ICMA

Secondary Market Practices Committee

Meeting of the ICMA SMPC, June 9, 2021

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

Attendees (accepted)[1]

David Camara	Goldman Sachs	*Chair*
Stella Kaltsouni	DG FISMA	*Guest*
Catherine Vilcot	DG FISMA	*Guest*
Kevin Rauseo	AQR	
Yannig Loyer	AXA IM	
Lee Sanders	AXA IM	
Aalok Gupta	Bank of America	
Toby Pearson	Bank of America	
Chloe Griffiths	Barclays	
Arran Rowsell	BGC Partners	
Stephen Fisher	Blackrock	
Anthony Swift	Blackrock	
Daniel Stevens	BMO	
Peter Rafferty	BNP Paribas	
Laura Coote	BNY Mellon	
Tanja Kuehn	BrokerTec Europe	
Mario Muth	Deutsche Bank	
Robert Koller	EPPF	
Goran Hoblaj	ERSTE Group	
Eric Heleine	Groupama AM	
Florent Bourdin	HSBC	
Stephane Malrait	ING	
Gherardo Lenti	Intesa San Paolo	
Umberto Menconi	Intesa San Paolo	
Barbara Zittucro	Intesa San Paolo	
Tom Young	Jefferies	
Kate Finlayson	JP Morgan	
Paul Glasgow	JP Morgan	
Barnaby Hodgkins	JP Morgan	
Angela Lobo	Morgan Stanley	
Philip Read	National Australia Bank Ltd	
Hakan Guney	Nomura	
Vincent Grandjean	Santander	
Ricardo Goddard	Schroders	

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

Sylvie Bonduelle	Société Générale	
Nicola Danese	Tradeweb	
Philip Cramp	Tradition	
Neil Treloar	Tradition	
Carsten Richter	UniCredit	
Anton Aziz	Westpac	
William Martin	Westpac	
Liz Callaghan	ICMA	
Sanaa Clause	ICMA	
Lisa Cleary	ICMA	
Godfried De Vidts	ICMA Special Advisor	
Andy Hill	ICMA	*Secretary*
Paul Richards	ICMA	
Irene Rey	ICMA	
Rowan Varrall	ICMA	
Alexander Westphal	ICMA	

Minutes

1. Chair's introduction

The Chair welcomed members to the second meeting of the SMPC of 2021, noting that there was no respite for summer with a number of ongoing consultations and regulatory implementation initiatives. CSDR mandatory buy-ins was now the most pressing challenge firms are facing, and so it was much appreciated that Stella Kaltsouni from DG FISMA was joining the meeting to update the Committee on recent developments.

2. CSDR Mandatory Buy-ins: A discussion with the European Commission

Update and discussion

The Committee was joined by **Ms. Stella Kaltsouni, Policy Officer in DG FISMA's Financial Markets Infrastructure unit,** to update the SMPC on recent developments with CSDR mandatory buy-ins.

Update

The European Commission explained that settlement efficiency and enhanced post-trade services were fundamental to delivering the objectives of Capital Markets Union. CSDR covers a package of reforms to underpin this, of which Settlement Discipline is just one component. The CSDR Targeted Review was intended to identify areas of the regulation which could be improved, including the SD regime and mandatory buy-ins (MBIs).

The upcoming Report of the European Commission for the European Parliament and Council,[2] which followed the recent Consultation Paper, would summarize the feedback provided by stakeholders through that consultation. In terms of comments on the SD regime, this was by far the biggest focus, with nearly all of the 91 respondents commenting. Virtually all suggested that the MBI rules should be reviewed, and most felt that the mandatory requirement should be removed.

The Commission would now undertake an impact assessment to determine what changes to the MBI framework were warranted, and this would run through the summer. The Commission was already aware of analysis provided by ICMA and others on the impacts of the MBI regime but welcomed firms to provide further data to help support the industry arguments. Following the impact assessment, the Commission would then look to put forward a legislative proposal for any amendments to MBIs, which was likely to be toward the end of 2021.

Discussion

Members concurred that settlement efficiency was indeed important, and that the industry was supportive of initiatives to this end, including measures to encourage settlement discipline, such as the penalty mechanism. However, given the dealer-centric nature of bond markets, and the inherent illiquidity of certain segments, such as credit and emerging markets, a mandatory buy-in regime would be an effective deterrent to dealers offering bonds that they did not hold in inventory, which would have a material impact on market liquidity. Even if the proportion of trades failing after seven days is relatively miniscule, the cost of being bought-in, particularly in the CSDR context, is likely to be material, and therefore would change the way in which dealers provided liquidity.

It was further pointed out that in the US, FINRA Rules only require that buy-ins be initiated after 65 days, which afforded reasonable time for dealers to cover positions in the case of very illiquid markets. It was also noted that ICMA Buy-in Rules, which are discretionary, can be initiated at any time following the intended settlement date, allowing the purchasing party to decide when the optimal time was to utilize this tool, based on the specific context of the failing trade.

