Secondary Market Practices Committee

Meeting of the ICMA SMPC, October 8th 2015: Minutes

The meeting was held at ICMA, London, and Chaired by Asif Godall, HSBC

Attendees

In the room:

Asif Godall	HSBC	(Chair)
Gherardo Lenti	Banca IMI	
Umberto Menconi	Banca IMI	
Stephen Fisher	BlackRock	
Sonali Theisen	Citi	
David Camara	Goldman Sachs	
Godfried De Vidts	ICAP	(Chair of ERC)
James Daunt	Mizuho	
Sarah McGivern	Mizuho	
Andrew Bowley	Nomura	
Peter Eisenhardt	ICSA	
Elizabeth Callaghan	ICMA	
Patrik Karlsson	ICMA	
Paul Richards	ICMA	
Alexander Westphal	ICMA	
Lee Goss	ICMA	*Part attended*
Andy Hill	ICMA	(Secretary)

On the line:

Christophe Marcilloux	Amundi
Marco Ferrari	BSI
Mariano Goldfischer	Credit Agricole
Craig Rinder	CIBC
Marco Pouw	Credit Suisse
Sanjay Jhamna	JP Morgan
David Smith	JP Morgan
Nik Louwye	KBC AM
Alice Beavan	Lloyds Banking
Minakshi Bartels	Morgan Stanley
Tina Bach	Nordea
Alex Struc	PIMCO
Courtney Walker	PIMCO
Kathy Gibson	Pioneer
Sylvie Bonduelle	SocGen
Neil Treloar	Tradition
Oliver Hückel	Unicredit

1) Welcome and approval of minutes from meeting on July 2nd 2015

The Chair, Asif Godall, welcomed all attending or dialing-in and thanked them for their ongoing engagement. There were no comments related to the minutes of the meeting of the SMPC held on July 2nd, which had been circulated prior to the meeting, and so these were passed as an accurate record of the meeting.

2) Briefing on completion law

Leland Goss, General Counsel for ICMA, gave a brief presentation on competition law guidelines for industry meetings. While it was unlikely that the structure and discussions of the SMPC could give rise to anti-competition concerns, Leland Goss emphasized the fact that members should remain aware of potential issues, and, when in doubt, should not hesitate to ask legal counsel for guidance.

Leland Goss raised an additional point related to the Secondary Market Rules and Recommendations. Currently the 'Rules' cover "transactions in international securities", which could be interpreted as covering equites, derivatives, or structured products. The question currently being considered by the ICMA Executive Committee ('ExCom') was whether this should be narrowed to purely bonds.

3) Introductory remarks from the Chair

Asif Godall announced to the Committee that he would be leaving his role at HSBC the following week, and that he intended to join a prominent buy-side in the coming months. He therefore hoped that he could remain actively involved in the SMPC, whether as co-chair or an active participant, and would continue to keep ICMA informed of his new position, as that become clearer.

Running through the agenda, Asif Godall noted that the underlying theme of the SMPC, and its related work-streams, was the liquidity issue facing the credit markets. The fact that the Committee was now made up of both sell- and buy-side firms was recognition that finding a solution for the growing trend in market illiquidity required input from all stakeholders, as well as technology providers, other intermediaries, and issuers themselves. It was no longer possible to rely solely on the banks as liquidity providers for fixed income markets. Summing up the ongoing work-streams and foci of the SMPC, Asif Godall listed the trading platform mapping exercise led by Liz Callaghan of ICMA, the discussions with dealers, platforms, and the ICSDs to create a buy-in auction mechanism, ongoing discussions with regulators and other stakeholders related to market liquidity, as well as advocacy work related to regulation, in particular MiFID II and CSDR settlement discipline.

