 m 10-y / Jan.2021	Reduce GHG intensity (Scope 1, 2, 3) to 124.04 tCO_2e/m R$ Net Revenue by the end of 2025, which represents a 7.8% reduction from the 2019 baseline.	Step-up at 25bps
H&M (Fashion Retailer)	EUR500 m 8.5-y / Feb.2021	By 2025: • Increase the share of recycled materials as inputs to 30% (from 0.5% in 2017); • Reduce Scope 1 and 2 emissions by 20% (against the 2017 baseline); and, • Reduce Scope 3 emissions by 10% (against the 2017 baseline)	Weighted step-ups: KPI 1 40%, KPI 2, 20% and KPI 3, 40%. As such, the step-up of the coupons can be 0%, 20%, 40% 60%, 80% or 100% of the total step-up rate (as specified in the security documentation).
Public Power Corporation (Energy)	EUR650 m 5-y / March 2021	Reduction of Scope 1 CO_2 emissions 40% by 2022 from a 2019 baseline	Step up at 50bps
Takamatsu (Construction)	JPY10 bn 5-y / March 2021 (Sustainability-lined green bond)	**SPT:** Achieving a cumulative total of JPY391.1 billion in SDGs Contribution Revenue over the next four years **UoPs:** Construction of a green building	A premium of 0.5 yen per 100 yen of the bond amount
Verbund (Energy)	EUR500 m 20-y / March 2021 (Sustainability-linked green bond)	**SPTs:** By the end of 2032; (i) expansion of newly installed renewable energy capacity in the areas of water, wind and photovoltaics by at least 2,000 MW and (ii) the installation of additional transformer capacity by at least 12,000 MVA. **UoPs:** Renewable energy projects aligned with the latest version of the EU Taxonomy on best-effort basis	Step up at 25bps

Finally, it is important to note that Bank of China issued in January 2021 the first "transition bond" aligned with the Climate Transition Finance Handbook released in December 2020 (see dedicated feature in this Quarterly Report).

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Key themes for 2021

Recognising the role of global standards in the sustainable bond markets

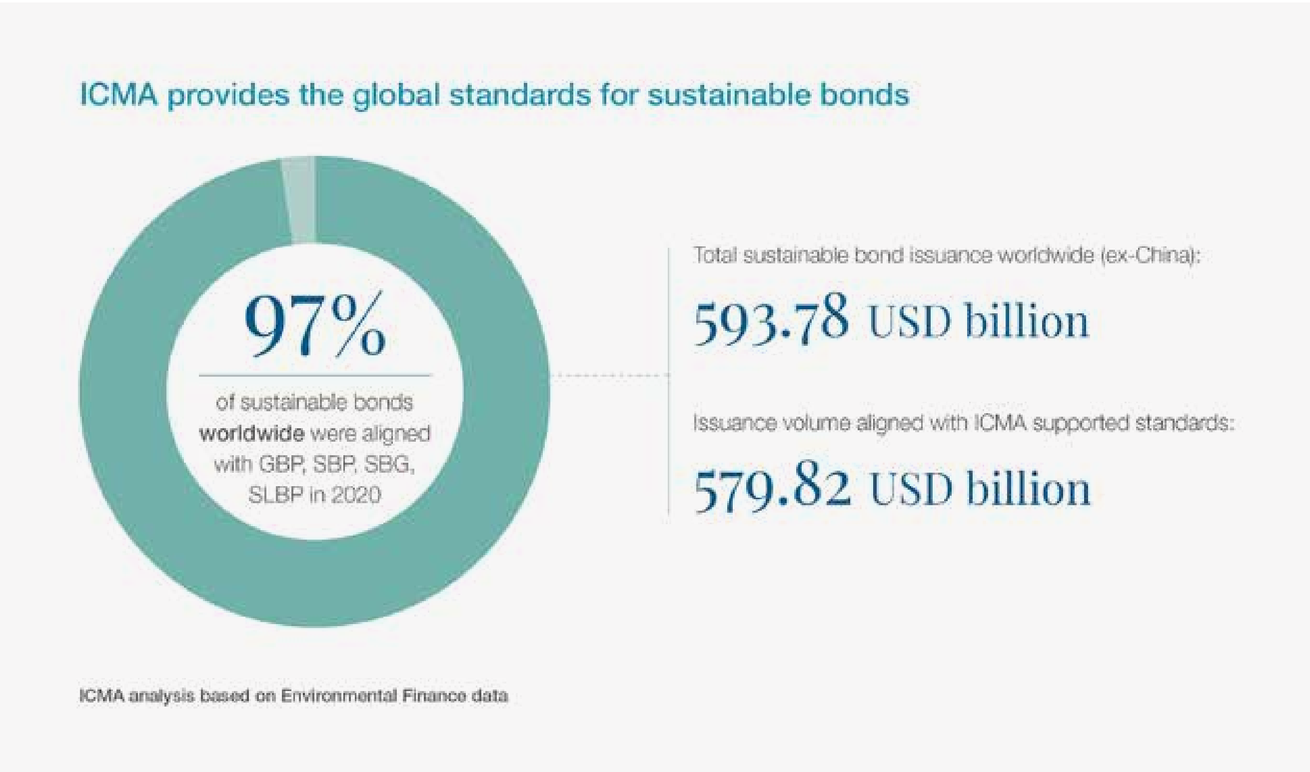
We still frequently note comments in the media, as well as from some policy makers and market stakeholders, that there is confusion around multiple standards in sustainable finance. The data for the sustainable bond market however tells a different story. Our analysis based on information provided by Environmental Finance shows that 97% of sustainable bonds worldwide (excluding the Chinese regulated domestic market) were aligned with the GBP, SBP, SBG or the new SLBP in 2020. This clearly illustrates the global role of these ICMA supported standards and their overwhelming adoption by the market.

It is also important to underline that the GBP and other ICMA supported standards are not only recognised by market participants but have also explicitly served as a reference in jurisdictions that have or are considering regulatory initiatives for sustainable bonds. This has been the case among others in China, Japan, the ASEAN countries, Brazil and the EU with its pending proposal for a Green Bond Standard.

Sustainable initiatives in the US market

US market participants have always been key players in the international sustainable bond market. There is now also under the new Administration and among US regulators a renewed interest in sustainability issues. ICMA, as part of the US Climate Finance Working Group, contributed to the *Principles for a US Transition to a Sustainable Low-Carbon Economy* published on 18 February. The Principles are intended to serve as a useful framework, offering perspectives from the full spectrum of the financial services industry including banks, investment banks, insurers, asset managers, investment funds, pension funds and other financial intermediaries. They are not exhaustive but aim to represent essential building blocks that should encourage a pragmatic approach to the transition.

The US Climate Finance Working Group is comprised of 11 financial services trade associations that have come together to exchange ideas, share knowledge and inform the conversation related to climate and sustainability topics. In addition to ICMA, it includes the American Bankers Association, Bank Policy Institute, CRE Finance Council, Financial Services Forum, Futures Industry Association, Institute of International Bankers, Institute



of International Finance, International Swaps and Derivatives Association, Investment Company Institute, and Securities Industry and Financial Markets Association.

Proliferation of national taxonomies

While the EU Taxonomy continues to be developed and rolled out, numerous taxonomy initiatives are being launched internationally. To illustrate this trend which is particularly notable in Asia, a financial industry expert group convened by the Monetary Authority of Singapore conducted a public consultation on the merits of a local taxonomy (see below). ICMA is also aware that several other taxonomy initiatives are under way such as: (i) the ACMF preparing a study on the development of a common green, sustainable, and transitional taxonomy for ASEAN; (ii) the Securities Commission and Bank Negara in Malaysia working towards a taxonomy; and (iii) an inter-agency taskforce in the Philippines working towards the creation of a principle-based taxonomy. The updated Green Bond Endorsed Project Catalogue in China is also expected for release this year.

Finally the UK announced in November 2020 that it will develop a taxonomy that "will take the scientific metrics in the EU taxonomy as its basis and a UK Green Technical Advisory Group will be established to review these metrics to ensure they are right for the UK market."

A new focus on biodiversity

As acknowledged by the GBP SBP in 2020 with dedicated recommendations in its Harmonized Framework for Impact Reporting, biodiversity is attracting increasing interest as an investment theme. This is being pushed by investors through the UN PRI as well as individual initiatives such as "Act4Nature" from Amundi. It is also one of the six environmental objectives under the EU Taxonomy for which the EU Platform is currently working out technical criteria, and central to the EU's Biodiversity Strategy 2030. In the UK, a global review of the Economics of Biodiversity was otherwise recently released in the form of the Dasgupta Review commissioned in 2019 by HM Treasury.

This growing interest is also reflected in recent initiatives such as the Natural Capital Financial Facility (NCFF), a partnership between the EIB and the European Commission which already resulted in the EIB issuing a Sustainability Awareness Bond with a biodiversity theme in January. Other notable initiatives are The Taskforce on Nature-related Financial Disclosures (TNFD), Finance for Biodiversity (F4B proposing a dedicated international Nature and Climate Sovereign Bond Facility), The Biodiversity Finance Initiative (BIOFIN), and the Sustainable Blue Economy Initiative.

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S Regulatory responses and dialogue

Platform on Sustainable Finance

ICMA was selected in October 2020 by the European Commission to be one of the 50 members of the EU Platform on Sustainable Finance (PSF). ICMA is a member of the Taxonomy Usability Sub-Group and is focusing on usability challenges of the EU Taxonomy for financial products. It is also part of the Social Sub-Group where it will contribute to discussions on the rationale for expanding the Taxonomy into the social sphere where it will highlight the relevance of the existing guidance for social bonds that ICMA provides with the SBP and related publications. On 24-26 February, the PSF held its first public outreach event, for which recordings and presentations are available.

In practice, following the delay in January of the Delegated Acts on Climate Mitigation and Adaptation, the PSF was tasked to write a report released on 19 March advising on the role that the Taxonomy could play in relation to transition finance. ICMA actively participated in these discussions and supported several recommendations that were largely reflected in the report. These were to:

- encourage the use of Taxonomy thresholds and metrics for forward looking targeting by companies;
- embed in the Taxonomy realistic future trajectories/pathways for companies to reach the identified sustainable technical thresholds;
- confirm the acceptability of Taxonomy grandfathering for sustainable financial products;
- recognise the use of complementary approaches and metrics outside the Taxonomy (such as those proposed by ICMA's Climate Transition Finance Handbook, the Science Based Targets initiative (SBTi), the Transition Pathway Initiative (TPI) and the Climate Bonds Initiative).

Regulatory engagement in Asia

ICMA's Response to SFC Consultation Paper on Climate Risks: Hong Kong's SFC launched a consultation on proposed requirements for fund managers to take climate-related risks into consideration in their investment and risk management processes and make appropriate disclosures on 30 October 2020. Supportive of the SFC's approach to introduce regulatory requirements for fund managers, ICMA responded to the consultation on 15 January 2021, highlighting some challenges faced by fund managers, including climate risk modelling and lack of reliable issuer-level data, and recommended synchronising the effective date of reporting requirements for issuers and fund managers.

Consultation by the Green Finance Industry Taskforce in Singapore (deadline 11 March 2021): Convened by the Monetary Authority of Singapore to accelerate the development of green finance, the GFIT published a consultation paper on *Identifying a Green Taxonomy and Relevant Standards for Singapore* and ASEAN. ICMA has submitted a response with the contributions of our Sustainable Finance Committee and regional stakeholders convened by our HK office, as well as the input of some members of the GBP Executive Committee.

