Secondary Market Practices Committee

Meeting of the ICMA SMPC, June 16th, 2020

The meeting was held virtually, hosted by Barclays, and chaired by David Camara (Goldman Sachs) and Yann Couellan (BNP Paribas AM)

Attendees (accepted)

David Camara  Goldman Sachs  (Co-chair)
Yann Couellan  BNP Paribas AM  (Co-chair)
Ruud Teeuwen  ABN Amro
Kevin Rauseo  AQR
Lee Sanders  AXA IM
Gherardo Lenti  Banca IMI
Umberto Menconi  Banca IMI
Elyas Galou  Bank of America
Aalok Gupta  Bank of America
Colin Cooke  Barclays
Andrew Dowsett  Barclays
Chloe Griffiths  Barclays
Arran Rowsell  BGC Partners
Sander Schol  BGC Partners
Andy Sinfield  BGC Partners
Vasililiki Pachatouridi  Blackrock
Jennie White  Blackrock
Andrei Serjantov  BNP Paribas
Martina Ben-Shaul  CIBC
Silas Findley  Citi
Philippe Perot  Citi
Chris Orr  Credit Suisse
Richard Glen  Deutsche Boerse
Alexandre Rogues  Deutsche Boerse
Marco Ferrari  EFG Bank
Goran Hoblaj  ERSTE Group
Eric Heleine  Groupama AM
Luca Rizzo  Groupama AM
Sara Benjamin  ING
Stephane Malrait  ING
Barbara Zittucro  Intesa San Paolo
Claire Davis  JP Morgan
Kate Finlayson  JP Morgan
Paul Glasgow  JP Morgan
Claudia Gonzalez Cabanillas  JP Morgan
Antony Baldwin  LCH Limited
Angela Lobo
Morgan Stanley

Philip Read
National Australia Bank Ltd

Rahni Soliman
National Australia Bank Ltd

Hakan Guney
Nomura

Daniel Middleton
Oppenheimer Europe Ltd

Mark Rowe
RBC CM

Janet Wilkinson
RBC CM

Vincent Grandjean
Santander

Ricardo Goddard
Schroders

Paula Alves
Société Générale

Sylvie Bonduelle
Société Générale

Mathieu Casadevall
Société Générale

Louise Drummond
Standard Life Investments Ltd

Johan Wijkstrom
Swedbank

Neil Treloar
Tradition

Christoph Hock
Union Investment

William Martin
Westpac

Zameer Mukhida
Westpac

Liz Callaghan
ICMA

Gabriel Callsen
ICMA

Arthur Carabia
ICMA

Godfried De Vidts
ICMA

Lee Goss
ICMA

Andy Hill
ICMA

Rene Karsenti
ICMA

Paul Richards
ICMA

Martin Scheck
ICMA

Rowan Varrall
ICMA

(Secretary)
Minutes

The Co-chairs thanked everybody for joining remotely in what was now becoming the ‘new normal’ for meetings. Since the last meeting in March we had seen, at least for recent times, unprecedented volatility and dislocations in the European bond markets. However, the market adapted quickly to working remotely, while central bank intervention had been critical in stabilizing markets and restoring investor confidence. The SMPC was therefore grateful that Liz Vaz Cruz from the ECB’s Market Operations Team could join the meeting to discuss the ECB’s purchases of corporate bonds under its Corporate Sector Purchase Programme (CSPP) and the recently launched Pandemic Emergency Purchase Programme (PEPP).

1. ECB corporate bond purchases under the CSPP and PEPP

Discussion with Lia Vaz Cruz, Team Lead, Market Operations at the European Central Bank

Overview

The ECB felt that the overall secondary corporate bond market structure was working well following central bank intervention.

CSPP/PEPP

The ECB explained that its corporate bond purchases needed to be assessed in light of the broader package of measures, including sovereign purchases (under the PSPP and PEPP), Targeted Long-Term Refinancing Operations (TLTROs), and changes to collateral eligibility. The extension of corporate bond purchases to include commercial paper is also an important consideration, which was a response to companies’ challenges with cash flows in the initial wake of economic lockdowns.

In terms of market impacts, the ECB is aware that the scale of purchases under the new CSPP envelope and PEPP is significantly greater than previously, noting that in the first two months it purchased on average more than €10bn of bonds, which is more than in the previous years of the CSPP. However, the ECB remained sensitive to impacts on market liquidity and pricing and was focused on market axes rather than looking to leave the street short.