Paul Richards (ICMA) commented that with respect to the liquidity challenge, the recently published European Commission Capital Markets Union "Action Plan" which appears to recognize the risks to European credit markets, and states that the Commission would continue to monitor and review corporate bond market liquidity. He asked the Committee that given the unique structure of the SMPC, encompassing both sell- and buy-side, did they feel it provided an opportunity for engaging with the Commission in the ongoing discussion and work related to liquidity. Stephen Fisher (BlackRock) responded that it was. Following five years of reforming the markets, it was important that regulators take stock of the impacts, and ICMA was in a good place to be involved in that discussion. Furthermore, any solution to the liquidity challenge would need to be multi-faceted. While regulators seem focused on bond standardization, the discussion needs to be much broader. For instance, addressing some of the issues with MiFID II, as well as connecting the dots between regulation, markets, and the real economy would be necessary.

4) Discussion: can non-bank financial institutions fill part of the liquidity gap in the European corporate bond secondary market?

Opening points

Asif Godall opened the discussion with a couple of observations. Firstly, in the US Treasury market, a number of non-banks were active in the inter-dealer market, and eight non-banks were now members of Brokertec in the US. Secondly, from discussions with a number of HSBC's clients, it was becoming apparent that there was increasing interest from some hedge funds and asset managers in having the ability to provide liquidity to the market; however, there are no open platforms that easily facilitate this. Thus, there seemed to be an open question and an important area for discussion around the ability for certain buy-side firms to play the role of liquidity providers.

Stephen Fisher stated that BlackRock had recently published a paper on meeting the liquidity challenge, and this put forward a menu of options. While there was no silver bullet, there were a number of incremental changes to behavior across all stakeholders, including the buy-side that cumulatively could help improve market liquidity and efficiency.

The challenges of buy-side liquidity provision

Godfried De Vidts (ICMA and ERC Chair) commented that relying on the buy-side to provide liquidity could ultimately cause more damage, not least since there was less of an obligation to do so, compared with sell-side firms. Therefore, it would be important to find a balance. Stephen Fisher added that for many larger asset managers, liquidity was not such an issue, since banks still provided pricing. Rather it was the smaller buy-side firms who needed to be most concerned. Alex Struc (Pimco) pointed out that it was more complicated for asset managers to become liquidity providers given that they acted on behalf of multiple entities, and hence were naturally inclined to be more reserved. Liz Callaghan agreed that hedge funds would be better suited than traditional asset managers as price makers. Asif Godall cited Citadel, who was increasingly looking more like a market-maker than a fund. Liz Callaghan commented that this development was a lot like the evolvement of high frequency trading in equities, although Asif Godall added that credit markets were characterized more by "low frequency trading". Rather, as large asset managers increasingly cross-trades between funds, this created "tail-end" liquidity, which provided an opportunity for the asset manager to generate market liquidity. What were necessary were common protocols, which would need to be established. Liz Callaghan suggested that it could be useful if Citadel were able to participate in the SMPC. Patrik Karlsson (Secretary to the ICMA Asset Managers and Investor Council) explained that ICMA had tried to encourage Citadel's participation, but the AMIC representative had left their role, and we were awaiting the appointment of their replacement.

James Daunt (Mizuho) commented that he had previously been on the buy-side, before becoming a sell-side trader. The challenge as he saw it was the extent to which asset managers and funds would be prepared to provide pricing in a whole range of bonds, rather than simply in those where they were axed. Sonali Theisen (Citi) added that she was relatively agnostic as to whether buy-side firms were price-makers or price-takers, however, she noted that there is an asymmetry in information and protocols between market-makers and investors, particularly in the pricing of illiquid securities, and which could be a challenge for buy-side firms. The role of market-makers is risk transformation, providing liquidity where otherwise there would not be any, and this would have to be an essential component of any meaningful buy-side solution.