In Asia, we continue our role as Chair of the Bond Working Group of the Hong Kong Green Finance Association. We are also being consulted by China's NAFMII on its work on "carbon-neutral bonds" which borrows from the GBP. Finally, SLBs are of great interest to the official sector in ASEAN and we have responded to queries from Thailand's SEC on their plans for developing a targeted SLB regulation.

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GBP and other developments

Green Bond Principles in 2021

The GBP SBP ExCom has already released important guidance this year with several publications in February relating to Sustainability-Linked Bonds (SLBs):

- A Q&A that expands on the Sustainability-Linked Bond Principles published by the Green & Social Bond Principles in June 2020 and which is now available in 21 languages.
- Updated Guidelines for External Reviews that now include recommendations for external reviewers related to sustainability-linked bonds. The new provisions in the Guidelines are the result of a collaboration between the SLB Working Group and the external reviewers consulted prior to the publication of this update who have also voluntarily confirmed their alignment with these recommendations. ICMA is updating on an ongoing basis the list of External Review providers as well as the overview of the External Review Services Mapping.
- Two forms available online, the Market Information Template and External Review Form complete the range of resources designed to enable the SLB market's growth and promote its transparency. SLB issuers and reviewers are invited to complete the forms available on the ICMA Sustainable Bonds Database which now also tracks SLB issuers.

On 25 March 2021, ICMA organised a webinar to present this additional guidance which attracted nearly 500 participants. The event featured a closing speech by the Banque de France highlighting the eligibility criteria of SLBs for the Eurosystem asset purchase and collateral programmes. These specify that performance targets measuring quantified improvements in the issuer's sustainability profile over a predefined period shall refer to "one or more of the environmental objectives set out in the EU Taxonomy Regulation and/or to one or more of the United Nations Sustainable Development Goals relating to climate change or environmental degradation" (new Article 2(88a), guideline ECB/2014/60). In addition, "in order to be eligible, debt instruments shall have either of the following coupon structures until final redemption: [...] multi-step or floating coupons with steps linked to SPTs, provided the issuer's compliance with SPTs is subject to verification by an independent third party in accordance with the terms and conditions of the debt instrument" (amended article 63, guideline ECB/2014/60).

The Executive Committee has otherwise carefully reviewed the outcome of the 2020 annual consultation of the members and observers of the GBP SBP. Based on this, it envisages among other things to publish an updated version of the Principles to include references to the Climate Transition Finance Handbook. Most of the Executive Committee's deliverables will be released at the time of the GBP SBP AGM, scheduled for Thursday 10 June 2021.

Award for Climate Transition Finance Handbook

Environmental Finance Bond Awards 2021 Winner Initiative of the year – green bond

The Climate Transition Finance Handbook published by ICMA in December 2020 has been chosen as the Green Bond Initiative of the Year by Environmental Finance.

The Handbook is the product of the excellent work of the Climate Transition Finance Working Group of the Executive Committee of the GBP SBP that brought together individuals from more than 80 organisations representing both market participants and stakeholders.

The Handbook provides recommendations for issuers on their climate change strategy and disclosures. It aims to encourage the flow of transition finance to enable companies to finance bold corporate GHG reduction strategies to align with the goals of the Paris Agreement.

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Asset Management


by **Arthur Carabia and Irene Rey**

AMIC: summary of activities in the first quarter

Events and podcasts

- *Monthly podcasts with Robert Parker,* Chair of the ICMA Asset Management and Investors Council (AMIC), reviewing market events in the context of the COVID-19 pandemic, with a specific focus on central bank policy measures, economic data and the impact on investors.
- *Podcast with Philippe Waechter, Chief Economist at Ostrum Asset Management,* on his outlook on the economy in 2021 and beyond post-pandemic.
- *Virtual webinar with Steffen Kern, ESMA,* on *The lessons from the COVID-19 crisis from a fund liquidity perspective.* The panel discussed ESMA's key findings during the market crisis, risks to consider in the coming year and the policy lessons learned.
- *Coming up next:* Virtual panel on covered bonds and the EU taxonomy on 27 April.

Consultation responses

- *AMIC response to the European Commission consultation on the review of the Alternative Investment Fund Managers Directive (AIFMD):* In its response to the Commission, AMIC argues in favour of legislative stability and calls on the Commission to focus on vehicles which, with changes, could foster growth in European capital markets rather than those which have been successful in encouraging the EU's competitiveness and attractiveness.
- *AMIC response to the European Commission consultation on the review of the European Long-Term Investment Fund (ELTIF) Regulatory Framework: AMIC* welcomed this review and encouraged the EU to take a bold approach given that no more than 28 ELTIFs have been launched since 2015 (see focus article below).
- *ICMA response to the IOSCO bond ETF survey:* ICMA has responded to the IOSCO survey on bond ETFs in the context of March/April 2020 market meltdown. ICMA's response involved members representing issuers, investors and authorised participants and market makers. The recent crisis shows that, overall, the ETF ecosystem functioned well despite extreme circumstances but that there is a need to continue improving the resilience and liquidity of corporate bond markets via its further electronification and appropriately calibrated regulation (see focus article below).
- *Coming up next:*

– Response to IOSCO CP on open-ended fund liquidity and risk management (16 April 2021).

– Response to the ESAs CP on Taxonomy-related product disclosures (12 May 2021).

Own initiative papers

- *AMIC statement on ESG disclosures for securitised assets***:** AMIC has set up an *ad hoc* working group to discuss ESG transparency of Asset-Backed Securities. As a first step the working group has issued a statement laying down current challenges for this specific asset class and the buy side. Next steps are to identify key performance indicators for three sub asset classes (auto-loans, RMBS and CLOs) which could then be embraced by market participants and/or regulators.
- *ICMA note on SFDR RTS***:** ICMA issued a note following the publication of the ESAs' final recommendations for the regulatory technical standards (RTS) of the Sustainable Finance Disclosure Regulation (SFDR). The note explains the next steps regarding the decision-making process and points out implementation challenges which members and policy makers may want to consider. AMIC also launched a taskforce to help members consider implementation challenges (a potential best practice guide has been considered) and engagement opportunities (a draft letter has been considered).

- *AMIC draft paper on MMFs and CP markets*: AMIC organised a meeting with investors and portfolio managers to discuss the functioning of MMFs in the context of the COVID-19 crisis. The meeting has led to draft a paper, which will feed into the broader ICMA upcoming piece on CP markets (led by our colleague Andy Hill).
- *ICMA letter to the European Commission on the EU Ecolabel for financial products:* While we welcomed the improvements made in this last version of the draft EU Ecolabel, we advised the Commission to reconsider the green refinancing obligation for bonds to become eligible under the rules for UCITS bond funds. Under current market practice, but also the EU GBS as proposed by the TEG, green bond issuers are not obliged to use the freed-up capital to fund another green project (as required by the current draft EU Ecolabel).
- *AMIC Primary Markets Working Group:* The AMIC Secretariat held bilateral conversations with members to identify priorities and new participants to its working group.

The Commission review of the ELTIF regulatory framework

ICMA's AMIC submitted its response to the Commission's consultation on the review of the European Long-Term Investment Funds (ELTIFs) Regulation.

Created in 2015 as a distinct label for alternative investment funds investing in real assets and private/small and medium size companies, ELTIFs have not been successful despite coming with an attractive European marketing passport for retail and professional investors. Among AMIC members who oversee assets classes that could be eligible to ELTIFs, only three members have launched ELTIFs (9 in total).

AMIC therefore welcomes this review and encourages the EU to have a bold approach given that no more than 28 ELTIFs (with around €2 billion of AUM) have been launched since 2015.

AMIC believes the need for investment in long-term assets has not decreased (on the contrary) and that ELTIFs could be instrumental for investment into small and medium-sized companies and infrastructure, including sustainable projects/assets.

AMIC considers that the slow start of ELTIFs is mainly due to (i) taxation issues and (ii) the tight operational constraints set by the Regulation itself (eg eligible assets, rules on portfolio composition and diversification, retail distribution rules).

Taxation is a multi-layered issue for ELTIFs (ie national and cross-border tax treatment). We encourage the EC to tackle this both in the context of this specific review (eg tax requirement for investment outside the EU) and also, in a complementary way, with the implementation of a common, standardised, EU-wide system for withholding tax relief at source (as proposed under the latest CMU Action Plan).

Regarding operational rules, AMIC's view is that these rules have to be adapted (clearly distinguishing retail and professional investors' needs) to facilitate the take-up of ELTIFs and make them competitive comparing to other vehicles. We believe these aspects are well-identified by the consultation and we are hopeful that they will be addressed by the legislative proposal due to be published in Q3 2021.

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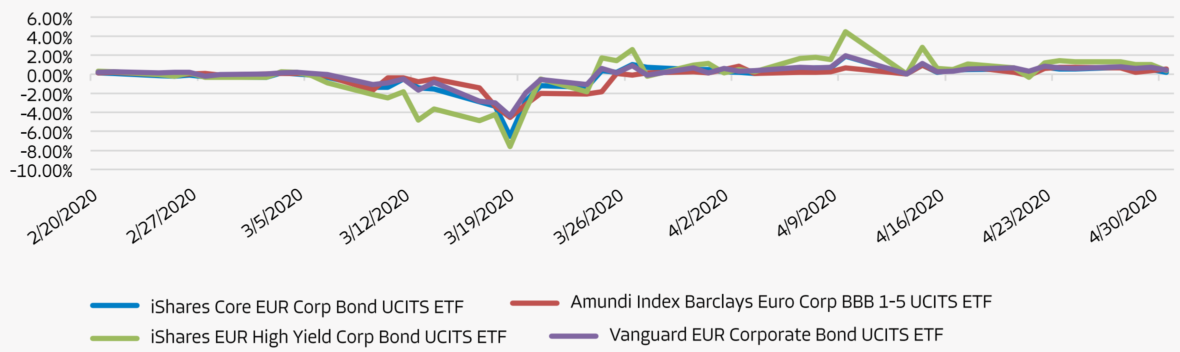
IOSCO bond ETF survey

ICMA has responded to the IOSCO survey on bond ETFs, which mainly focused on (i) the fact these funds traded at an important discount to their NAVs in the context of March 2020 market meltdown and (ii) the functioning of the ETF ecosystem during this period of stress.

The ETF discount or premium

ETFs are a type of open-ended fund which are listed and traded on exchanges. They most often track an index and trade close to their NAV over the course of the trading day. They are priced continuously throughout the day whilst the NAV is calculated once a day based on the most recently traded prices of the underlying bonds. Under normal market conditions, this results in small expected discrepancies between the ETF price and NAV, where the ETF could be trading at a discount or premium to the NAV. Authorised participants typically seize these arbitrage opportunities via the process of creation/redemption of shares of ETFs and by doing so ensure that the price of ETF remains close to its NAV. Only authorised participants can create or redeem ETF shares whilst all other parties can trade shares ETFs on the secondary market.

EUR Corporate Bond ETFs – Price vs NAV



ICMA's response involved a diverse group of members including ETF issuers, ETF investors and authorised participants/market makers, and focuses on the European Investment Grade (IG) and High Yield (HY) credit markets and related ETFs. A common diagnosis was established as follows.

ETF discount/premium: Selling pressure and volatility created uncertainty around underlying bond prices and NAVs. As bond market liquidity deteriorated, investors increasingly relied on ETFs for fixed income exposure, as evidenced by ETF trading volumes compared to underlying holdings. In many instances, it was cheaper to trade the ETF than the basket of underlying securities (where bid-ask spread widened more than on ETFs). Discounts observed did not necessarily provide arbitrage opportunities but were mainly an indication of where underlying markets were actually trading and were in that sense an important tool for market participants (price discovery). We therefore do not believe that the presence of discounts should be mitigated (on the contrary).

