Secondary Market Practices Committee

Meeting of the ICMA SMPC, December 1st, 2020

The meeting was held virtually, hosted by ICMA, and chaired by David Camara (Goldman Sachs)

Attendees (accepted)[1]

Kevin Rauseo	AGR	
Yannig Loyer	AXA IM	
Aalok Gupta	Bank of America	
Matthew Coupe	Barclays	
Arran Rowsell	BGC Partners	
Daniel Mayston	Blackrock	
Vasililki Pachatouridi	Blackrock	
Laura Coote	BNY Mellon	
Ashlin Kohler	Citi	
Fares Hajjar	Crédit Agricole	
Marco Ferrari	EFG Bank	
Robert Koller	EPPF	
David Camara	Goldman Sachs	(Co-chair)
Eric Heleine	Groupama AM	
Stephane Malrait	ING	
Gherardo Lenti	Intesa San Paolo	
Umberto Menconi	Intesa San Paolo	
BarbaraZittucro	Intesa San Paolo	
Lida Sun	Jefferies	
Tom Young	Jefferies	
Barnaby Hodgkins	JP Morgan	
Antony Baldwin	LCH Limited	
Angela Lobo	Morgan Stanley	
Hakan Guney	Nomura	
Tim Cole	RBC CM	
Janet Wilkinson	RBC CM	
Vincent Grandjean	Santander	
Ben Travers	Santander	
Paula Alves	Société Générale	
Marc Billy	Société Générale	
Sylvie Bonduelle	Société Générale	
Pauline Meric de Bellefon	Société Générale	
Danielle Sibony	Société Générale	
Johan Wijkstrom	Swedbank	

[1] Not all accepted participants necessarily joined all or part of the meeting

Neil Treloar	Tradition	
Carsten Richter	UniCredit	
Christoph Hock	Union Investment	
Godfried De Vidts	ICMA Special Advisor	
Andy Hill	ICMA	(Secretary)
Paul Richards	ICMA	
Martin Scheck	ICMA	
Rowan Varrall	ICMA	

Minutes

1. Review of ICMA Secondary Market engagement and deliverables 2020

Andy Hill, on behalf of the Secondary Market secretariat, provided a brief summary of ICMA's secondary market work in 2020, including deliverables, member and regulatory engagement, also covering the MWG, ETC, CSDR-SD WG, and the FinTech workstream.

Members concurred that it had been a very productive year for ICMA's Secondary Market work, particularly in responding to the new demands resulting from the pandemic. It was commented that 2021 was likely to be very similar, with more consultations, and a need to establish positioning on a number of important topics, particularly those related to MiFID II/R.

It was suggested that of all asset classes, Fixed Income is probably seeing the most significant changes in market structure, as well as suffering from liquidity constraints during the Covid-19 market turmoil. Therefore it is important to have an organization such as ICMA delivering high quality papers and market intelligence on the relevant issues.

It was also suggested that as well as engaging members through its various Secondary Market fora, there may also be value in more bilateral engagement, particularly as the risk to members is that some important element of regulation or market development could be missed if they are not plugged into the SMPC and related workstreams.

It was added that as well as providing leadership in terms of market regulation, by producing position papers and responding to consultations, ICMA also continues to add value through ad hoc papers and explanatory briefing notes.

2. Secondary Market Priorities for 2021

MiFID

It was agreed that 'MiFID Refit' or 'MiFID 3' would be an important priority in 2021. ICMA was recognized as being in a unique position in that it can provide a '360-degree' perspective of the regulatory impacts, bringing together all the relevant stakeholders: something to which its various responses in 2020 attest. However, it was felt that in 2021 this advocacy work may need to become more data driven and more pragmatic. The challenge is that while the theme of the advocacy has been consistent, highlighting the fact that bond markets are more complex than equities, and that excess transparency can be damaging, we have probably reached a point where we need to think a little more 'outside of the box' and look to provide data and analysis to support our arguments. It was noted that in recent months there had been more evidence of this, with associations working together to obtain ESMA data to help evidence arguments. But it was felt that this is somewhere where ICMA should look to take more initiative, not only in reaching out to ESMA, but also other data sources, such as the various APAs and vendors. This is likely to be critical in our engagement with regulators, particularly if we are trying to persuade them on issues such as liquidity or transparency calibrations.