Partnership models

Asif Godall noted that hedge funds were likely to be opportunistic in their pricing and liquidity provision, however the equity market had evolved into one where much of the liquidity is provided by non-banks. Andrew Bowley (Nomura) responded that the equity market was very different, and was characterized by high turnover. However, it did prompt the underlying philosophical question of where is the demand for liquidity derived in the credit markets? Ultimately, the buy-side need it, and not the sell-side. Thus there is a need to facilitate more buy-side-to-buy-side trading, which raised another question of where do the banks fit into this model. Asif Godall pointed out that the cost of capital is very different for banks and non-banks which was the key challenge for taking trading positions. Andrew Bowley suggested that this was likely to drive “partnership” models between banks and their clients.

Liquidity risks

Liz Callaghan, responding to the buy-side-to-buy-side issue, cited a recent conference where delegates were asked what they thought was the potential for buy-side-to-buy-side fixed income activity across trading platforms. The consensus was that this might only reach four-to-five percent of trading volumes. Patrik Karlsson added that there is an observable, gradual change in the culture of the buy-side, as there was growing realization that there is a need to look beyond the traditional market-making request-for-quote model. Andrew Bowley again raised the challenge of the increasing costs of banks’ capital which made liquidity provision difficult, and which could be seen as an opportunity by some hedge funds. However, James Daunt noted the conflict of interest, in that while banks tried to capture bid-ask spreads through market-making, hedge funds were motivated to reduce bid-ask spreads, not to provide liquidity. Sonali Theisen noted that there was now lower turnover, a more homogenous buy-side, fewer proprietary trading desks and hedge funds, and this was creating more of an investor market and less of a trading market. Thus investors were becoming more concerned about risks to liquidity in entering trades, rather than exiting.

Lessons from the equity market

Asif Godall cited the evolution of trading in the equity markets, suggesting that fixed income markets could learn from this and try to standardize some of the rules and protocols. Andrew Bowley added that competition had been a critical component in equity market evolution, and that MiFID had been intended to allow various platforms to differentiate themselves. Similarly, it may therefore not be desirable for fixed income markets to aspire to full standardization of rules and protocols. However, he also noted that the flip-side of this was that this could also lead to fragmentation of market liquidity. Liz Callaghan added that this was potentially a risk arising out of MiFID II, the scope for different interpretations of the regulation between the various national competent authorities, and the possibility for cross-border arbitrage. Andrew Bowley stated that this had been the experience in the equity market following MiFID, although eventually the various NCAs would conform to one model.

Comparisons with the US market

Sonali Theisen commented that the US credit markets were in their third or fourth wave of evolution, with technology at the forefront of this. She added that buy-side-to-buy-side activity remained a very small part of the market, so was unlikely to take off without new protocols to support this. Godfried De Vidts asked whether regulation in the US tried to encourage this. Sonali Theisen replied that the SEC was very open to new trading protocols, and was very supportive of new innovations. She added that despite this, the development of best practice for fixed income trading on platforms remains behind that of equities. As more trading moves onto platforms, so the higher the demands need to be on the platform providers in terms of the robustness of their systems and rules. For instance, in Europe there are currently no proposals on how to deal with issues related to technology glitches. It would therefore be necessary for the market to push platform vendors in the European credit space to standardize rules related to data protection, information symmetry, protocols for technology issues, etc.

SMPC Electronic Trading Working Group

Liz Callaghan informed the Committee that in the new year, the SMPC Electronic Trading Working Group intended to invite the various platforms into the room with both sell-side and buy-side members to discuss the issues raised by Sonali Theisen. Andrew Bowley added that there was a lot of evolution underway in the fixed income ETP space, related to best practice, compliance processes, etc., and that the SMPC Electronic Trading Working Group could be a key vehicle for sharing thoughts.

Stating that the time allocated for the discussion had over-run, Asif Godall brought the agenda item to a close, while noting that the final comments provided a convenient Segway into the next agenda item.