ETF ecosystem: Despite the difficult market conditions, ICMA members observed no change in the number of authorised partipants/market makers and that, contrary to claims that market makers and authorised participants are likely to step away in times of market stress, the ETF ecosystem functioned well.

Conclusion: The March/April 2020 episode shows instead the need to continue improving the resilience and liquidity of corporate bond markets via further electronification and appropriately calibrated regulation. In that context, ICMA very much welcomes the fact that IOSCO's Affiliate Members Consultative Committee has launched a dedicated working group to identify possible avenues to improve bond market resilience and liquidity.

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FinTech in International Capital Markets


by **Gabriel Callsen and Rowan Varrall**

ICMA Common Domain Model for repo and bonds

The development of the Common Domain Model (CDM) for repo and bonds is a long-term strategic initiative for ICMA. Following a number of workshops held last year and the establishment of a Steering Committee, ICMA is collaborating with REGnosys to extend ISDA's CDM for derivatives to repo and bonds over an 18-week period from February until June 2021.

As a reminder, the CDM is software that provides a common, digital representation of securities lifecycle events in the form of code. The aim is to generate industry-wide efficiency gains, by enhancing standardisation, reducing the need for reconciliation, and facilitating interoperability across firms and platforms.

The initial focus is to model a standard fixed-term repo, with a single ISIN as collateral, which is the most commonly transacted repo structure. We are also modelling a bond transaction in the CDM, both as the underlying component of a repo and as a standalone transaction. Lifecycle events in the initial phase comprise trade execution, clearing and settlement. It is important to note that the objective is to deliver CDM software that can be implemented in a production environment at the end of the initial phase.

ICMA's CDM Steering Committee (SteerCo) brings together member firms who are willing to contribute to this cross-industry initiative and provide guidance. These include Allen & Overy, Barclays, BNY Mellon, Eurex Clearing, Euroclear, IHS Markit, JPMorgan, LCH, Murex, Swift, Tradeweb, and UBS. ICMA member firms who would like to contribute to this initiative are welcome to get in touch.

SteerCo members have shared anonymised sample test trades and associated electronic trade messages of repo transactions from their test environments (eg in FIX or Swift). The different data points contained in the messages are used to develop the repo model and ensure the CDM is compatible with existing messaging protocols and data standards.

The inaugural meeting was held at the beginning of March followed by regular meetings scheduled until the end of Q2. In the first weeks, the main focus was to develop a conceptual repo model that is aligned with the GMRA and ERCC *Best Practice Guide in the European Repo Market* and validated by the SteerCo. In practical terms, this entails mapping out and categorising the processes and data elements in a repo such as sale and repurchase of securities, transfer of cash, initiation and termination dates, pricing (ie the repo rate) and associated data points and values. The conceptual model will then be translated into a logical model, with conditions and validation rules.

The CDM is intended to be developed as a cross-industry model, building on previous ISDA and ISLA work. ICMA is closely coordinating with ISLA which is working with REGnosys on a CDM implementation for securities lending. The purpose is to ensure consistency and benefit from synergies, where possible, between repo and securities lending. ICMA also agreed with ISDA and ISLA to formalise a Memorandum of Understanding in relation to shared governance and IP rights in the CDM.

The key to realising the benefits of the CDM is adoption and ICMA will be holding a showcase event to demonstrate implementation of the CDM and its benefits at the end of Q2 or beginning of Q3. The date of the event will be communicated in due course. Further information on the CDM for repo and bonds can be found on ICMA's CDM webpage.

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ICMA FinTech Advisory Committee

ICMA's FinTech Advisory Committee (FinAC) reconvened in its new composition on 28 January 2021. Following a call for expressions of interest to join the FinAC through ICMA's Quarterly Report, FinTech Newsletter, and Committee meetings, seven new members were invited to join the Committee. Additionally, three firms replaced their representatives on the Committee.

The aim of the Committee's expansion is to ensure regional diversity as well as consistent engagement across ICMA's various constituencies, and to complement the Committee's subject matter expertise. The full list of members can be found on ICMA's website.

Strategic priorities for 2021 are twofold: (i) promote common data standards to enable process automation along the securities lifecycle, and (ii) tokenisation of bonds and digital currency, understanding the implications for market practice and adoption challenges.

On the agenda for the 28 January meeting were presentations on Project Helvetia, a joint undertaking between the BIS Innovation Hub (BISIH) Swiss Centre, the Swiss National Bank (SNB) and SIX Digital Exchange (SDX). SNB and SDX shared insights into tokenisation, wholesale central bank digital currency (CBDC), and implications for the international debt capital markets.

The project demonstrated the feasibility both from a legal and operational perspective to settle tokenised assets with a wholesale CBDC (proof of concept 1) as well as connecting a DLT platform to existing payment systems (proof of concept 2) in a near-live set-up. However, the project should not be interpreted as an indication that the SNB will issue a wholesale CBDC going forward. The report on *Project Helvetia* as well as recordings of use case demonstrations can be found here.

Further information on the FinAC and its mission statement are available on ICMA's dedicated FinTech webpage. The latest developments on DLT and AI applications in bond markets can be accessed here.

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FinTech regulatory developments

IMF: quantum computing and the financial system: spooky action at a distance?

On 21 March 2021, the IMF published a working paper on *Quantum Computing and the Financial System: Spooky Action at a Distance?* The era of quantum computing is about to begin, with profound implications for the global economy and the financial system. Rapid development of quantum computing brings both benefits and risks. Quantum computers can revolutionise industries and fields that require significant computing power (...). But they would also crack many of the current encryption algorithms and threaten financial stability by compromising the security of mobile banking, e-commerce, FinTech, digital currencies, and Internet information exchange. While the work on quantum-safe encryption is still in progress, financial institutions should take steps now to prepare for the cryptographic transition, by assessing future and retroactive risks from quantum computers, taking an inventory of their cryptographic algorithms (especially public keys), and building cryptographic agility to improve the overall cybersecurity resilience.

BIS: paper on multi-CBDC arrangements and the future of cross-border payments

On 19 March 2021, the BIS Monetary and Economic Department published its paper on *Multi-CBDC Arrangements and the Future of Cross-Border Payments*. Cross-border payments are inefficient, and technology could play a role in making them better. One means could be through interoperating central bank digital currencies (CBDCs), forming multi-CBDC (mCBDC) arrangements. This paper explores dimensions of payment system interoperability, how they could feature in mCBDC arrangements and where potential benefits lie. These benefits are especially relevant for emerging market economies poorly served by the existing correspondent banking arrangements. Yet competing priorities and history show that these benefits will be difficult to achieve unless central banks incorporate cross-border considerations in their CBDC development from the start and coordinate internationally to avoid the mistakes of the past.

European Parliament: draft reports on proposed legislation from digital finance package

On 18 March 2021, the EU Parliament Economic and Monetary Affairs (ECON) Committee published its draft report on the EU Commission's proposed Directive on Digital Operational Resilience (DORA Directive). On 17 March 2021, the ECON Committee published its draft report on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014 and (EU) No 909/2014. On 9 March 2021, the ECON Committee published its draft report on the proposal for a regulation on a pilot regime for market infrastructures based on DLT. On 25 February 2021, the ECON Committee published its draft report on the proposal for a Regulation on Markets in Crypto-Assets and amending Directive (MiCA).

BIS FSI: big techs in finance: regulatory approaches and policy options

On 16 March 2021, the BIS Financial Stability Institute published its report on *Big Techs in Finance: Regulatory Approaches and Policy Options.* At present, financial services represent a relatively small part of big techs' overall activities, though this can change rapidly due to the unique features of their business models and they could quickly become systemically important – or "too big to fail". An effective oversight of big tech activities in finance calls for going beyond a piecemeal policy framework and considering recalibrating the mix of entity-based and activity-based rules, in favour of the former in certain policy areas. A step further would be to assess the possibility of introducing a bespoke approach for big techs encompassing a comprehensive public policy framework. In any case, there is a need for enhancing cross-sectoral and cross-border cooperative arrangements.

BIS: paper on big data and machine learning in central banking

On 4 March 2021, the BIS published its working paper on *Big Data and Machine Learning in Central Banking*. The survey contains responses from 52 central banks from all regions of the world and examines how they define and use big data, as well as which opportunities and challenges they see. The analysis highlights four main insights. First, central banks define big data in an encompassing way that includes unstructured non-traditional as well as structured data sets. Second, central banks' interest in big data and machine learning has markedly increased over recent years: around 80% of central banks discuss the topic of big data formally within their institution, up from 30% in 2015. Third, the vast majority of central banks are now conducting projects that involve big data. Institutions use big data and machine learning for economic research, in the areas of financial stability and monetary policy, as well as for suptech and regtech applications. And fourth, the advent of big data poses new challenges, among them data quality, legal aspects around privacy, algorithmic fairness and confidentiality, as well as budget constraints. See also: BIS Irving Fisher Committee report (February 2021) on *Use of Big Data Sources and Applications at Central Banks*.

ESMA: response to the European Commission targeted consultation on the ESAP

On 2 March 2021, ESMA submitted its response and an accompanying letter to the EC's targeted consultation on the establishment of a European single access point (ESAP) for financial and non-financial information publicly disclosed by companies. ESMA recommends a phased approach, which should prioritise financial and non-financial information of public companies. ESMA also believes that full benefit of the ESAP can be reaped only if information included in the single database is comparable in terms of content and rendered in a structured, machine readable format. Therefore, ESMA supports an increased use of structured data formats whenever appropriate. However, in light of the complexity of the project, ESMA encourages the EC to carefully weight the scope of the ESAP versus feasibility and operability considerations. ESMA's position is aligned with the final recommendations of the High-Level Forum on the Capital Markets Union on the ESAP and by the European Parliament Resolution on the CMU.

ECB: opinion on a proposal for a Regulation on Markets in Crypto-Assets, and amending Directive (EU) 2019/1937

On 22 February 2021, the ECB published its opinion on the Commission's proposal for a Regulation on Markets in Crypto-assets, and amending Directive (EU) 2019/1937. The ECB welcomes the initiative of the European Commission to establish a harmonised framework at European Union level for crypto-assets and related activities and services, which forms part of the digital finance package adopted by the Commission on 24 September 2020. The ECB also welcomes the aim of the proposed regulation of addressing the different levels of risk posed by each type of crypto-asset, balanced with the need to support innovation. Furthermore, the ECB believes that a Union harmonised framework is critical to prevent fragmentation within the Single Market. Having said that, there are some aspects of the proposed regulation relating to the responsibilities of the ECB, the Eurosystem and the European System of Central Banks (ESCB) concerning the conduct of monetary policy, the smooth operation of payment systems, the prudential supervision of credit institutions and financial stability where further adjustments are warranted.

BIS IFC: use of big data sources and applications at central banks

On 18 February 2021, The BIS Irving Fisher Committee published its report on *Use of Big Data Sources and Applications at Central Banks.* In 2020, the IFC organised a dedicated survey on central banks' use of and interest in big data, updating a previous one conducted five years earlier. The survey's main conclusions are the following: central banks have a comprehensive view of big data, which can comprise very different types of data sets. Central banks are increasingly using big data. The range of big data sources exploited by central banks is diverse. Big data is effectively used to support central bank policies. The survey also underscored the need for adequate IT infrastructure and human capital. Apart from IT aspects, there are many other challenges that central banks face. Moreover, a key issue is to ensure that predictions based on big data are not only accurate but also "interpretable" and representative.

