

## Secondary Market Practices Committee

### Meeting of the ICMA SMPC, March 11<sup>th</sup>, 2020

The meeting was held as a call and Chaired by David Camara

#### Attendees

##### *On the line:*

David Camara	Goldman Sachs	(Co-chair)
Umberto Menconi	Banca IMI	
Martin Waryniak	BAML	
Silas Findley	Citi	
Fares Hajjar	Credit Agricole	
Barbara Zittucro	Intesa San Paolo	
Angela Lobo	Morgan Stanley	
Frank Cerveny	MTS Markets	
Paula Alves	Societe Generale	
William Martin	Westpac	
Bas Dommerholt	Dutch AFM	(Guest speaker)
Matthijs Genste	Dutch AFM	(Guest speaker)
Andy Hill	ICMA	(Secretary)
Liz Callaghan	ICMA	
Gabriel Callsen	ICMA	
Paul Richards	ICMA	
Rowan Varrall	ICMA	

## Minutes

The Co-chair thanked everybody for joining the call, noting that it was unfortunate that we were not meeting in person, in Amsterdam, as had previously been scheduled. However, it was hoped that the current Covid-19 pandemic would pass quickly, and that we would be able to reschedule both the Secondary market Forum, and a future SMPC, in person, in the Netherlands, in the near future. The Co-chair further thanked our special guests from the AFM for joining

### 1. MiFID II/R and the secondary bond markets: a discussion with the Dutch AFM

*Overview and discussion with **Matthijs Genste** and **Bas Dommerholt** of the **Netherlands Authority for the Financial Markets (AFM)**.*

#### *Overview*

The AFM explained that it is currently reviewing MIFID II/R as well as creating a Markets Desk to “connect the dots” for future policy input. They are currently close to finalizing their MiFD assessment for internal review, but they may publish some findings externally. Furthermore, the AFM review will be used as a component in the European Commission’s MIFID II/R consultation.

With respects to their Markets Desk, the AFM explained that it was in the process of building a level of expertise in fixed income markets and that they are speaking with market participants and other stakeholders to this end. The major takeaway of their discussions so far has been that an equity market blueprint is not the right model to use when considering non-equity markets. The AFM is looking how to make this distinction clearer, but is still in the analysis stage prior to looking at solutions.

#### *Current state of the bond market*

It was expressed by SMPC members that many market regulations try to apply equity models in the context of fixed income markets. This tended to overlook the important distinctions: (i) bonds have a definite life; (ii) many investors buy to hold bonds to maturity (which is not to say that secondary market trading is not important); and (iii) bonds are generally varied in their terms and covenants, and often bespoke, due do different funding requirements. The structure for secondary market liquidity is therefore very much based on principal risk taking, which requires the use of balance sheet, and is heavily reliant on sharing information, generally on a bilateral rather than a multilateral basis. While secondary market liquidity is important, it is not the main consideration in determining the design of a bond instrument, and it is widely understood that bond markets have less secondary market liquidity than equities. This also has implications with respect to the optimal level of transparency, which cannot be standardized in the same way as equity transparency. The pros and cons of greater transparency for bond markets are therefore more nuanced.

#### *Bond market Transparency*

ICMA discussed with the AFM its work for the European Commission related to the establishment of a European consolidated tape (CT) for bond markets. An interim report, published at the end of 2019,

discusses issues related to bond market transparency, including deferrals. With respect to the proposed CT, the markets' priority was very much focused on post-trade reporting, with little value seen in pre-trade data at this stage. It was broadly accepted that good quality post-trade data was more useful from the perspective of price discovery. The main challenges, however, are the quality of post-trade data, as well as the fact that it is fragmented across different sources and difficult to aggregate systematically.

The Group further discussed with the AFM the concept of mandatory consumption of data, which all agreed does not equate to best execution, as well as the most important fields to be reported.

The AFM updated that they have been looking at the SSTI versus LIS threshold, but have no firm opinion at this stage and are still analysing. It remained a challenge to determine to what extent equity market transparency models could be applied to fixed income.

### *Conclusion*

It was agreed that discussions such as these were mutually beneficial, and it was agreed that the SMPC and the AFM would stay in close touch on market issues going forward.

## **3. MiFID II/R Bond market transparency**

Liz Callaghan (ICMA) updated the group on progress in finalizing the ICMA report, requested by the European Commission, to support the case for the establishment of an EU consolidated tape for cash bonds. Following the submission of the [preliminary report](#) in December 2019,

### **a) Fixed income consolidated tape**

#### *Briefing*

#### *Consolidated tape*

Liz updated the group on progress in finalizing the ICMA report, requested by the European Commission, to support the case for the establishment of an EU consolidated tape for cash bonds. The [preliminary report](#) was submitted in December 2019, and the Task Force was now in the last stages of concluding the final report.<sup>1</sup> The main outstanding work that needed to be finalized with the Task Force, and where there was still a lack of consensus, related to discussions around possible governance models.