5) SMPC Electronic Trading Initiatives

Electronic trading platform mapping exercise

Liz Callaghan informed the Committee that earlier that day ICMA had published on its website a directory of fixed income electronic trading platforms currently available in Europe, detailing their various attributes and capabilities, as provided by the platforms themselves. She noted that while it was not an exhaustive list, and some platforms were still not included in the mapping exercise, it was still a very good start and it was expected that more platforms would be added in the coming weeks and months. Furthermore, the “map” was intended to be a living directory and would be regularly updated on the ICMA website. Andy Hill (ICMA and SMPC Secretary) added that this central directory of fixed income ETPs was a first in Europe, and exclusively provided by ICMA.

Electronic Trading Working Group

Liz Callaghan next updated the Committee on the next steps for the Electronic Trading Working Group. Firstly, it intended to garner a better understanding of the various order management systems used by the buy-side, and how these potentially interfaced with the electronic trading landscape. Secondly, the Group would focus on identifying the key attributes of various platforms that would help determine their chances of survival in the inevitable “Darwinian” evolution of the space. Asif Godall asked how many trading platforms for equities now existed. Andrew Bowley replied that after an initial plethora of new platforms, only four now survived, and only two of those were profitable. Godfried De Vidts commented that regulatory authorities did not understand that platforms by themselves do not create market liquidity, and that their excitement over more platforms coming to the fixed income markets was misplaced. Andrew Bowley agreed that it would be difficult for many platforms to survive, although in some cases it was simply a case of existing equity technologies opportunistically being adapted to support fixed income. Umberto Menconi (Banca IMI) suggested that the outcome of multiple competing platforms might in fact be much worse, and could actually fracture liquidity, unless prices could be shown across several platforms simultaneously. Liz Callaghan suggested that based on the equity market experience, liquidity will eventually gravitate to the platforms with the highest volumes. Andrew Bowley noted that as a result of MiFID II, all platforms would have to change to some degree. Key in this would be the ability to collate and process data. Further considerations would relate to compliance issues and their respective rule books.

Asif Godall stated that he thought that the SMPC was the ideal forum for engaging with electronic platforms with respect to all the issues highlighted. Paul Richards, noting the significance of the ETP mapping exercise, agreed that the basis for this had now been established. Asif Godall asked whether all the various platforms were part of the SMPC Electronic Trading Working Group. Liz Callaghan explained that this had primarily been established for sell- and buy-side participants, with platforms invited to participate when appropriate, rather than it being an open forum for vendors. However, she felt that there was scope to create a new working group that was primarily made up of trading platforms. Godfried De Vidts pointed out that some care would need to be taken in light of the fact that many of these platforms are not necessarily ICMA members.

Liz Callaghan agreed that she would ascertain interest from the various platforms to engage in a new working group, and asked the Committee to contact her with any further suggestions related either to the ETP mapping exercise or engaging platform providers through a new working group.

6) CSDR mandatory buy-ins and the proposed Aged Fails Auction mechanism

CSDR settlement discipline

Andy Hill provided an update on the latest developments related to CSDR mandatory buy-ins. He informed the Committee that on September 28th, ESMA had published the “Level 2” regulatory technical standards for CSDR; however, this did not include the provisions for mandatory buy-ins, which were now expected to be finalized in November. The concern remained that due to flaws in the Level 1 text, which was already in law, it would be challenging for ESMA to produce a buy-in mechanism that could be consistent with the Level 1 requirements, while minimizing the potential adverse impacts for market liquidity and efficiency. The key challenges were likely to be trading level buy-ins versus CSD participant level buy-ins (i.e. settlement agents), an asymmetry in the payment provisions for the buy-in price differential, and extraterritorial enforceability. One positive note, however, was that ESMA had recommended a 24 month delay in implementation of settlement discipline, which, subject to approval by the co-legislators, would take application into 2018, rather than the originally projected first quarter of 2016. Andy Hill added that the intention of ICMA and others was still very much to ensure that implementation of mandatory buy-ins was delayed indefinitely on the grounds that the regulation was not fit for purpose.

