Secondary Market Practices Committee

Meeting of the ICMA SMPC, March 16, 2021

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

Attendees (accepted)[1]

David Camara	Goldman Sachs	*Co-chair*
Mirjam Aalbers	ABN Amro	
Ruud Teeuwen	ABN Amro	
Gilles Dauphine	Amundi	
Kevin Rauseo	AQR	
Yannig Loyer	AXA IM	
Aalok Gupta	Bank of America	
Matthew Coupe	Barclays	
Evgeniy Alexandrov	BCS Prime Brokerage Limited	
Arran Rowsell	BGC Partners	
Vasililki Pachatouridi	Blackrock	
Peter Rafferty	BNP Paribas	
Laura Coote	BNY Mellon	
Tanja Kuehn	BrokerTec Europe	
MartinaBen-Shaul	CIBC	
Ashlin Kohler	Citi	
Frederico Alcantara De Melo	Council of Europe Development Bank	
Fares Hajjar	Crédit Agricole	
Mario Muth	Deutsche Bank	
Marco Ferrari	EFG Bank	
Robert Koller	EPPF	
Aleksandar Doric	Erste Group	
Christian Kienesberger	Erste Group	
Stephane Malrait	ING	
Gherardo Lenti	Intesa San Paolo	
Umberto Menconi	Intesa San Paolo	
BarbaraZittucro	Intesa San Paolo	
Lida Sun	Jefferies	
Tom Young	Jefferies	
Kate Finlayson	JP Morgan	
Barnaby Hodgkins	JP Morgan	
Laura Sherrington	JP Morgan	

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

Liz Callaghan	ICMA	
Gabriel Callsen	ICMA	
Sanaa Clause	ICMA	
Godfried De Vidts	ICMA Special Advisor	
Andy Hill	ICMA	*Secretary*
Rene Karsenti	ICMA	
Paul Richards	ICMA	
Irene Rey	ICMA	
Rowan Varrall	ICMA	

Minutes

1. Chair's introduction

The Chair welcomed members to the first meeting of the SMPC of 2021, noting that while markets had pretty much normalized in the year since the Covid pandemic, and remote working had become the new normal, Covid was still disrupting and taking lives globally and something we should not lose sight of.

In terms of key SMPC workstreams, CSDR mandatory buy-ins and MiFID II/R trade reporting remained prominent, reminding us that regulatory complexity was not going away. This also highlighted how different bond market structure is to that of equities, and while e-trading becomes ever more prominent, this does not deflect from the fact that bond market liquidity still very much relies on dealers' balance sheets.

The Chair welcomed Kieran Leonard of the ECB, the guest speaker for the meeting, remarking on how important central bank interventions had been in stabilizing markets in the wake of the pandemic.

2. ECB Corporate bond purchases

The Committee was joined by **Kieran Leonard of the ECB** who presented on the **ECB's corporate bond purchases under the CSPP and PEPP**.

Update

This was the fourth time that the ECB had joined the SMPC to update on its corporate bond purchases. The first time was in 2016 just before the launch of the CSPP, and the last time was in June 2020, after the launch of the PEPP. Since then the PEPP envelope had been extended by a further €500bn, to €1,850bn, with net purchases running to at least March 2022.

In terms of asset purchases, the published data on the ECB's website shows that the PEPP corporate bond holdings continue to increase. However, most of the corporate bond purchases are booked under the CSPP portfolio within the APP. From recent PEPP data publications, the most striking feature is the decrease in the Eurosystem's commercial paper holdings as the CP market had normalised. In undertaking corporate bond purchases, both under the CSPP and PEPP, liquidity was a critical consideration, and the ECB and the six purchasing NCBs were very conscious of their market 'footprint'. Accordingly, they had maintained their focus on dealer axes in the secondary market. They also appreciated market feedback, and found research, such as the ICMA paper on how the Covid turmoil impacted the European IG corporate bond market, very useful.

ESG is becoming an increasing focus for the asset purchase programmes, and how to become more effective in the fight against climate change. In September 2020 the ECB announced that it would accept sustainability-linked bonds as collateral, effective from January 2021. It would further review the ESG dimensions of monetary policy in the second half of 2021 as part of the ECB's Strategy Review.

Discussion

Members asked about how the ECB manages liquidity and how effective it was to focus on axes. The ECB confirmed that based on the communication with the relevant NCBs, relying more on axes seemed to be working effectively. Also, liquidity conditions had remained relatively unchanged, and the current pace of around €5bn purchases under the CSPP per month seemed sustainable. When asked whether they felt that there was a particular tipping point, given that it was currently estimated that corporate bond purchases had reached around 25% of the eligible universe, the ECB felt that this was not a concern at the moment, and that issuance of new eligible bonds was keeping ahead of purchases.

Members explained that a possible unintended consequence of the purchase programmes was the impact on repo market liquidity. In many cases the NCBs were the main lending source for corporate bonds, but these came expensively. This made running short positions untenable, and so dealers were becoming increasingly reluctant to provide offer-side liquidity in bonds that they did not hold in inventory. The ECB pointed out that it reviews its lending policies on a regular basis and agreed that it was important for market liquidity that dealers could run short positions. Members added that there also seemed to be inconsistent approaches between NCBs when it came to their willingness to lend corporate bonds, particularly where the sizes were relatively small, compared with sovereign bond repo trades. The ECB explained that the lending programs are not centralised, and confirmed that it will continue to periodically review its lending practices.