Others agreed with this suggestion, pointing out that without evidencing its arguments it appears as if the industry is 'dragging its heels' on regulation. It was added that this does create a challenge and that we, as an industry, need to work together to provide this data But, going forward it will be important that we can source, aggregate, and analyze data, and provide our recommendations through a professional lens, engaging in the same way as we do in our trading: based on a quantitative assessment and understanding of the market.

It was added that it would also be important not to lose sight of developments in market structure, some of which seem to be mirroring those experienced previously in the equity market, and that do not necessarily provide the best outcome for investors. Therefore, it is critical that we maintain the core principles of what we are trying to achieve and to ensure that bond markets remain efficient and that this is reflected in how the regulation is drafted.

The question was raised as to how ICMA should go about sourcing data, noting that it did have venues, APAs, and data providers as members, as well as the various liquidity providers and takers, but was not in itself a repository for market data. It was suggested that APAs and trading venues already have a great deal of data, that this is already anonymized, and that they have a legal requirement to make this available for academic studies.

On that point, it was added that the challenge for ICMA is not only accessing the data, but more importantly how it is managed. It was suggested that ICMA could use a 'data savvy' resource, possibly shared with other associations. Another consideration could be a 'data team' under the Secondary Market umbrella, with member firms' experts providing guidance and technical input on processing this data. It was noted that something similar happened in the case of the original MiFID II industry advocacy, which was helpful in supporting recommendations such as those on liquidity thresholds. Furthermore, as well as using public data, as suggested, we could explore sourcing regulatory data, noting that ESMA recently published market data collated for 2019. A combination of these data sources and something along the lines of a 'data team' would help to take ICMA's advocacy to a new level.

It was added that the reason why there had not been a focus on providing data and analysis in the past twelve months was because members were too stretched with the various covid-related issues as well as multiple consultation responses, so there simply was not the time or bandwidth for firms to undertake the work required. This was possibly somewhere where ICMA could help, if it had the budget to provide a resource who could work with, and chase, the members and data providers to contribute data and analysis.

It was recognized that the challenge is not so much sourcing raw data, which may be publicly available, but more so the processing of that data, which is where a resource such as a centralized ICMA data team would be helpful. Trying to achieve this by relying on the input of multiple firms is not so easy, since there would be issues around sensitivity as well as the likelihood that firms will have different perspectives on how they want to process the data. This also suggests that a one-size-fits-all approach to data management may not be the best way forward, and that rather the approach should be driven by specific consultations or questions.

It was posited that, ultimately, providing data and analysis will provide credibility to any argument or position, but that we should not underestimate the amount of work and organization this requires.

CSDR-SD

CSDR Settlement Discipline was highlighted as an important topic for bonds, and while we have been relatively successful in advocacy so far, we need to keep pushing as there is only one year before it is due to come into force. There is a risk that we are distracted by Brexit in the first part of 2021, then find ourselves in exactly the same position with CSDR-SD six months from now.

Brexit

As for Brexit, it was observed that many firms seem to be taking this in their stride, but this perhaps overlooked some of the resulting negative consequences. We may not see the problems on day one, but issues could arise weeks or months after January 1, when we find that cannot deal with a client in a particular jurisdiction or on a particular platform. There is potential for Brexit to give us a headache right through 2021 and even 2022.

ESG & 'Crypto'

It was added that aside from these key topics, two more emerging trends are ESG (or sustainability) and 'crypto'. Sustainability has been a major growth area for the past few years, and ICMA has played a huge role in this market's development; but this has mainly been from an issuance perspective, and perhaps more lately focused on investors. But it is now mainstream, including from a secondary trading perspective. With respect to crypto assets, there is now a view that this will become more mainstream, particularly through the launch of crypto-ETFs and even bonds linked to crypto assets. Both of these may not be the biggest topics for us in 2021, but it is important that as the SMPC we start turning our compass toward them.

It was suggested that on this second point there may be scope to bring closer together ICMA's FinTech work and Secondary Market work, particularly as we are likely to see more innovation on the secondary side.