ESMA, ECB and EIOPA: joint response to proposed Digital Operational Resilience Act (DORA)

On 9 February 2021, ESMA, ECB, and EIOPA published a joint response to the European Commission proposal on proposed Digital Operational Resilience Act (DORA). Since the publication of the proposal on 24 September 2020, which builds on the 2019 ESA Joint Advice, the staff of the ESAs have been working together to analyse the proposed provisions and to constructively assess their implementation and impact. The joint response states firm agreement with the main principles of DORA and fully support the aim of establishing a comprehensive framework on digital operational resilience for EU financial entities. The ESA's note potential challenges relating to governance and operation of oversight, a need for coherence between oversight recommendations and follow-up, a need for adequate resources, and need for a more proportionate DORA.

BIS FSI: paper on FinTech regulation: how to achieve a level playing field

On 2 February 2021, the BIS Financial Stability Institute published its paper on *FinTech Regulation: How to Achieve a Level Playing Field*. How regulation should evolve to encourage fair competition between traditional banks and new FinTech and big tech players is now being debated. Some advocate moving from an entity-based to an activity-based regulatory approach under the principle "same activity, same regulation". However, there is only limited scope for further harmonising the requirements for different players in specific market segments without jeopardising higher-priority policy goals. In fact, there seems to be a strong case for relying more, and not less, on entity-based rules. The regulatory framework should incorporate entity-based requirements for big techs in areas such as competition and operational resilience that would address the risks stemming from the different activities they perform. This strategy would not only help regulation to achieve its primary objectives but would also serve to mitigate competitive distortions.

BIS: results of third survey on central bank digital currency

On 27 January 2021, the BIS published the results of its third survey on central bank digital currency. Most central banks are exploring central bank digital currencies (CBDCs), and their work continues apace amid the COVID-19 pandemic. As a whole, central banks are moving into more advanced stages of CBDC engagement, progressing from conceptual research to practical experimentation. Around the globe, interest in CBDCs continues to be shaped by local circumstances. In emerging market and developing economies, where central banks report relatively stronger motivations, financial inclusion and payments efficiency objectives drive general purpose CBDC work. A testament to these motives is the launch of a first "live" CBDC in the Bahamas. This front-runner is likely to be joined by others: central banks collectively representing a fifth of the world's population are likely to issue a general purpose CBDC in the next three years. However, the majority of central banks remains unlikely to issue CBDC in the foreseeable future.

BIS: working paper on permissioned distributed ledgers and the governance of money

On 27 January 2021, the BIS published its working paper on *Permissioned Distributed Ledgers and the Governance of Money*. The paper examines the economic opportunities and challenges of DLT, focusing on the strategic elements underlying its optimal design and its efficiency compared with a centrally managed payment system. The paper finds that under specific circumstances, DLT may have economic potential in financial markets and payments due to enhanced robustness and the potentially lower cost of achieving good governance in a decentralised network of validators compared with a central intermediary. However, such improvements do not come for free; ie market design and ensuring incentives of the validators matter. In particular, maintaining a robust monetary equilibrium requires overcoming the possibility that validators exploit their powerful positions, which requires high rents and the absence of unanimity. The paper theoretically examines these forces and derive the optimal number of validators, their compensation and the optimal voting rule. The results suggest that a centralised ledger is likely to be superior, unless weaknesses in the rule of law and contract enforcement necessitate a decentralised ledger.

OECD: report on regulatory approaches to the tokenisation of assets

On 26 January 2021, the OECD published its report on *Regulatory Approaches to the Tokenisation of Assets*. Blockchain and other DLTs are set to become a fixture in financial markets in the years ahead, and may eventually lead to structural changes to market processes or even the market itself. The report is the OECD's latest contribution to help market participants and regulators understand how these technologies are used in financial markets; it aids in the assessment of implications and issues these emerging technologies present; and it puts forward a policy toolkit for asset tokenisation to inform regulatory responses. This is part of the OECD's ongoing commitment to promote international cooperation and collaboration, ensuring this technology develops in a way that supports fair and efficient financial markets and, by extension, better lives.

European Commission and ECB: joint statement on cooperation on a digital euro

On 19 January 2021, the European Commission and ECB released their joint statement on their cooperation on a digital euro. Following the conclusion of the public consultation on 12 January 2021 and a period of preparatory work, the ECB will consider whether to start a digital euro project towards mid-2021. Such a project would answer key design and technical questions and provide the ECB with the necessary tools to stand ready to issue a digital euro if such a decision is taken. The ECB and the European Commission services are jointly reviewing at technical level a broad range of policy, legal and technical questions emerging from a possible introduction of a digital euro, taking into account their respective mandates and independence provided for in the Treaties.

ECB: conclusion of consultation on a digital euro

On 13 January 2021, the ECB concluded its consultation on a digital euro, with record level of public feedback. The public consultation was launched on 12 October 2020, following the publication of the Eurosystem report on a digital euro. The ECB will publish a comprehensive analysis of the public consultation in the spring, which will serve as an important input for the ECB's Governing Council when deciding whether to launch a digital euro project. An initial analysis of raw data shows that privacy of payments ranked highest among the requested features of a potential digital euro (41% of replies), followed by security (17%) and pan-European reach (10%). A digital euro would be an electronic form of central bank money accessible to all citizens and firms – like banknotes, but in a digital form – to make their daily payments in a fast, easy and secure way.

BIS: working paper on firm-level R&D after periods of intense technological innovation

On 8 January 2021, the BIS published its working paper on *Firm-Level R&D After Periods of Intense Technological Innovation: The Role of Investor Sentiment*. The paper studies whether investor sentiment, often defined as the propensity to speculate in financial markets, can lead firms to increase R&D after a new technology becomes available. In particular, the paper is interested in whether the effect of investor sentiment is stronger for companies that are more likely to face constraints that reduce investment in test projects. The study finds that investor sentiment reinforces the effect of lagged technological innovation on company R&D. Overall, investor sentiment appears to offset, at least in part, constraints that can diminish a company's incentives to learn about a new technology.

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Updates to DLT regulatory directory

ICMA continues to monitor international and EU developments relating to regulations and legislation on the use of DLT in capital markets in its DLT Regulatory Directory. Selected examples include:

The German Cabinet passed the introduction of a new law on electronic securities ("eWpG") on 16 December 2020. This follows the draft bill in August 2020 aimed at addressing topics included within the German Government's Blockchain strategy published in September 2019. The new law allows for electronic bonds ("Schuldverschreibungen"), where an electronic securities register may be utilised instead of issuing a paper securities certificate. The law also defines electronic securities registers as both central registers (CSDs, custodians) and crypto securities registers. The initial scope of the bill is only in relation to bearer bonds ("Inhaberschuldverschreibungen"). The new law noted that it should not await an EU-wide harmonised approach for regulation on DLT and blockchain technologies given other jurisdictions have already issued national legislative initiatives.

HM Government of Gibraltar announced on 12 January 2021 the progress made by a working group on the addition of a 10th core principle to Gibraltar Financial Services Commission's current DLT Regulatory Framework. The working group is responsible for defining the appropriate market standards for exchanges operating in the digital asset space, taking into account other recently defined standards across the EU and internationally.

Luxembourg's Bill of Law 7637 ("Law of 22 January 2021") came into effect on 26 January 2021, following its publication in the Luxembourg Official Journal. The bill includes amendments of (i) law of 5 April 1993 on the financial sector, and (ii) law of 6 April 2013 on dematerialised securities, recognising the possibility of using electronic recording systems (including DLT) for issuance or conversion of dematerialised securities.

The Swiss Federal Act on the Adaptation of Federal Law to Developments in Distributed Ledger Technology ("DLT bill") entered into force on 1 February 2021, following Federal Council adoption on 11 December 2020. The DLT bill enables the introduction of ledger-based securities that are represented on a blockchain with adjustments to the Code of Obligations, the Federal Intermediated Securities Act and the Federal Act on International Private Law. The remaining provisions of the DLT bill are expected to enter into force on 1 August 2021.

The European Parliament's Economic and Monetary Affairs (ECON) Committee has published its draft reports on the proposals set out in the European Commission's Digital Finance Package. The draft report (25 February 2021) on the proposal for a regulation on markets in crypto-assets and amending Directive ("MiCA") includes the addition of giving the ECB appropriate decision-making power on the authorisation of e-money tokens. The draft report (9 March 2021) on the proposal for a regulation on a pilot regime for market infrastructures based on DLT highlights the need to clarify whether the proposal only applies to "native" security tokens and notes the described liquidity thresholds should be modified to issuance/market cap size for clarity. The ECON Committee noted in an editorial addition that the success of a token-based system will depend on how well it interacts with the traditional account-based systems.

Additional information is available from ICMA's DLT Regulatory Directory.

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FinTech Newsletter

The March FinTech Newsletter noted that ICMA recently updated the Primary Markets Technology Directory (now 39 solutions), Fintech Mapping Directory (now 176 solutions) and Repo Trading Technology Directory (now 18 solutions), following the inclusion of additional technology solutions. Also included were updates to ICMA's FinTech Regulatory Roadmap, highlighting relevant developments over the coming years.

ICMA's FinTech Newsletter brings members up to speed on our latest cross-cutting technology initiatives and provides insights into regulatory updates, consultation papers, relevant publications, recent FinTech applications in bond markets, new items, and upcoming meetings and events. To receive future editions of the newsletter, please subscribe or update your mailing preferences and select FinTech, or contact us at FinTech@icmagroup.org.

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ICMA event on tokenisation and CBDCs: impact on bond markets

On 29 March 2021, ICMA hosted a virtual event focusing on the tokenisation of financial assets and Central Bank Digital Currencies (CBDCs) with presentations from SIX Digital Exchange, BIS Innovation Hub and the Monetary Authority of Singapore. The event aligns with ICMA's increased focus on understanding the impact of tokenisation as a significant market development. The recording of the event is available on the ICMA Media Library.

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FinTech and sustainable finance library

ICMA has compiled a non-exhaustive list of recent publications on FinTech and sustainable finance, with a focus on bond markets. The library aims to highlight the current views from academic, market, and official sector studies on the potential of FinTech to further sustainable debt capital markets. Its purpose is to complement ICMA members' resources and help inform broader discussions on this topic.

According to the G20 Sustainable Finance Study Group, access to large amounts of data at high speed and low cost is the foundation of increasing opportunities for investments in sustainable assets.[1] Usable ESG data is essential to allow the buy side and the sell side to comply with new regulatory requirements (eg the Sustainable Finance Disclosure Regulation, the Taxonomy regulation, and the Benchmark Regulation in the EU). Use cases identified by the International Platform on Sustainable Finance (IPSF)[2] include enhancement of environmental risk management and investment screening; enablement of real-time tracking and verification of sustainable investment outcomes; increased credibility of green finance products; increased traceability of supply chains; and greater access to sustainable investment opportunities.

Technologies used to achieve these opportunities facilitate the gathering, processing, analysis, or distribution of data. Large quantities of data from various sources and at increasing volumes (ie Big Data) enhance both ESG and Sustainable Development Goal (SDG) analytics and reporting capabilities using Artificial Intelligence (AI) algorithms, including Natural Language Processing (NLP) and Machine Learning (ML).[3] Internet of Things (IoT) remote-sensing capabilities and satellite technology provide new, real-time data feeds, which can improve tracking and verification of sustainable projects.[4] Distributed ledger technology (DLT) is considered a key technology in fostering the growth of sustainable bond markets, for example, to develop green bond issuance architectures and tracking platforms where immutable data is shared between multiple parties.

The list of publications will be updated on an ongoing basis as the debate on the role of FinTech in sustainable bond markets evolve. The library is available on the ICMA website and includes ICMA's recent publication on FinTech and sustainable bond markets under the market studies tab.