This was also a consideration in the decision to make purchases in the primary or secondary market. After the increase in the APP envelope and the introduction of the PEPP, there were a lot of offers in the street, which favoured secondary purchases. As the market turned, and particularly as we saw a surge in new issuance, primary market purchases became more relevant. But there is no pre-set quota or target for the split between primary and secondary market purchases, and this will continue to be driven mainly by market dynamics and liquidity conditions.

Through facilitating the ability for more corporates to raise capital in the bond markets, the CSPP/PEPP is helping banks indirectly, freeing up their balance sheets to support other activities. The ECB judged
the existing range of instruments and the current policy stance as appropriate in light of prevailing economic and market conditions.

Discussion

The Group discussed the IG market performance during the covid-19 crisis, including observations highlighted in ICMA’s recent report. It was noted that during the peak of the volatility there had been a marked shift from e-trading to voice, but otherwise, the overall trend for market electronification and automation has continued. Some commented on the wider use of protocols beyond traditional request-for-quote (RFQ), in particular portfolio trading. It was also suggested that other markets, such as equities and FX, continued to function well due to a high level of automation and algorithmic trading, while credit struggled due to a lack of real-time data required to support auto-quoting. It was commented that a contributing factor to the shift to voice in response to high volatility is also a function of how corporate bond market liquidity is created, and the limited capacity of dealers’ balance sheets in the face of significant one-directional flows.

Conclusion

The Co-chairs again thanked the ECB for taking the time to join the meeting, and for the very helpful and engaging discussion. It was also noted that his was the third time in recent years that the ECB had joined the SMPC to discuss its purchase programmes, and it was hoped that this engagement between the SMPC and the ECB would continue.

2. Regulatory updates

a) Bond market transparency

Liz Callaghan (ICMA) updated the Group on ICMA’s recent regulatory submissions related to bond market transparency.

ESMA

On June 12, ICMA submitted its response to ESMA’s consultation paper on MiFID II/ MiFIR review report on the transparency regime for non-equity and the trading obligations for derivatives. ICMA’s response focused on post-trade reporting, rather than pre-trade, which is not seen as overly relevant. The response proposes a level 1 change to create a harmonized EU deferral regime, which protects liquidity providers and investors and is consistent with CMU goals. Importantly, any harmonization of deferral regime should not be uniformly set at the lowest level available post-trade transparency thresholds under MiFID II/R. Instead, the uniform deferral regime should be based on the existing MiFID II/R deferral regime experienced by most market participants today. However, industry participants

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1 The European investment grade corporate bond secondary market & the COVID-19 crisis (May 2020)
should be allowed, as an exception, to set up agreements whereby transparency levels are set at higher levels of transparency exposure than the uniform post-trade MiFID II/R based transparency regime across the EU (for example Denmark).

The response also recommends the creation of an industry body to Independently verify bond liquidity and threshold data output with ESMA’s: The Data Advisory Group. The ‘DAG’, would consist of industry operational level experts, including trading venues, APAs, data providers, sell-side banks (global and EU headquartered), Institutional Investors (global and EU headquartered) and intermediaries. In addition, the ‘DAG’ should make sure the APA representatives are from the top APA providers as listed on ESMA’s website, as those data repositories should have the most accurate data sets.

Finally, the response suggests that the best transparency regime is one that is not overly complicated or overengineered and in fact is a transparency regime that works for all market participants in practice. To this end it proposes investigating IG/non-IG based large-in-size thresholds (without applying size-specific-to-the-instrument thresholds), as this could potentially prove to be a better and more workable transparency regime, that is easier for both industry participants and regulators.

*European Commission*

On May 15, ICMA submitted its response³ to the European Commission MiFID II/R review consultation paper on the review of the MiFID II/MiFIR regulatory framework. The relevant secondary market elements to which ICMA responded included: general questions in relation to bond markets, consolidated tape for EU bond markets, post-trade transparency, best execution reporting, research unbundling, multilateral systems, non-discriminatory access to bond markets, and digitalization and new technologies.

*Consolidated tape*

In April, ICMA submitted and published its final report on an EU Consolidated Tape for Bond Markets⁴ which had been prepared at the request of the European Commission.

The report highlights the potential benefits of a consolidated tape (CT), proposes principles that should underlay its data ownership and design, and discusses possible governance structures. It also provides an analysis of FINRA’s Trade Reporting and Compliance Engine (TRACE) and draws on lessons learned from the US’s journey. It further emphasizes that data quality is a top priority for the establishment of a CT.