Another suggestion was more closely aligning ICMA's primary and secondary work, particularly as there is more focus on creating greater standardization and automation in issuance processes. This is not a standalone issue and it links directly into secondary market impacts; so it would be helpful to look at this also from a secondary perspective.

With respect to incorporating ESG into the Secondary Market agenda, it was suggested that the starting point could be to look at the trading workflows and to see what standards are needed to support these. This would probably require us to be more strategic and looking forward to see how standardization could help in the delivery of the product, rather than waiting and trying to solve for them after the event.

An additional suggestion was to look at some of the workstreams that ICMA is already undertaking, such as electronic trading or axe distribution, and consider whether this is set up correctly to support the secondary trading of sustainable and social bonds. For instance, are there flags that can be added, do these bonds use the same pipes, and do investors trade them differently? It was agreed that while often we have to respond to issues tactically, this is an opportunity to be more strategic.

Market structure

It was suggested that it was probably easier to map market structure issues into the remit of the Electronic Trading Council, but at the same time it was wrong to delineate along the lines of e-trading and voice, as there is also a conversation to be had around the 'hybrid model'. We should not be labeling things as 'on-venue' and 'off-venue'. If you do that, you end up with two approaches to achieve the same thing: which is how to ensure that market structure and market evolution develop in the right way. It was added that ICMA's FinTech work also sat naturally in the same space.

An additional issue raised related back to the Brexit points, noting that there is an impact on market structure, particularly the unintended consequences. There needs to be a conversation around standards to deal with how the cut-and-paste' of regulation interacts between the two jurisdictions. Also, related to this, when the 'MiFID 3' discussions come up, we need to be a part of those discussions, giving the market practitioners' view, and providing technical detail and quantitative analysis to evidence our recommendations.

A final point was made that when having these market structure discussions with the regulators, a cost-benefit analysis is aligned with this to ensure that we put ourselves to the same standards as the regulators and back up our arguments with quantitative analysis.

Buy-side engagement

A further suggested priority was to foster more engagement and input from the buy-side. The fact that we have representation from buy-sides and trading venues in the SMPC and other Secondary Market fora is seen as a unique strength. We should try to build on this momentum, noting that it is helpful to have a common forum to discuss issues together, rather than having separate workstreams.

The ICMA secretariat highlighted that it was planning a research paper for the second half of 2021 looking at the development of the bond ETF market, which would be undertaken jointly between the SMPC and the Asset Management and Investors Council (AMIC). Members agreed that this was a good initiative.

Materiality

It was suggested that another consideration should be that we assess whether various initiatives or responses are required now, and what are more strategic. For instance, many initiatives probably did not help during the Covid turmoil, but others possibly did. Therefore we should try to determine what makes a difference, and to prioritize our work accordingly.

3. Update on current workstreams and deliverables

a) MiFID II/R

Matt Coupe (Barclays) provided an update on ICMA's recent ESMA MiFID II/R consultation responses.

ESMA's *MiFIR review report on the obligations to report transactions and reference data* is a lot wider in scope than the title suggests and also focuses on the impacts of data transparency. This highlights the importance of reading every CP in detail. In one of the questions, ESMA was looking to widen the transparency regime to include uToTV instruments.[2] We are putting together a response to this which needs to be both detailed and forceful.[3]

With respect to the second CP, ESMA's consultation paper on *MiFID II/ MiFIR review on the functioning of Organised Trading Facilities*, Liz Callaghan (ICMA) has done an outstanding job in bringing together the different stakeholders and perspectives to resolve some very differing views across the membership. Primarily it is a discussion around what is a trading venue, what is multilateral, what should be forced to go through a venue, and should there be a wider scope for what is determined to be a venue? This polarizes views depending on where you sit in the industry, and this is likely to continue post-submission.[4]

Looking forward, we can expect CPs on algo trading, more on market data, and possibly something on consolidated tape.

b) CSDR-SD

Andy Hill (ICMA) provided update the group on ICMA's ongoing work related to CSDR-SD.