The Co-chair thanked Kieran and the ECB for the helpful update and discussion, noting the excellent and ongoing rapport between the ECB and SMPC going back to the launch of the CSPP, which was very much appreciated by market stakeholders.

3. Post-Brexit impact on secondary bond markets

Discussion

Members noted that with respect to trading venues, much of the repapering had already been done, and while there were a few hiccups, this was working well. In terms of direct voice trading, firms were taking different approaches, and here there was still some repapering of clients to be done, particularly with EU entities. But in both cases, there had not been any major issues or liquidity impacts. Instead the concerns largely arose from the possibility for divergence in regulations, particularly with respect to the transparency regimes, as well as approaches to algo trading, and that the EU bond market would effectively become bifurcated.

Members noted that they were observing a shift in trading toward EU venues and entities, and that this was partly being driven by the migration in the swaps market. It was suggested that with respect to swaps, the lack of equivalence for MTFs would mean more trading going on to SEFs.

4. EU Consolidated Tape for Bonds

Update and Discussion

Liz Callaghan (ICMA) updated the Committee on the current status of the development of a Consolidated Tape for bonds in the EU and open up a discussion on next steps for ICMA.

It was understood that DG FISMA had put forward a proposal for a revised transparency regime to support the introduction of a consolidated tape and that this was subject to an impact assessment by the European Commission Scrutiny Board in the coming months. This was expected to result in a legislative proposal in Q4 of 2021.

Meanwhile, ICMA was working with an EU NCA and a data solutions provider to pilot data aggregation with a view to producing a consolidated tape for bonds.

Members commented that creating a consolidated tape was not a ‘one shot’ solution that could be written into Regulatory Technical Standards, but rather it was an evolutionary process. The focus should therefore be on the desired endgame, as well as solving for data quality issues.

5. Best practice for overnight index accruals

Discussion

Andy Hill (CIMA) reminded thew Committee that ICMA’s Secondary Market Rules & Recommendations (SMR&Rs) provide best practice for calculating and applying bond coupon accruals (Section 250). Committee members were asked whether they felt that there is value in ICMA updating the Rules to include best practice for calculating bond coupons that reference overnight index rates (SOFR, SONIA, ESTR, etc.) including for forward settlement.

Members felt that the convention for issuance was still finding its feet and that there was still no truly established standard practice, even within currencies. It would therefore make sense to wait a little longer. In the meantime, it would be interesting for ICMA to undertake some analysis of what accrual conventions are currently being applied for issuance referencing OIS.

6. Update on current workstreams and deliverables

a) CSDR-SD

Update and discussion

Andy Hill (ICMA) updated the Committee that in February ICMA submitted its response to the European Commission Targeted Review of CSDR.[2] The 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 destabilizing effects the regime would have had during the March-April 2020 COVID-19 market turmoil.

In March, ICMA held the pen on a cross-industry letter[3] to the European Commission and ESMA, raising concerns about the implementation of the mandatory buy-in requirement under the EU's CSDR[2] Settlement Discipline Regime. The letter was co-signed by 15 associations. Given the significant global implementation effort required to support the CSDR mandatory buy-in requirement, the associations suggest that a far more robust approach would be to make the required revisions to the mandatory buy-in regime arising from the Review before attempting implementation. Accordingly the letter asks the European Commission for clarity on the Review and implementation schedule of CSDR-SD at the earliest opportunity.

b) ETC

Update and discussion

Liz Callaghan updated the Committee that it had produced a grid outlining definitions for bond price distribution, that had been agreed by Electronic Trading Council members. The next step would be to develop this into a guide for best practice which could be used as a market standard. It was intended that this could then be incorporated into the ICMA Secondary Market Rules & Recommendations.

c) MiFID II/R

Update and discussion

Liz Callaghan raised a concern to the Committee that FIX had been involved in discussions with ESMA about introducing flags for algo trades. This was potentially worrying as it was important that these discussions were held at market association level and reflected the broad views of market stakeholders, both sell-side and buy-side, and that bond market structure was clearly delineated from that of equities.

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[2] See: https://www.icmagroup.org/assets/documents/Regulatory/Secondary-markets/CSDR-Settlement-Regulation/ICMACSDR-Review-Targeted-ConsultationFeb-21Detailed-response-020221.pdf

[3] See: https://www.icmagroup.org/assets/documents/Regulatory/Secondary-markets/CSDR-Settlement-Regulation/Joint-Trade-Association-Letter-regarding-Implementation-of-the-CSDR-Settlement-Discipline-RegimeFinal-110321.pdf

d) FinTech

Update and discussion

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

ICMA's work to extend the Common Domain Model to bonds and repo began in March, and the first phase was due to be completed by June. This was expected to produce a functioning model for basic repo transactions, as well as modeling outright bond transactions. The work was being undertaking in collaboration with REGnosys, who had worked with ISDA on developing the CDM for derivatives, and was being guided by a CDM SteerCo made up of ICMA members. It was agreed that it would helpful for ICMA to provide an overview of the CDM at the next meeting of the ETC.

The next meeting of the ICMA Fintech Advisory Committee (FinAC) was scheduled for March 26. This would include an update on Fintech themes and new initiatives in APAC debt capital markets, ICMA's work on ESG data harmonization and the implementation of sustainability reporting obligations, as well as updates across ICMA's various Fintech initiatives and workstreams.

7. Any other business

There was no other business and the meeting was brought to a close.

Andy Hill, ICMA, March 2021