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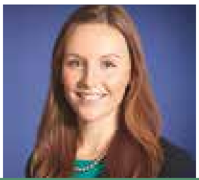
1. G20 Sustainable Finance Study Group, 2020: *Sustainable Finance Synthesis Report.*
2. International Platform on Sustainable Finance (IPSF), 2020: *IPSF Annual Report.*
3. Antoncic, Madelyn and Bekaert, Geert and Rothenberg, Richard V and Noguer, Miquel. 2020: *Sustainable Investment - Exploring the Linkage between Alpha, ESG, and SDGs.*
4. IPSF, 2020. See note above.

Transition to Risk-Free Rates

by **Katie Kelly and Charlotte Bellamy**

Feasibility of consent solicitation

In April 2021, the Sterling Risk-Free Rate Working Group (RFRWG) updated its top-level priorities, roadmap and target milestones roadmap for the final year of transition to help businesses to finish planning the steps they will need to take in the coming months. One of the key points for the bond market includes "accelerate active conversion where viable (eg consent solicitation mechanisms) to reduce legacy volume", and "complete active conversion where viable" by the end of the third quarter.

In March, the PRA and the FCA sent out a Dear CEO letter reiterating their expectation that all firms meet the RFRWG's milestones (and the targets of other working groups and relevant supervisory authorities as appropriate), stating that "we expect firms to intensify efforts to execute plans to transition the stock of legacy LIBOR-linked contracts ahead of confirmed cessation dates of panel bank LIBOR, wherever it is feasible to do so.".

It is estimated that, as at March 2020, there were approximately 490 bonds[1] linked to GBP LIBOR with a maturity date beyond the end of 2021, of which over 450 are publicly distributed. This equates to approximately 870 individual tranches, with each tranche needing to be transitioned separately, bond by bond, by way of consent solicitation (although a number of different tranches can form part of one consent solicitation exercise). So far, over 50 legacy GBP LIBOR bonds of which we are aware have been converted from GBP LIBOR to SONIA through consent solicitation, with a value of over £33 billion, in all cases to amend the interest rate or reset rate provisions of the legacy GBP LIBOR bonds directly, so that they reference an alternative rate or mid-swaps rate going forward.

The Dear CEO letter states: "All legacy sterling LIBOR contracts should, wherever possible, have been amended by end Q3 2021 to include at least a contractually robust fallback that takes effect upon an appropriate event, or, preferably, an agreed conversion to a robust alternative reference rate". But there are a number of factors which may affect the feasibility of more consent solicitations being undertaken at the pace required, and in the time given.

A consent solicitation takes at least two months from start to finish[2]. Timings of certain steps are enshrined in bond documentation and may not be circumvented, but a significant amount of time and effort is also required for discussions between the parties on the rationale for the transition, and respective expectations with respect to pricing methodologies to ensure no value transfer. It can be costly to undertake a consent solicitation, and as the cost is usually borne by issuers, they will want to ensure that, before incurring such costs, the consent solicitation will be successful. But there is no guarantee of this. A few consent solicitations have not been successful.

The consent solicitation process works well, but some operational inefficiencies were highlighted at a recent workshop held to discuss measures to help ease the process; this includes, in particular, difficulties in the location of bondholders and the requisite cascade of information and communications between the parties, which can be compounded if there are different ownership structures in place. Much of the operations process is conducted manually, which not only takes up a lot of time in an already compressed time frame, but can also lead to significant extra work for the parties involved. Technical innovation and automation may be helpful, but this is unlikely to be achieved in any meaningful way in the time given this year.

1. Floating rate notes and securitisations.
2. See the typical consent solicitation overview timeline in ICMSA Bulletin 200610/50.

There are also transaction-specific challenges to consider, such as investor engagement, and the migration of holdings in transactions to different jurisdictions, which renders their holders ineligible to vote in a consent solicitation. And for securitisations, there is a need to ensure that the various different instruments which together make up the securitisation (swaps, liquidity facilities and other credit enhancement arrangements) all transition at the same time and in line with the bond itself, and that there is no impact on the rating of the bonds issued as part of the securitisation.

All these factors could become exacerbated if large volumes of consent solicitations were to be undertaken within a relatively short time frame. But time is very much of the essence; as the Dear CEO letter states: "As the time for remaining action is short and reducing in every LIBOR currency, action needs to be front-loaded to deliver demonstrable progress against a risk-based prioritisation of contracts."

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Successor rate recommendation for bond fallbacks

Certain contractual fallbacks from GBP LIBOR to risk-free rates in bond documentation typically envisage an issuer appointing an independent adviser to select (or to advise the issuer in the selection of) a successor rate on the basis of (a) any formal recommendations made by a relevant nominating body or (b) if no such recommendations have been made, customary market practice. This is the case for fallbacks on cessation of the original rate and certain other triggers, including a prohibition or restriction on use (so called "Type 2" fallbacks) and upon an announcement of "unrepresentativeness" (so called "Type 3" fallbacks). "Type 1" fallbacks do not anticipate a successor rate as, in the event of a permanent cessation of LIBOR, the rate in effect for the last preceding interest period will be applied to every interest period for the remaining life of the bond.

A successor rate formally recommended by a relevant nominating body would remove the need for the issuer or independent adviser to exercise discretion in determining the successor rate in transactions containing the relevant fallback language.

If no successor rate were recommended by a relevant nominating body, then according to the definitions typically used, the successor rate would be one which is "customarily applied for the purposes of determining rates of interest". The absence of a recommendation in this case could lead to uncertainty and potential ambiguity over what successor rate is customarily applied for these purposes. The issuer or independent adviser would have to make this determination, which could potentially expose them to litigation risk in the event that the rate they determine is challenged.

According to definitions typically used in the context of SONIA in the bond market, the Sterling Risk-Free Working group (RFRWG) is recognised as one of a number of potential relevant nominating bodies. So the RFRWG carried out a *Consultation on Successor Rate to GBP LIBOR in Legacy Bonds Referencing GBP LIBOR.* The summary of responses to the consultation concluded that it would be helpful for the RFRWG, in its capacity as a relevant nominating body, to make a recommendation on the successor rate to GBP LIBOR for the purposes of the operation of Type 2 and Type 3 fallbacks in bond documentation, and that the recommended successor rate should be overnight SONIA, compounded in arrears.

The RFRWG, the Bank of England, and the FCA made clear in a statement published on 11 January 2021, that, in future, they anticipate that the large majority of sterling markets will be based on overnight SONIA, compounded in arrears, to provide the most robust foundation for the overall market structure, and one of the RFRWG's 2021 Top Level Priorities, as set out in the updated April 2021 updated Working Group Roadmap, has been to: "Continue to enable and promote widespread use of SONIA compounded in arrears throughout wholesale sterling markets". A formal recommendation by the RFRWG of SONIA, compounded in arrears, as a successor rate for the purposes of the operation of fallbacks in bond documentation, would certainly assist with that ambition.

Type 2 and Type 3 fallbacks also envisage an issuer appointing an independent adviser to select (or to advise the issuer in the selection of) a credit adjustment spread methodology to be applied to the successor rate. The RFRWG made a recommendation on a credit adjustment spread in September 2020 following a similar consultation process. Together with a recommendation on the successor rate, this should allow the Type 2 and Type 3 fallbacks to operate in accordance with their terms.

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Future cessation and loss of representativeness of the LIBOR benchmarks

On 5 March 2021, an important suite of statements by the FCA, Bank of England and ICE Benchmarks Administration (IBA) relating to the future cessation and loss of representativeness of all LIBOR benchmarks was issued. This included:

(i) FCA announcement on future cessation and loss of representativeness of the LIBOR benchmarks.

(ii) IBA feedback statement for the consultation on its intention to cease the publication of LIBOR settings.

(iii) Joint Bank of England and FCA statement on the announcements on the end of LIBOR.

It is important that bond market participants with outstanding LIBOR bonds that will mature beyond the end of 2021 and contain fallbacks that cater for the permanent cessation of LIBOR (with either "cessation" or "pre-cessation" triggers) review the precise drafting of those fallbacks and consider the potential impact of these announcements.

On 8 March 2021, the US Alternative Reference Rates Committee (ARRC) confirmed that in its opinion the announcements by IBA and the FCA constituted a "Benchmark Transition Event" with respect to all USD LIBOR settings pursuant to the ARRC recommendations regarding more robust fallback language for new issuances or originations of LIBOR floating rate notes, securitisations, syndicated business loans, and bilateral business loans. The ARRC also published *ARRC FAQs Regarding the Occurrence of a Benchmark Transition Event*.

In addition, ISDA issued a statement on 5 March 2021 confirming that the FCA announcement constituted an index cessation event under the IBOR Fallbacks Supplement and the ISDA 2020 IBOR Fallbacks Protocol for all 35 LIBOR settings. As a result, the fallback spread adjustment published by Bloomberg is fixed as of the date of the announcement for all LIBOR settings. ISDA also published guidance related to the announcements.

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LIBOR-related legislative developments

There have been several recent legislative developments related to the wind-down of LIBOR.

In the US, the New York State Senate & Assembly passed NY State Senate Bill S297 relating to LIBOR discontinuation. It was signed by Governor Andrew M. Cuomo on 7 April, meaning that the Bill is part of New York State law. This development was endorsed by the Alternative Reference Rates Committee. For a high-level overview of the New York, and other legislative initiatives, please see *Tough Legacy Legislative Proposals: A Snapshot*, ICMA, October 2020.

In the UK, changes to the UK Benchmarks Regulation to allow the FCA to direct IBA to publish "synthetic LIBOR" are being considered as part of the Financial Services Bill. In February, HM Treasury published a consultation on the introduction of contract continuity and safe harbour provisions to support the introduction of synthetic LIBOR. The ICMA response to the consultation supported the introduction of such provisions. In particular, ICMA raised the following key points:

- It is important to include explicit and clear continuity of contract and safe harbour provisions in primary legislation to reduce market uncertainty and the risk of litigation to the greatest extent possible.
- Both continuity of contract and safe harbour provisions are needed. Continuity of contract provisions need to provide that legacy contracts referencing panel bank LIBOR should be read as – or "deemed to be" – references to "synthetic LIBOR" as determined by the FCA. A "deeming" provision like this is particularly important in cases where LIBOR is specifically described in legacy contracts by reference to its current features.
- The continuity of contract provision needs to be accompanied by a safe harbour against the risk of litigation. This should provide that relevant parties would not be able to sue each other as a result of the changes to LIBOR.
- The continuity of contract and safe harbour provisions need to be drafted as broadly as possible to include not only supervised entities using LIBOR under the UK Benchmarks Regulation (UK BMR), but also non-supervised entities, where the exposure and risk may be greater.
- The ARRC has already proposed continuity of contract and safe harbour provisions under New York law. The

continuity of contract and safe harbour provisions under English law should be designed to align internationally with the ARRC proposal, while being adapted to the provisions of the UK BMR. This is particularly important given the large volume of legacy US dollar LIBOR contracts governed by English law.

In a House of Lords debate on 24 March 2021, a UK Government Minister noted that the Government is committed to ensuring that an appropriate framework is in place for the orderly wind-down of LIBOR and takes this matter very seriously. The Minister also highlighted that the industry had indicated, including through its responses to the consultation, that it is supportive of the approach set by the Government in the HM Treasury consultation. However, the Government will not be deciding on the appropriate next step in time for contract continuity and safe harbour provisions to be included in the Financial Services Bill and so any such provisions will need to be included in another Bill in the future if they are to be passed into UK law. This is an important point for the bond market and ICMA will continue to engage with the UK authorities on this matter on behalf of its members.

In the EU, the European Commission published on 23 March 2021 a targeted consultation on the designation of a statutory replacement rate for CHF LIBOR under the EU BMR. This appears to relate primarily to 3-month CHF LIBOR mortgages, consumer credit agreements and small business loans and so is not a core area of focus for ICMA.