Discussion

It was noted that a CT could be helpful, particularly from the perspective of measuring trade execution quality. Not only would it support explanations to investors why a trade was executed at a particular price, but also why some transactions could not be executed. It was added that a CT would also be useful for risk management.

However, it was also pointed out that the considerations for a bond CT are very different to those for equities, and that from a best execution perspective factors such as the size of a trade and the application of a dealer’s balance sheet also need to be factored into a price, and that this cannot necessarily be compared with the last reported print.

Members agreed that while the benefits of an EU CT for bonds are clear, the calibration is extremely important.

b) CSDR Settlement Discipline

Briefing

Andy Hill updated the Group on ICMA’s ongoing work related to CSDR-SD implementation, in particular that related to mandatory buy-ins (MBIs).

Delay to 2021

The proposed delay to implementation to February 1 2021, submitted by ESMA in February, was approved by the European Commission in May 2020, this is currently awaiting further approval by the European Parliament and Council, with the objection period ending on August 27.

ICMA communication with the European Commission

In May 2020, ICMA, on behalf of its members, wrote to the European Commission and ESMA outlining the industry concerns related to timely implementation of the CSDR mandatory buy-in provisions. The letter highlighted the ongoing lack of regulatory clarification required by the industry to facilitate successful implementation, as well as asking the authorities to review the design and application of the buy-in framework in light of recent market events.

Also, in May 2020, ICMA discussed the points outlined in the letter on a call with the European Commission. The Commission confirmed that in recent weeks it had engaged with numerous industry bodies and individual firms expressing similar concerns. The Commission further indicated that they were aware of the potential consequences on pricing and liquidity in benign market conditions and were also considering how this would play out in a scenario of market stress. They suggested that they would be reviewing CSDR-SD as part of their post-COVID-19 assessment of market regulation.
Implementation

Through its CSDR-SD Working Group, ICMA continues to engage with members to prepare possible revisions to the ICMA Buy-in Rules, which would provide members and other industry users with (i) a contractual buy-in framework that can be initiated in the event of a settlement fail and completed before the CSDR MBI is required; and (ii) a contractual framework to help support execution of the MBI process in the event that this is required. ICMA intends to consult on the proposed revisions later in the year.

Discussion

Members felt that given the serial shocks of covid-19, then Brexit, the implementation of MBIs in early 2021 is likely to have seriously negative impacts for markets. It was also flagged that this point was completely missed by the EU High Level Forum on the Capital Markets Union, whose Final Report had been published the previous week. It was asserted that if the objective of CMU is to help foster SME’s, then we should be looking to develop Europe’s capital markets, making them attractive to both investors and issuers, not drain them of liquidity. Members felt that this point should be central to ICMA’s advocacy on MBIs.

3. FinTech update

Update

Rowan Varrall (ICMA) updated the Group on ICMA’s various FinTech initiatives, particularly as they related to ICMA’s secondary market work.

ICMA’s FinTech Advisory Committee (FinAC), met on May 26. At that meeting, special guests Joseph Noss and Patrick Armstrong, members of the FSB Secretariat, provided an update on some of the latest aspects of the FSB’s work in relation to FinTech, notably on implications of BigTech in finance and lessons learnt from emerging markets, the use of RegTech and SupTech, as well as the potential implications of Covid-19.

In other news, ICMA was preparing its response⁵ to the European Commission Consultation on a new digital finance strategy for Europe / FinTech Action Plan.

Other recent regulatory engagement included the ECB FinTech task Force meeting (May 4), the Swiss National Bank (April 8), and the Bank of England (May 5) to discuss the BoE’s consultation on Transforming data collection from the UK financial sector.

Finally, members were updated that ICMA was in the process of formalizing the collaboration with ISDA and Regnosys to extend the CDM to repos and bonds.

4. **AOB**

There were no other points of business. The co-chairs thanked everybody again for joining in these busy and testing times, and hoped that everybody remained safe and well. The next meeting of the SMPC would be on **September 15**, and it was reasonable to expect this to be held virtually.

**Key calendar dates**

*Subject to change in light of Covid-19 developments*

**ICMA Asset Management and Investors Council (AMIC): First lessons of the COVID-19 crisis for the asset management industry**
18 June, 11-12pm CEST

**Bond market post-trade transparency and the consolidated tape – a conversation**
23 June, 3.30-5pm CEST

Prepared by Andy Hill (June 2020)
Updated September 2020

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