Andy Hill further informed the Committee that in September, ESMA did publish the details of cash penalties, the other key component of CSDR settlement discipline, and far less contentious.

Aged fails auction

Asif Godall asked what were the latest developments with respect to the ongoing project to create an 'aged fails auction', with a longer-term view to establishing a 'buy-in auction' mechanism? Andy Hill updated the Committee that while there had been broad market support, a proposed price discovery mechanism for the auction put forward by TradeWeb, and subsequent discussions between TradeWeb and the two ICSDs, TradeWeb had become concerned about the investment necessary to develop the auction, and its commercial viability, particularly given that mandatory buy-ins now looked to be at least two years away. Therefore, to help TradeWeb, or any other interested platform, ascertain better the viability of such a mechanism, ICMA would reach out to its SMPC sell-side members with a related survey.

Godfried De Vidts agreed that in developing the proposed aged fails and buy-in auctions, the SMPC would need to provide interested platforms with a business case, otherwise they were unlikely to support it.

Andrew Bowley suggested that it could be important to explore the impact of cash penalties, particularly as it will be important to clear up fails quickly due to balance sheet impacts. Andy Hill noted that the proposed levels for the penalties were oddly low for fixed income, and could perversely encourage failing as a cheaper option than borrowing securities, something ESMA would need to address if the provision is to be effective.

Returning to the projected auction mechanism, Asif Godall suggested that given the opacity of the current buy-in process, an effective auction process to cover shorts could improve liquidity, giving market-makers more confidence in running short positions. James Daunt, however, felt that advertising short positions could prove counterproductive, and this would need to be a consideration in the eventual auction design.

7) ICSA Liquidity Initiatives

ICSA Liquidity Working Group

Peter Eisenhardt, Secretary General of the International Council of Securities Associations, provided an update to the Committee on the work ICSA had been undertaking related to market liquidity through its recently formed Liquidity Working Group. Peter informed the Committee that ICSA was a global body of market trade associations, that it had been founded in 1987 following the market crash, and worked very closely with IOSCO. In response to increasing concerns related to market liquidity, and highlighted in recent key studies published by ICMA, PwC, among others, in June 2015 ICSA formed a Liquidity Working Group to focus more closely on the issue. This pulled together seven associations from across the globe, including ICMA, to assess and react to research on market liquidity from various sources, including market bodies, regulators, and academics. Among the challenges was the fact that a number of regulatory bodies, such as the Federal Reserve and the Bank of England, did not seem to acknowledge that there was a growing problem with global bond market liquidity. Accordingly there were different interpretations of the different measures of liquidity, as well as the view that illiquidity was more illusory than tangible. However, this contrasts with the overwhelming view from market participants that market-making capacity has been significantly reduced as a result of regulation, and that by any measure this has made bond markets less liquid.

Engagement with regulators

Peter Eisenhardt further explained that there was also increasing concern about the cumulative impacts of future regulation on market liquidity, such as FRTB (The Fundamental Review of the Trading Book), as well as the implications for the end of quantitative easing and a reversal in the interest rate cycle. The Liquidity Working Group had therefore compiled and summarized the various published outputs and studies of the Group members and provided this to IOSCO's C2 (Committee of Regulating Secondary Markets) as the basis for further dialogue and research.

Asif Godall, picking up on Peter Eisenhardt's reference to FRTB, asked how concerned the Liquidity Working Group Members were with the potential impact as this seemed likely to increase the cost of capital for banks beyond the provisions of Basel III. Peter Esienhardt confirmed that they were indeed most worried, not least due to its likely impact on the cost of capital across individual businesses within banks. Asif Godall wondered whether the potential ramifications of FRTB had been fully picked up by the market, and whether it was an important area for further discussion by the SMPC.