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Capital Market Developments in China

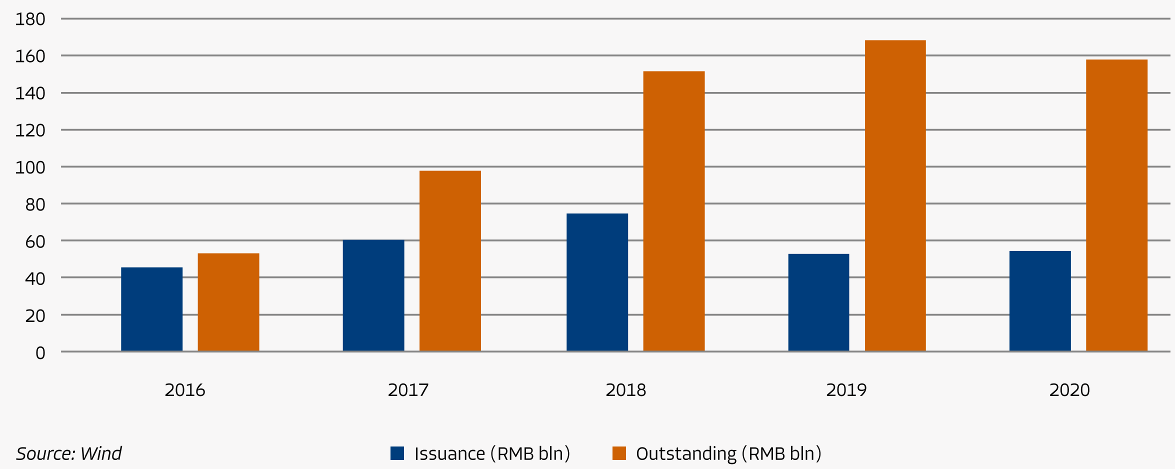
Recent developments in the panda bond market

by **Qing Ren**

Overview of panda bond market developments

A panda bond is an RMB-denominated bond issued in China's onshore market by overseas issuers. The first panda bond was issued in 2005 by international development institutions. In recent years, the panda bond market has been booming with the opening-up of China's capital market and the internationalization of RMB, developing into a market with integrity, transparency and efficiency for high quality issuers. It offers not only a new financing option for overseas issuers, but also attractive RMB-denominated investment instruments for overseas investors. As of 28, February 2021, 73 overseas issuers have completed the registration (or approval) of RMB750 billion of panda bonds in China's interbank bond market (CIBM), with a total issued amount of RMB308 billion and outstanding volume of RMB148 billion.

Panda Bond Issuance and Outstanding Volume in CIBM



Source: Wind

There are four types of panda bond issuers: (1) overseas non-financial enterprises, such as Daimler AG, BMW AG, Veolia Environment Group, Air Liquide, and Trafigura Group; (2) overseas financial institutions, such as HSBC (HK), Standard Chartered Bank, National Bank of Canada and Wing Lung Bank; (3) foreign governmental agencies, such as Republic of Poland, Hungary, Republic of Korea and Province of British Columbia (Canada); and (4) international development institutions, such as Asian Development Bank (ADB) , International Finance Corporation (IFC), New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB).

Overseas enterprise issuers of panda bonds cover a wide range of industries, including chip manufacturing, energy, environmental protection, automotive, ports, pharmaceutical, power, warehousing and logistics, transportation and consumer goods. The maturities of panda bonds are mainly 1-5 years, with a minimum of 23 days and a maximum of 10 years in practice. Perpetual bonds can also be issued to meet the long-term capital needs of issuers. Panda bond investors include onshore unincorporated products (accounting for about 45%), onshore banks (accounting for about 17%) and overseas institutions (accounting for about 18%).

Panda bond rules

Clearer rules: Robust institutional rules are in place for panda bonds, constituting a complete regulatory framework. Relevant rules of the People's Bank of China (PBOC) serve as the institutional foundation, and self-regulatory rules are issued by the National Association of Financial Market Institutional Investors (NAFMII). The rules of PBOC specify requirements for the entry qualification, registration and custody arrangement, information disclosure, accounting and auditing standards, account opening, foreign debt quota, and cross-border RMB settlement in connection with panda bond issuances. Overseas financial institutions are subject to the approval of PBOC, while the other three types of issuers are subject to registration with NAFMII and compliance with the self-regulatory rules of NAFMII.

Higher efficiency: NAFMII has been dedicated to promoting market-oriented self-regulation for China's bond market. One major milestone was the implementation of the registration system, which aims to ensure a market-oriented, professional and transparent registration process. The registration system focuses on ensuring that an issuer discloses all material information that might affect an investor's decision to invest in the bond. Issuers may apply to issue bonds on a stand-alone basis or in multiple series using a shelf-registration arrangement.

To increase the efficiency of panda bond registration, NAFMII has published two guidelines on panda bonds for the three types of issuers described above. These guidelines further clarify the definition of issuers, registration process, issuance, underwriting, information disclosure and use of proceeds. NAFMII also formulates detailed rules and forms to raise the efficiency of the registration process and to bring its information disclosure requirements in line with international standards. Under the multi-tiered and classified management system of NAFMII, overseas non-financial enterprises are divided into two tiers: the seasoned and the unseasoned. Seasoned issuers should meet certain requirements, and can enjoy more flexibility and convenience, including DFI registration (one set of registration documents for universal registration) and a shorter feedback time. They may mandate a syndicate of leading underwriters for public offering, depending on the issuance volume, and may disclose information in line with international standards.

Larger group of investors: To further advance foreign investment, major steps have been taken in harmonizing regulatory rules, removing quota restrictions, and facilitating settlement over the past few years. In September, 2020, regulatory authorities jointly released an announcement which established an overall framework for overseas institutional investors to invest in China.

RMB bonds held by foreign investors in CIBM rose to record high of RMB3.25 trillion at the 2020 year-end (3.2% of total), reflecting that, in the recent low-growth period, world China's bond market provided stable and attractive yield for international investors and brought confidence and opportunities for investors. Panda bonds are also favoured by foreign investors, who have in aggregate subscribed more than 80% of total value in some issuances.

Outlook for the panda bond market

As the second largest market in the world, China's bond market provides an attractive RMB financing channel, a rich variety of bonds and a large group of investors, and is expected to become a major option for overseas institutions to raise funds globally.

With the global popularity of the concepts of green, social responsibility and sustainable development, China's bond market has also been actively developing green, social, and sustainability (GSS) bonds, with a commitment to assisting all types of international issuers to achieve their own development goals in GSS. Apart from that, the panda bond market encourages product innovation of all kinds and it gives the green light to issuance of perpetual bonds, M&A bonds and ABS by overseas institutions in the China's market.

China's economy is showing signs of a robust recovery post-pandemic, which holds the key to the development and opening up of its financial markets. The policies that China has adopted to step up the coordination of domestic and international financial markets through more profound reforms and higher-level opening-up have been reaffirmed in 2021 and will boost the momentum of the panda bond market.

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Yulan bond: an innovation for Chinese issuance in the international market

by **Shanghai Clearing House**

On 8 December 2020, Shanghai Clearing House and Euroclear Bank announced the joint introduction of Yulan bonds to serve domestic institutions issuing bonds in the international market. On 4 February 2021, Shanghai Clearing House successfully supported the issuance and registration of the first Yulan bond, marking the official launch of its international market bond issuance business, based on cross-border cooperation between financial infrastructures.

Overseas bonds issued by Chinese institutions

With the development of global economic integration and the deepening of China's bond market opening up, the volume of overseas bonds issued by Chinese institutions has reached record highs in recent years. In 2020, US dollar bonds issued overseas by Chinese institutions reached $213 billion, with an average annual growth rate of 14% in the past three years. Issuers have included financial institutions, non-financial enterprises, and local government financing vehicles. Overseas bonds issued by Chinese institutions usually offer higher yields in the international market than those issued by comparable overseas institutions, which, to some extent, can satisfy the investment allocation and diversification needs of international investors.

Chinese institutions can issue bonds in the international market (hereinafter referred to as Chinese Eurobonds) using two approaches: direct issuance and indirect issuance[1]. For the approval framework, the National Development and Reform Commission (NDRC) Circular on Promoting the Administrative Reform of the Record-filing and Registration System for the Issuance of Foreign Debts by Enterprises (NDFC Foreign Investment Circular [2015]2044) needs to be followed. For issuance regulations, the applicable Reg S, Rule 144A or SEC registration[2] should be applied. And the issuance is governed by laws outside China. The lead underwriters, rating agencies, registration institutions, and custody and settlement institutions are participants in the international market.

Yulan bonds operational framework

In response to the market demand, Shanghai Clearing House and Euroclear Bank jointly launched Yulan bonds, providing a new option for domestic entities to issue bonds in the international market through cross-border cooperation of domestic and foreign infrastructures.

On the basis of the existing issuance approval framework, applicable laws and issuance regulations governing Chinese Eurobonds, the Yulan bond innovatively introduces Shanghai Clearing House as the registration

1. Indirect issuance denotes a keepwell agreement or cross-border guarantee to an offshore issuance entity, or red chip structure in which issuers are incorporated outside China but they are controlled by Chinese owners with the majority of its revenue or assets derived from China as well.

2. Reg S investors excludes US investors. Rule 144A excludes US non-institutional investors. SEC registration may include US institutional and individual investors.

institution to directly serve the issuers and provide dematerialized bond registration service. For bond custody and settlement, Euroclear Bank works as a sub-custodian to help overseas investors with subscription in the primary market and transaction settlement in the secondary market, without changing the trading habits of overseas investors.

The Yulan bond introduces a number of new features:

(i) Broadening the financing channels for the real economy

Dematerialized bond registration. Under the Yulan bond operational framework, Shanghai Clearing House undertakes the registration functions, which are usually undertaken by the overseas commercial institutions under the traditional Chinese Eurobonds framework. To improve efficiency, the new business also adopts a dematerialized electronic registration approach instead of traditional physical registration.

Inquiry of bondholders' information. The Yulan bond innovatively introduces a see-through information reporting mechanism to allow issuers to make inquiries regarding information about bondholders, further facilitating the implementation of corporate actions including investor meetings and improving the efficiency of subsequent bond issuance roadshows and promotions for the issuers. This feature is the first of its kind in the world.

Exemption of relevant fees. For Yulan bonds, the registration fee and interest payment service fee are exempted with the aim to effectively assist issuers.

(ii) Supporting the two-way opening of China's bond market

Construction of a multi-tiered service system. The Yulan bond helps Chinese lead managers and rating agencies to "go global" and helps intermediaries to expand their services in the international bond market.

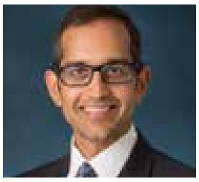
Interconnection of financial markets. With deepening cooperation between domestic and international financial infrastructures, the integration of the domestic bond market with the international bond market in terms of regulatory policies, rules, standards, and intermediary services will be accelerated, providing valuable experience to facilitate the two-way opening of China's bond market.

Introduction of the first issuance of a Yulan bond

On 4 February 2021, Shanghai Clearing House supported Bank of China to successfully complete the issuance and registration of the first Yulan bond. The bond achieved 2.4 times oversubscription and was distributed to around 50 investors including sovereign institutions, banks, asset management companies and funds from Asia, Europe, the Middle East and other regions.

As an important financial infrastructure in China's bond market, Shanghai Clearing House will continue to optimize the Yulan bond business mechanism based on market demand, and study more flexible approaches for issuance and settlement to meet the diversified needs of different categories of issuers. At the same time, Shanghai Clearing House will work with more overseas infrastructures and explore a variety of cross-border cooperation approaches to expand participation channels for international investors.