#### *ESMA consultation on MiFID II/R transparency*

Liz updated the Group on ICMA's response to the Consultation Paper on MiFID II/ MiFIR review report on the transparency regime for non-equity and the trading obligations for derivatives. The overriding challenge here was now timing, in light of the Covid-19 pandemic, and the fact that Task Force members

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<sup>1</sup> This was [published](#) on April 29 2020

did not have the time or capacity to dedicate to this. While the deadline had already been revised from March 18 to April 19, it was hoped that this would be moved back further, ideally to later in the year.<sup>2</sup>

*European Commission consultation on the review of the MiFID II/MiFIR regulatory framework*

Liz updated the Group that while this was a much more comprehensive consultation, much of the secondary market contribution overlapped with work already undertaken for the Commission CT report and the ESMA transparency consultation. Furthermore, the structure was more survey based, rather than open-ended. ICMA's response would also be coordinated with constitutions from other market constituencies, including primary, asset management, and FinTech. Again, it was hoped that the deadline would be pushed back from April 20.<sup>3</sup>

#### **4. Mandatory buy-ins**

*Update and discussion*

Andy Hill (ICMA) updated the Group that ICMA was continuing to push ESMA and the European Commission for Level 3 guidance on key issues to support implementation and to address many of the risks and anomalies in the mandatory buy-in (MBI) provisions, in particular the possibility to settle the buy-in and cash compensation price differential symmetrically and the introduction of a pass-on mechanism. Meanwhile, ICMA's CSDR-SD Working Group was continuing to work on revising the ICMA Buy-in Rules to provide a contractual framework and market best practice to support implementation in the non-cleared bond markets (as well as on a GMRA annex to support implementation for in-scope repos).

Andy reminded the Group that a workstream had been rolled out to find an industry solution for the cash compensation process, as it had become clear that the regulatory provisions were inadequate from the perspective of bond markets.

In terms of ongoing advocacy work, Andy updated the Group that ICMA and EFAMA had met with the European Commission in February to discuss the industry's concerns with MBIs. Particularly from a buy-side perspective. While the Commission appeared sympathetic with the issues and implications, its line seemed to be that this was a problem created by the Parliament, not the Commission, and that its existence in CSDR is largely political.

It was agreed that CSDR-SD would remain a top priority of the SMPC in 2020, and that other issues, such as the lack of buy-in agents, would no doubt continue to surface as we got deeper into implementation.

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<sup>2</sup> ICMA submitted its [response](#) on the revised deadline of June 12

<sup>3</sup> ICMA submitted its [response](#) ahead of the revised deadline on May 15

## **5. FinTech update**

### *Update*

Gabriel Callsen and Rowan Varrall (ICMA) updated the Group on ICMA's various FinTech initiatives. This included a summary of the inaugural meeting of ICMA's FinTech Advisory Committee (FinAC). It is chaired by Armin Peter, Global Head of Syndicate at UBS and previously chair of the ICMA Board SubGroup on Technology, and brings together front office, middle/ back office, legal and technology expertise across ICMA's core areas, representing corporate and public sector issuers, investors, banks, market infrastructures and law firms. In line with ICMA's mission statement to promote resilient and well-functioning international debt capital markets, the purpose of the ICMA FinTech Advisory Committee is to provide guidance on ICMA's engagement on FinTech across primary, secondary, repo and collateral markets, as well as sustainable finance.

Gabriel and Rowan also updated the Group that a series of workshops had been held, jointly with ISDA and Regnosys, intended to extend and explore the application of the [Common Domain Model](#) (CDM) to repo markets, focusing on building solutions to a number of defined use cases.

## **6. ICMA's 3<sup>rd</sup> study into the state and evolution of the European investment grade corporate bond secondary market**

### *Discussion*

As there was little time left for further discussion, Andy Hill reminded the Group that ICMA had published *Time to Act*, its 3<sup>rd</sup> Europeans paper on the European corporate bond secondary market, and that the timing seemed prescient with respect to the concerns it flags around how the market might perform in a stressed environment.

## **7. AOB**

There were no other points of business. The Co-chair thanked everybody again for joining, in particular our special guests from the AFM, and wished everyone well in these concerning times.

## Key calendar dates

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

[ICMA European Repo and Collateral Council AGM](#), London, 19 March, 9.00-14.30

Hosted by: Equilend

[ICMA Future Leaders: How Artificial Intelligence Changes Football, the World of Finance and our Economy](#), Frankfurt, 23 March, 18.30-21.00

Hosted by: White & Case LLP

[ICMA and NCMF Joint Annual Conference](#), Stockholm, 20 April, 13.00-17.30

Hosted by: Nordea Bank

[ICMA FinTech Forum](#), London, 7 May, 8.30-14.00

Hosted by: UBS

**Meeting of the ICMA Secondary Market Practices Committee**, London, 16 June, 15.00-17.00

[ICMA Annual General Meeting and Conference 2020](#) Vienna, 24-26 June

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Updated June 2020

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