Paul Richards commented that ICMA had been a member of ICSA for a number of years, and as current host of the secretariat it was a good opportunity to work closely with Peter, particularly in relation to the Liquidity Working Group. As the SMPC would be well aware, the cumulative impacts of regulation on bond market liquidity were a major focus of ICMA. Furthermore, ICMA intended to submit a response to the upcoming European Commission consultation paper, the "Call for Evidence", primarily focusing on challenges to liquidity in both the European corporate bond and collateral markets, drawing largely on work previously undertaken by the SMPC and the European Repo Committee.

Asif Godall asked whether IOSCO was showing genuine concern about bond market liquidity. Andy Hill reminded the Committee that he had been given the opportunity to present the findings of the ICMA study into the state of the European corporate bond secondary market to the IOSCO C2 Committee earlier that year, and that the resulting discussions, both formal and informal, suggested a heightened awareness that there could be a potential problem. However, there was not necessarily an indication that they were willing to do anything about it. Peter Esienhardt added that from his interaction with IOSCO, he had not observed a great deal of concern. Sonali Theisen commented that she had also had the opportunity to speak at a recent C2 meeting and her impression was that they were quite interested in ongoing developments in market liquidity conditions. However, the challenge was that IOSCO was a global body, and much of the regulation impacting markets was at the local level.

Paul Richards mentioned that an IOSCO Task Force was currently working on its own report on market liquidity and that this would be expected in 2016. Umberto Mencini commented that the problem with this would still be that it would only provide an analysis of the problem and would be unlikely to address the problems.

Andrew Bowley suggested that perhaps there was finally a growing awareness among the regulatory community of the impacts of regulation. He pointed to the recent changes in MiFID II as an example of regulators responding to potential adverse impacts. Neil Treloar (Tradition) agreed with Andrew Bowley's comment on MiFID II, adding that the CMU project was perhaps a good opportunity to highlight some of the adverse cumulative and indirect impacts of regulation. One such indirect impact is the effective barriers to entry for smaller firms being brought about by the costs associated with compliance to MiFID II. Andrew Bowley concurred that MiFID II would create so many pressure points across different businesses that ultimately we would probably see a mass exit from, or entry into, certain products or markets, and so losing an element of specialization in particular markets.

8) Regulatory update

(i) MIFiD II/R

IBIA vs COFIA

Liz Callaghan informed the Committee that the biggest surprise in the recently published regulatory technical standards was the inclusion of IBIA ("instrument by instrument approach") with respect to liquidity determination for pre- and post-trade transparency calibrations. She explained that the debate between IBIA and COFIA ("class of financial instrument approach") had been one of accuracy versus predictability, and accuracy had eventually triumphed. However, she went on to explain, while this gave the market something to be happy about, there remained the challenge of implementation.

Liz Callaghan explained to the Committee that the initial assessment for IBIA would be based on back-dated transaction based data collated by the NCAs during 2016. Post 2017, it would then be based on transaction data reported under the regulation. This presented a challenge in that the NCAs of different jurisdictions would be responsible for assessing different instruments, based on different data sources.

Package transactions

Another issue, highlighted by Liz Callaghan, was that package transaactions were still not exempt from pre- and post-trade transparency obligations, although there was increasing speculation that the Level 1 could be re-opened to address this.

Possible delay

Liz Callaghan further suggested that there was also growing speculation of a possible twelve-month delay in implementing all or parts of MiFID II, taking this to January 2018. Godfried De Vidts commented that this seemed likely and was currently the topic of internal debate at ESMA. He suggested that it was becoming apparent that neither ESMA nor the local NCAs currently had the budget or technology to support the requisite data collection and processing necessary for implementation in January 2017.

Best execution

Liz Callaghan listed off another potential challenge related to best execution obligations, and which could lead to onerous over-reporting, particularly for buy-side firms. Andrew Bowley concurred that some of the best execution requirements in the context of fixed income were indeed pointless.