The industry is waiting on the European Commission's targeted consultation on the CSDR Review, which should be published in the coming weeks. The good news is that it is expected to include Settlement Discipline, in particular mandatory buy-ins. This is seen as an opportunity to secure some changes to the regulation. The question is whether these are relatively minor, technical revisions, addressing some of the errors in the Level 1, or if it is more substantive, and in line with the industry ask: ideally separating buy-ins from penalties, and implementing the latter first while undertaking a robust impact assessment of the former. ICMA has already prepared its response, which is essentially a waterfall of options starting with the removal of mandatory buy-ins and ending with a rewrite of the regulatory provisions.

The Commission has made it clear that it will require data and analysis to evidence any arguments, and this is something that the CSDR-SD WG is currently very focused on.

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[2] uToTV instruments are: (i) financial instruments where the underlying is a financial instrument admitted to trading or traded on a trading venue; or (ii) financial instruments where the underlying is an index or a basket composed of financial instruments admitted to trading or traded on a trading venue.

[3] ICMA response to ESMA's MiFIR review report on the obligations to report transactions and reference data

[4] ICMA response to ESMA's consultation paper on MiFID II/ MiFIR review on the functioning of Organised Trading Facilities (OTF)

c) ETC

Angela Lobo (Morgan Stanley) updated the group on the ongoing initiative to establish best practice for electronic axe dissemination.

An issue that often causes friction between clients and dealers is the level of 'axe standards', and we particularly felt the pain with this during the volatility in March, exacerbated by traders trying to grapple with setting up systems from home. This, along with a change in the trading protocols being utilized, helped to highlight the differences in standards between buy-sides and sell-sides with respect to how axes are displayed. It is therefore highly important that we discuss and agree these standards, and ICMA is the ideal platform through which to do this. These standards should eventually be understood and applied by everybody in order to minimize any frictions and to eliminate misunderstandings.

To support this, Liz Callaghan (ICMA) has put together a grid that helpfully defines the various terms used, such as 'market run', or 'axe', or what is the meaning of a 'firm' axe. This then forms the basis for the minimum of what both parties need to agree with respect to each of these definitions.

The next step will be to understand the different distribution channels, as it would also be useful for the various venues to understand what these different terms mean. This then provides an opportunity for venues, dealers, and clients to think about what other innovations can help to facilitate distribution and to ensure that the data being shared is meaningful to all parties.

Members are encouraged to participate in this important workstream.

d) FinTech

Rowan Varrall updated the group on ICMA's FinTech work pertinent to secondary bond markets.

FinAC: The ICMA FinTech Advisory Committee last met on November 19. The agenda included a presentation on the Utility Settlement Coin and Central Bank Digital Currencies; an update on digital debt securities in the context of the German draft law for the issuance of electronic securities; and a discussion on the future composition of the committee.

CDM: ICMA is looking to expand the ISDA Common Domain Model for derivatives to include cash bonds and repo. The CDM is a common digital representation of securities transactions and lifecycle events and is intended to enhance standardization and to facilitate interoperability across firms and platforms. ICMA is currently in the process of setting up a working group and governance structure with the aim of starting modeling in early 2021.

Regulatory engagement: ICMA continues to remain engaged in the IOSCO FinTech network. ICMA also participated in the final meeting of the Bank of England's Wholesale Data Collection Working Group.

ETP Directory: ICMA is currently reviewing its mapping of electronic trading platforms with a view to expanding the directory to include order and execution management systems. For reference it currently lists 44 solutions. Members are encouraged to suggest solutions that are not already included.

FinTech Forum: ICMA hosted the FinTech Forum on November 26. This included a keynote from the ECB on a Digital Euro, and a panel discussion on Digitization in bond markets against the backdrop of Covid-

19, looking at standardization, innovation, and tokenization. A recording of the event will be available in the coming days.[5]

4. Any other business

There was no other business. The secretariat thanked SMPC members for all their input, not only for this meeting, but in all the SMPC meetings as well as ICMA's other Secondary Market fora and workstreams over the past twelve months. The co-chairs, David Camara and Yann Couellan were given special thanks for their ongoing support and fantastic leadership. Members were wished a merry Christmas, happy holidays, and best wishes for the new year. And thus the meeting was brought to a close.

Andy Hill, ICMA, December 2020

[5] https://www.icmagroup.org/media/icma-media-library/icma-fintech-forum-digitisation-in-bond-markets-against-the-backdrop-of-covid-19/