A Capital market regulatory developments in China


Unified disclosure requirements for corporate bonds

On 28 December 2020, PBOC, NDRC and CSRC jointly published *the Administrative Measures for Information Disclosure of Corporate Credit Bonds* (in Chinese) (press release in English). The new rules harmonise the different disclosure requirements imposed on the various types of corporate credit bonds in China, including corporate bonds, enterprise bonds and debt financing instruments of non-financial enterprises (DFIs), and set consistent requirements on the key elements, contents, timing and frequency of disclosure.

Panda bond rules

On 28 December 2020, NAFMII updated the *Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises (2020)* and published the *Guidelines on Bond Issuance by Foreign Governmental Agency and International Development Institution Issuers (for Trial Implementation)*, providing further clarity for foreign corporate and SSA issuers to tap the market.

Revised rules for credit ratings and corporate bonds

On 26 February 2021, CSRC finalised the amendments to the *Administrative Rules of Credit Rating Business in the Securities Markets* and the *Administrative Rules of Issuance and Trading of Corporate Bonds*. Some of the key amendments are: adopting a regime based on registration rather than administrative approval, to be compatible with the new Securities Law that came into effect on 1 March 2020; stipulating the appointment of bond trustees; emphasizing the accountability of issuers, the controlling shareholders, and financial intermediaries, including lead underwriters and service providers; adopting a more market-based approach for credit ratings; removing the requirement of mandatory credit rating for issuing public corporate bonds; etc. On 26 March 2021, NAFMII also announced in a notice that credit ratings will not be mandatory for issuing DFIs.

Rules for creditor committee

On 15 January 2021, CBIRC, NDRC, PBOC and CSRC jointly published the *Notice on Working Procedures of Financial Institution Creditor Committee* (in Chinese). It stipulates that a creditor committee for a distressed non-financial corporate can be established by more than 3 bond or loan creditors and the bond trustee.

The Greater Bay Area Wealth Management Connect

On 5 February 2021, the regulators of China, Hong Kong and Macao (PBOC, CBIRC, CSRC, SAFE, HKMA, SFC, and Monetary Authority of Macao) signed a MoU on the Launch of the Cross-Boundary Wealth Management Connect Pilot Scheme in the Greater Bay Area, agreeing on the principles of supervisory cooperation under Wealth Management Connect. The scheme reportedly can be implemented as soon as the travel restrictions are lifted.

Limit for cross-border financing

On 7 January 2021, PBOC and SAFE decided to lower the macro-prudential adjustment parameter for cross-border financing of companies to 1 from 1.25. The parameter is a multiplier used to calculate the upper limit of outstanding cross-border financing for companies. This followed the authorities' move on 11 December 2020 to lower the parameter for financial institutions, to limit the ability of Chinese firms to raise capital by bonds and loans in the offshore markets.

Establishment of the Beijing Financial Court

On 16 March 2021, the Supreme People's Court of China published the *Provisions on the Jurisdiction over Cases of the Beijing Financial Court*, which was newly established in the same week. Among other measures, all lawsuits against overseas entities that have allegedly damaged the legitimate interests of Chinese domestic investors will be centralised and heard at the new court.

Carbon neutral bonds

NAFMII started piloting carbon neutral bonds in the China Interbank Bond Market in early February 2021 and published a notice (in Chinese) to clarify the requirements for carbon neutral bonds on 18 March 2021. Carbon neutral bonds, as a subtype of Green DFIs, should comply with the 4 pillars for green bonds and use the proceeds exclusively in green projects that contribute to carbon emission reduction. Issuer should disclose in the prospectus and verification report (if any) the expected reduction in CO2 and pollutants, as well as the calculation methodologies and references. Issuers of carbon neutral bonds are only encouraged to disclose their issuer-level transition plans. This is different from the approach of the Climate Transition Finance Handbook.

G20 Sustainable Finance Study Group

The G20 Finance Ministers and Central Bank Governors meeting on 26 February decided to re-establish the G20 Sustainable Finance Study Group. PBOC and the US Treasury will co-chair the relaunched Study Group.

m-CBDC Bridge

On 23 February, the Digital Currency Institute of PBOC and the Central Bank of the United Arab Emirates joined the Multiple CBDC (m-CBDC) Bridge, a cross-border payments project which is run in partnership with the BIS Innovation Hub, HKMA and the Bank of Thailand. The project will explore the capabilities of DLT by developing a proof-of-concept prototype to support real-time cross-border foreign exchange payment-versus-payment transactions in multiple jurisdictions, operating 24/7.

Glossary of Chinese bonds

Dim sum bonds: issued in the international (offshore) market and denominated in RMB. Offshore RMB currency is often referred to as CNH.

Kung fu bonds: a term sometimes used for USD-denominated bonds issued by Chinese corporates in the international market.

Panda bonds: issued in the Chinese onshore bond markets (the interbank and exchange-trade bond markets) by foreign institutions registered outside the People's Republic of China (including by those registered in Hong Kong, Macau, and Taiwan). Bonds issued onshore by offshore affiliates of Chinese entities are also referred to as panda bonds. Panda bonds are usually denominated in RMB but may be issued in other currencies such as Special Drawing Rights of the International Monetary Fund (SDR).

Yulan bonds: issued by domestic Chinese institutions in the international market through cross-border cooperation between domestic and foreign infrastructures (Shanghai Clearing House and Euroclear). Yulan bonds can be denominated in USD or EUR.

Contact: Yanqing Jia
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ICMA Capital Market Research

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

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

ICMA ERCC briefing note: The European Repo Market at 2020 Year-End
Published: 13 January 2021
Author: Andy Hill, ICMA

ICMA ETC paper: Axe Distribution Best Practice Standards
Published: 3 November 2020
Author: Elizabeth Callaghan, ICMA

Transparency and Liquidity in the European Bond Markets
Published: 29 September 2020
Author: Andy Hill, ICMA

ICMA SMPC market report: The European Investment Grade Corporate Bond Secondary Market & the COVID-19 Crisis
Published: 28 May 2020
Author: Andy Hill, ICMA

Sustainable Finance: High-level Definitions
Published: 11 May 2020
Author: Simone Utermarck, ICMA

EU Consolidated Tape for Bond Markets: Final Report for the European Commission
Published: 29 April 2020
Author: Elizabeth Callaghan, ICMA

ICMA ERCC market report: The European Repo Market and the COVID-19 crisis
Published: 21 April 2020
Author: Andy Hill, ICMA

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 International Bond Market
Published: 24 February 2020
Author: Charlotte Bellamy and Katie Kelly, ICMA

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

Managing Fund Liquidity Risk in Europe: Recent Regulatory Enhancements & 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

ICMA Media Library

Through the ICMA Media Library you can access recordings of all our events and also listen to our popular ICMA podcast series.

We feature current issues and themes relating to capital markets, including sustainable finance, the transition to risk-free rates, repo & collateral and the effect of COVID-19 on markets. We also have 'in conversation' pieces with influential industry figures and look at some broader themes relating to career development and inclusion.

Recent webinars

European Repo & Collateral Council AGM: A mix of ICMA experts and market practitioners discuss the latest repo market trends, the increasing role of technology, as well as relevant regulatory initiatives that are impacting repo and collateral

Tokenisation and Central Bank Digital Currency – the impact on bond markets: This ICMA virtual event focuses on the tokenisation of financial assets and Central Bank Digital Currencies (CBDCs) with presentations from SIX Digital Exchange, BIS Innovation Hub and the Monetary Authority of Singapore.

Sustainability-Linked Bonds: update on new guidance and market practice: The Sustainability-Linked Bond Principles were published in June 2020. This webinar discussed the recently launched new Q&As for sustainability-linked bonds, which are designed to promote understanding of this important new financial instrument.

ICMA Future Leaders: Professional life in and after the COVID-19 pandemic, from the perspective of the capital markets lawyer: A panel of experienced capital markets lawyers, both private practice and in house, to give their insights on how the next generation will need to adapt their approach to career progression and networking for at least the near to medium term.

ICMA & Frontclear Africa webinar series: Accelerating Uganda's repo market development: Uganda's repo market has been in rapid development across the past few years, speakers from the market detail these developments and the expectations for the near future, all within the context of the COVID-19 pandemic.

ICMA Report: The Asian International Bond Markets: ICMA, with the support of the Hong Kong Monetary Authority (HKMA), has published a new report - The Asian International Bond Markets: Development and Trends, exploring the evolution of the international bond market in Asia over the last 15 years and the factors contributing to the current picture of overall regional market activity

Look out for this new ICMA podcast series from the ICMA Future Leaders and Humans in Finance, who will be talking to industry personalities and others about a whole range of issues which concern anyone starting out in a career in capital markets, including: Generation wars; Can you find success and happiness in banking? Rebalancing excess masculinity in the financial industry; and Humanising the office.

Available soon via the ICMA podcast channel and all major podcast providers.

Diary

events@icmagroup.org

Register now for these virtual events.

20 APRIL 2021 **Virtual**	**ICMA and Ashurst Joint Virtual Event: Net Zero and the Asia-Pacific Capital Markets**: What does net zero carbon actually mean? What are the essential characteristics of a credible net zero national policy or corporate strategy, and where can these go wrong? A panel of climate and industry experts will address these and other questions facing the regional markets at this joint virtual event on Net Zero, featuring keynotes by Mr. Takashi Omote, Deputy Director-General for Environment, Energy and Innovation at Japan's Ministry of Economy, Trade and Industry and Dr. Jun Ma, Chairman, Green Finance Committee of the China Society of Finance and Banking.
27 APRIL 2021 **Virtual**	**Green building Taxonomy takeaways: Reprieve for green bonds?**: ICMA is pleased to partner with vdp and The Covered Bond Report for this virtual event, where a panel of experts will explore the buildings criteria of the EU Taxonomy, addressing questions such as: Have the technical screening criteria for buildings been set at an appropriate level to meet the overarching climate goals or are they overambitious? What will their impact on green bond issuance be? & Will there be a viable market for issuance that does not meet the EU Green Bond Standard?
6 MAY 2021 **Virtual**	**ICMA & Frontclear Africa webinar series: Scaling-up Nigeria's repo market development**: Following webinars on the repo markets of Ghana and Uganda, the next event in the ICMA & Frontclear series looks at Nigeria's repo market. Market experts will discuss the latest developments and the expectations of opening up the Nigerian repo market to more investors – local and globally – to build a deeper local market, while also addressing the impact of the COVID-19 pandemic.
SAVE THE DATE! 24 JUNE 2021 **Virtual**	**ICMA Annual Conference:** In light of the ongoing pandemic and in order to protect the well-being of members and staff, ICMA's Annual General Meeting this year will once again follow a written format, whereby members will not be able to participate in the AGM in person, but rather will have to exercise their rights exclusively in writing prior to the AGM. The AGM will take place on 24 June 2021, 09:00 (CEST), at ICMA's domicile in Zurich, which will be attended only by the Chief Executive, the Company Secretary and an appointed Teller, who will review the written responses from the membership with regard to the items on the agenda. The AGM will be followed by a virtual conference, where ICMA members and interested non-members from the international financial markets will be able to hear more about ICMA's major workstreams and ask questions. Full details of the event will be available in May. Contact: **membership@icmagroup.org**

ICMA Education

New Course – Primary Market Financial Technology

To reflect the growing influence of fintech on different processes within DCM, ICMA Education is excited to be launching a new course in June entitled Primary Market Financial Technology, a course designed to provide DCM staff with a comprehensive yet accessible review of the role of technology in this space.