ICMA raised the industry-wide concern regarding the timeline of the CSDR Review and the implementation lift required by the industry, particularly from a contractual perspective. The industry request is that if MBIs are going to be amended, it would be better to announce a delay in its implementation until after the revisions have been made. Currently the risk was that firms would need to undertake the implementation process twice. The European Commission explained that they were aware of this dilemma, but they were not in a position to indicate what changes might be made to the MBI framework until they had completed their impact assessment. Furthermore, any delay to implementation, as previously, would need to be recommended by ESMA.

ICMA raised the point that the vast majority of persistent fails were in equities, and that settlement efficiency rates for bonds were significantly higher. It could be that MBIs were a solution for an equity problem and are not necessary for fixed income. The European Commission acknowledged this observation and suggested that there were some views that MBIs should be more narrowly applied.

[2] https://ec.europa.eu/finance/docs/policy/210701-csdr-report_en.pdf

3. Liquidity assessment and transparency regime

Update and discussion

Liz Callaghan (ICMA) updated the Committee on the work being undertaken through the MiFID Working Group Transparency Taskforce to develop a proposal for an alternative MiFID II/R transparency regime with a view to the introduction of a consolidate tape for bonds. This would be shared with Tilman Lueder (head of Markets Unit, DG FISMA), who had put forward his own proposal which was being assessed by the Commission Regulatory Scrutiny Board.

The ICMA proposal, which was still very much work in progress, looked to simplify the liquidity assessment, and was currently focused on two different bond classes: corporate bonds and sovereigns. The determinant variables for corporate bonds are size of outstandings of the issue and period since issuance. For sovereign bonds, the determinant variables are size of outstandings of the issue and time to maturity. Taskforce members were running analysis based on different thresholds to estimate the relative proportion of the outstanding market and overall transactions that would be classified as liquid. A similar analysis would be run on TRACE data to draw comparisons with the US.

It was asked whether the Commission had an understanding of the relationship between transparency and liquidity, and how this is directly related to market structures. It was agreed that there was a prevailing view among some regulators that bond markets were frustratingly difficult to understand, and that life would be simpler if we could make them more like equity markets. Some feel that this could be achieved by making bond markets fully transparent, which then force trading away from the request-for-quote (RFQ), dealer-centric model, to more all-to-all trading on central limit order books (CLOBs). What needs to be explained to the regulators is that certain instruments lend themselves to trading on CLOBs because they are highly liquid; they do not become liquid as a result of being traded on CLOBs.

4. IOSCO AMCC Bond Market Liquidity Working Party

Update

Andy Hill (ICMA) updated the Committee on the recently formed Bond Market Liquidity Party (BML WP) under the banner of the IOSCO Affiliate Members Consultative Committee.

In January 2021, building on the FSB's *Holistic Review of the March 2020 Market Turmoil,*[3]and as part of the FSB's broader work looking at the role of non-bank financial intermediaries (NBFIs), the IOSCO Financial Stability Engagement Group (FSEG) launched a Working Group focused specifically on corporate bond markets. The WG's work would compromise of two phases. The first phase, which was due to be completed by June 2021, is a quantitative diagnostic of how corporate bond markets performed during and after the market turmoil, looking at North America (US and Canada), Europe (including the UK), Japan, and Brazil. The second phase, which would run through September, would be more qualitative and focused on the nature of corporate bond market micro-structures, participant

[3] https://www.fsb.org/wp-content/uploads/P171120-2.pdf

behaviours, particularly in times of market stress, and potential vulnerabilities. The findings of this work will be shared with the IOSCO and FSB Boards but is not expected to be made public.

In March 2021, ICMA, as a member of the IOSCO AMCC, put forward a proposal to form an AMCC Bond Market Liquidity Working Party, made up of AMCC members, which would look to complement and provide input into ISOCO's work on corporate bond markets. A number of organizations responded to the call for interest (AIMA; ANBIMA; CCP-12; EFAMA; GFMA; ICI Global; ICMA; IIROC; and JSDA), which is chaired by ICMA. As a first deliverable it produced a compendium[4] of BML member research to help inform the first phase of IOSCO's work. The BML WP was now looking at how it could help feed into the second, more qualitative phase of the initiative.

5. FinTech update

Update

Rowan Varrall will provide an update on ICMA's initiative to extend the Common Domain Model to fixed income markets.

The CDM[5] provides a single, common digital representation of trade events and actions across the lifecycle of repo and bonds, securities lending and derivatives, intended to promote standardization and facilitate interoperability across firms and platforms. Originally developed by ISDA to represent derivatives transactions, ICMA is in the process of extending the CDM to include bonds and repos.

ICMA, working with its members, along with Regnosys, was near to completing the first phase of the project to provide a single, unambiguous representation of the execution, clearing, and settlement of a fixed-term repo transaction, as well as a bond transaction. Once this is completed, in July, ICMA will host a showcase event where members can view the completed work and to learn more about the potential benefits of the CDM.

6. Any other business

There was no other business, and the meeting was closed.

Andy Hill, ICMA, July 2021

[4] https://www.icmagroup.org/assets/documents/Regulatory/Secondary-markets/AMCC-BML-WPcorporate-bond-markets-and-covid-19research-compendiumFinal-100621.pdf
[5] https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/repo-and-collateral-markets/fintech/common-domain-model-cdm/