Spread over six sessions, the course is designed to review a number of key themes, such as exploring what technology currently exists within the primary markets, how technology is developed and regulated, the importance of the user experience and many more. Specific topics include Digital Bookbuilding, Data Management & Security, Artificial Intelligence & Machine Learning and Digital Assets.

Coordinated by Duncan Philips and featuring a series of external speakers from across the field including experts from the ICMA Market Practice and Regulatory Policy team, the course has been designed for those who have a capital markets background and want to expand their knowledge of the technology sector.

While the course will reference specific companies and include case studies to emphasise a specific point, the curriculum will remain both neutral and factual in its observations, with emphasis on key concepts and themes.

For a comprehensive syllabus and registration details, check out the course webpage.

Contact: education@icmagroup.org

Check ICMA Education for the full schedule of courses in 2021
Register now for one of these livestreamed courses

Fixed Income Options

Livestreamed, 19-27 April 2021

Designed to cover a wide variety of topics to address different types of attendees, this course focuses on the main concepts of optionality within fixed income including how interest rate options are valued, how to apply the main measures of option risk management and how options could be used to hedge fixed income exposures. Some basic understanding of option terminology is assumed.

Introduction to Green, Social and Sustainability (GSS) Bonds

Livestreamed, 29-30 April 2021

This course introduces the mechanics of green, social and sustainability bonds, from the big picture policy context to the underlying drivers of market development, main product features and regulation. The course is illustrated with up-to-date examples from the market, getting you ready to apply the knowledge at work.

Primary Market Certificate (PMC)

Livestreamed, 5-26 May 2021

Considered by industry participants as the benchmark course in primary markets, the PMC covers the entire life cycle of bond issuance, examining both the theoretical principles underpinning the markets and the instruments and financing techniques that are available, while placing emphasis on interpreting and using that knowledge in practical case studies.

Financial Markets Foundation Qualification (FMFQ)

Livestreamed, 10-18 May 2021

An introductory course for those who are new to financial markets, the FMFQ explores the main asset classes namely equities, bonds, derivatives and FX, as well as the characteristics of each, the market participants and how these different markets interact.

Corporate Actions: An Introduction

Livestreamed, 3-11 June 2021

Designed as an introduction to corporate actions, this course covers the fundamentals of this topic.

Securities Lending & Borrowing: Operational Challenges

Livestreamed, 3-11 June 2021

This course identifies the main participants in the SLB trade and considers their motivations in the context of the current market climate.

Inflation-Linked Bonds and Derivatives

Livestreamed, 7-15 June 2021

Covering the fundamentals of inflation and the key aspects of inflation-links bonds and other structures such as swaps and options.

Primary Market Financial Technology

Livestreamed, 16-25 June 2021

This course is designed to provide participants with an accessible review of the role of technology in the primary markets, both now and in the future.

Understanding the GMRA

Livestreamed, 16-24 June 2021

This course analyses how repo and securities lending transactions operate within the framework provided by the Global Master Repurchase Agreement (GMRA).

Fixed Income Portfolio Management & Construction

Livestreamed, 5-14 July 2021

This certified course introduces the tools and techniques for the management of fixed income portfolios, applying them to analysing portfolios of real bonds and then to construction and management of portfolios.

ICMA Scholarship Programme – first students from Sub-Saharan Africa

ICMA is delighted to welcome the first cohort of students from Sub-Saharan Africa to its new scholarship programme. The 25 successful individuals from Ghana, Kenya, Nigeria, Rwanda, Tanzania, Uganda, Zambia and Zimbabwe were selected from an extensive number of applications received, based on their academic attainments and a personal statement on their suitability for their chosen course of study. The ICMA scholarship programme is part of ICMA's mission to raise standards and support inclusion in financial markets.

The new students will study online for an ICMA Diploma in either debt capital markets, securities & derivatives or financial market operations, starting next month.

We wish them all the best in their endeavours!

1. Irene Andeso Aki, Kenya **2. Ana Asane,** Ghana **3. Mawuko Cudjoe Avorgbedor,** Ghana **4. Idah Chungu,** Zambia **5. Mugabi Kevin Cole,** Uganda **6. Ann Wangoi Congo,** Kenya **7. Gasana Edna Darlene,** Rwanda **8. Joseph Ndegwa Gihigi,** Kenya **9. Francis Iwuji,** Nigeria **10. Roxanna Kevine Izamurera,** Rwanda **11. Hosea Mutwiru Kanyanga,** Kenya **12. Patricia Katto,** Uganda **13. Nahashion Kipkiruin,** Kenya **14. Gloria Bayiga Kisakye,** Uganda **15. Dastan Peter Massawe,** Tanzania **16. Content Munjeri,** Zimbabwe **17. Guy Cesar Ngabo,** Rwanda **18. Masauso Ngulube,** Zambia **19. Perez Ntiamoah,** Ghana **20. Diana Odero,** Kenya **21. Tolulope Oshodi-Izebhigie,** Nigeria **22. Malcome Innocent Siangazi,** Zambi **23. Norman Takudzwa Tsungo,** Zimbabwe **24. Eunice Uwamahoro,** Rwanda **25. Gladwel Wanjau,** Kenya

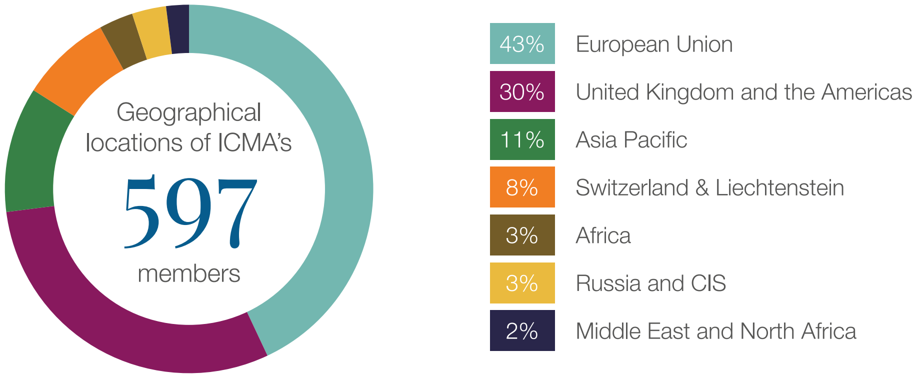
Glossary

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AI	Artificial Intelligence
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
AMI-SeCo	Advisory Group on Market Infrastructure for Securities and Collateral
APA	Approved publication arrangements
APP	ECB Asset Purchase Programme
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BMR	EU Benchmarks Regulation
bp	Basis points
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBDC	Central bank digital currency
CBIC	ICMA Covered Bond Investor Council
CBIRC	China Banking and Insurance Regulatory Commission
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDM'	Common Domain Model
CDS	Credit default swap
CFTC	US Commodity Futures Trading Commission
CGFS	Committee on the Global Financial System
CIF	ICMA Corporate Issuer Forum
CMU	Capital Markets Union
CoCo	Contingent convertible
COP21	Paris Climate Conference
COREPER	Committee of Permanent Representatives (in the EU)
CPC	ICMA Commercial Paper Committee
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payments and Settlement Systems
CRA	Credit rating agency
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
CSPP	Corporate Sector Purchase Programme
CSRC	China Securities Regulatory Commission
DCM	Debt Capital Markets
DLT	Distributed ledger technology
DMO	Debt Management Office
DVP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council (of the EU)
ECON	Economic and Monetary Affairs Committee of the European Parliament
ECP	Euro Commercial Paper
EDDI	European Distribution of Debt Instruments
EDGAR	US Electronic Data Gathering, Analysis and Retrieval
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFC	Economic and Financial Committee (of the EU)
EFTA	European Free Trade Area
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMDE	Emerging market and developing economies
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
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
HKMA	Hong Kong Monetary Authority
HMRC	HM Revenue and Customs
HMT	HM Treasury
HQLA	High Quality Liquid Assets
HY	High yield
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositories
IFRS	International Financial Reporting Standards
IG	Investment grade
IIF	Institute of International Finance
IMMFA	International Money Market Funds Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
ITS	Implementing Technical Standards
KID	Key information document
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio (or Requirement)
L&DC	ICMA Legal & Documentation Committee
LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
LTRO	Longer-Term Refinancing Operation
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II/R	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
MMF	Money market fund
MOU	Memorandum of Understanding
MREL	Minimum requirement for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NAFMII	National Association of Financial Market Institutional Investors
NAV	Net asset value
NCA	National competent authority
NCB	National central bank
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio (or Requirement)
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
OTC	Over-the-counter
OTF	Organised Trading Facility
PBOC	People's Bank of China
PCS	Prime Collateralised Securities
PEPP	Pandemic Emergency Purchase Programme
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSF	EU Platform on Sustainable Finance
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
RMO	Recognised Market Operator (in Singapore)
RPC	ICMA Regulatory Policy Committee
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted asset
SAFE	State Administration of Foreign Exchange
SBBS	Sovereign bond-backed securities
SEC	US Securities and Exchange Commission
SFC	Securities and Futures Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SARON	Swiss Average Rate Overnight
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
STS	Simple, transparent and standardised
T+2	Trade date plus two business days
T2S	TARGET2-Securities
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TONA	Tokyo Overnight Average rate
TR	Trade repository
UKLA	UK Listing Authority
VNAV	Variable net asset value

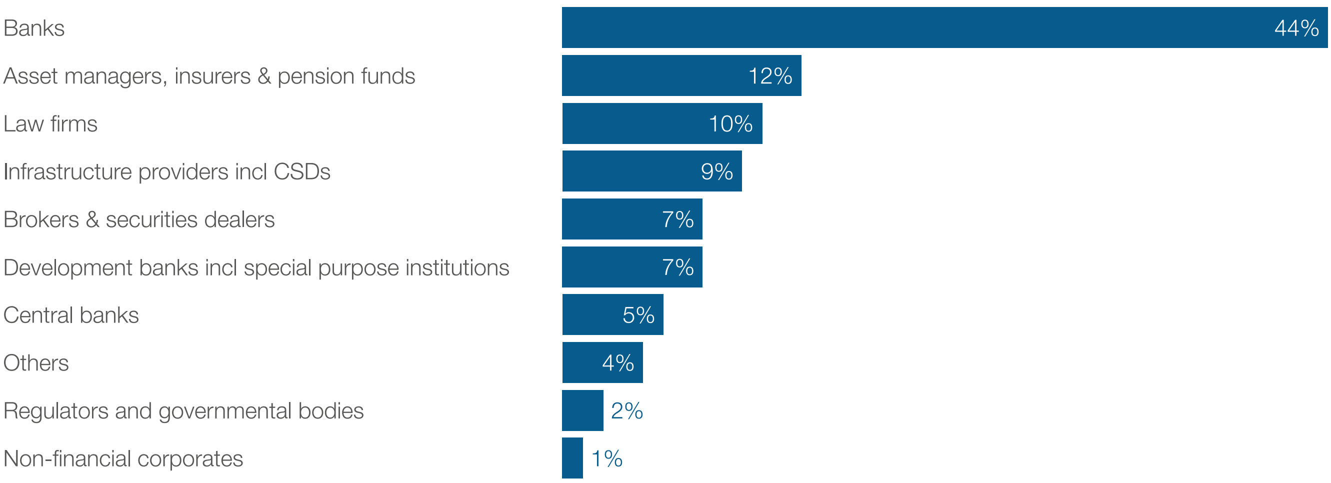
ICMA membership information

ICMA is a not-for-profit trade association, headquartered in Zurich with offices in London, Paris and Hong Kong, committed to serving the needs of its wide range of member firms active in the international debt capital markets. Its membership spans more than 60 countries.

Among its members are private and official sector issuers, banks, broker-dealers, asset managers, pension funds, insurance companies, market infrastructure providers, central banks & law firms.



Types of members



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