Securities financing transactions

A further challenge described by Liz Callaghan related to the inclusion of repo transactions under MiFID II, which threw up a number of ambiguities and inconsistencies, not least since a separate piece of regulation (SFTR) had been designed to cover repo and SFT transaction reporting requirements. Sylvie Bonduelle (Soc Gen) asked whether ICMA had received clarification from the regulatory authorities on whether SFTs should be in scope of MiFID II. Liz Callaghan responded that her personal interpretation was that (with respect to transaction reporting) where SFTs were out of scope of SFTR, they would be in scope of MiFID II, and so, for example, could include repo transactions with central banks. She added, however, that there were still a number of open issues, and that further guidance and clarification would be needed on a number of issues related to SFTs, including whether the systematic internaliser obligations would also apply to SFTs.

Article 18(2)

Umberto Menconi noted that the new RTS did not cover Article 18(2)[1] of the Level 1 directive, related to instruments traded on MTFs and OTFs, and it was not clear how this was expected to be implemented. He asked whether there was further scope to respond to ESMA on this issue.

Liquidity calibrations and corporate bonds

Andrew Bowley commented that there was still an issue with the liquidity determination model with respect to corporate bonds. He noted that the reversion to IBIA from COFIA had only reduced the amount of corporate bonds likely to be classified as liquid from 6% to 4.8%, and that this was still over 1,600 bonds which accounted for some 60% of business in corporate bonds. Umberto Menconi commented that two trades per day was not an adequate determinant for liquidity, and that this should be higher. James Daunt cited the recent volatility in Glencore bonds as a cause for concern with the liquidity calibrations. He noted that under such stressed circumstances the bond could be active enough to be in scope of pre- and post-trade transparency, even though it has fallen 25 points. As a market-maker, he asked, what do you do in that situation? Neil Treloar further questioned the calibration of the transparency waivers, with Umberto Menconi adding that the calculation for the waivers needed to include transactions under 100,000 nominal value to be meaningful. Both acknowledged that it was important to reduce the risk that the regulation produced for market-makers, even if this meant re-opening the Level 1 text.

Final comments

Sonali Theisen commented that it should not be problematic for ESMA and the Commission to go back to the Level 1 text, particularly as there were a number of issues that needed addressing, including those related to the anomalies in the SI regime and the inclusion of RFQs in pre-trade transparency.

A final point was made by Andrew Bowley who suggested that the best outcome for fixed income transparency would be for post-trade reporting to go live first, with pre-trade to follow. This would not only reduce some of the uncertainty of the impacts to liquidity, but would also provide the necessary

[1] Member States shall require that investment firms and market operators operating an MTF or an OTF establish transparent rules regarding the criteria for determining the financial instruments that can be traded under its systems

post-trade data to calibrate better the pre-trade waivers. He noted that this is also the model being applied to foreign exchange.

(ii) CSDR settlement discipline

Andy Hill noted that he had already provided an update on the RTS, and awaited RTS, for CSDR settlement discipline provisions earlier in the meeting, and asked Godfried De Vidts, who has led much of ICMA's advocacy work on this, whether he had any additional comments. Godfried De Vidts responded that it was important to bear in mind that the Level 1 of CSDR could not be changed, and so while fighting to postpone indefinitely the implementation of mandatory buy-ins, it was also critical for the market to focus on improving settlement efficiency to ensure that the regulators did not feel that it was justifiable to implement such an extreme and drastic measure as mandatory buy-ins. This required focus on a number of issues, including the successful implementation of Target2-Securities, expediting the current work of the ICMA ERC operations Group related to standardized trade matching and affirmation, pushing for ICSD interoperability, and addressing the longstanding Giovannini barriers. He added that supporting the successful and timely roll-out of the cash penalty regime should also be a market priority, reasserting that the best argument against mandatory buy-ins was improved settlement discipline.

9) Any other business

Andy Hill stated that in light of Asif Godall's imminent change of firm, he would look to update the SMPC early in the new year to inform them of possible developments in terms of the position of Chair of the Committee, as well as the date of the next meeting.

With no more points being raised, Asif Godall thanked those in the room and on the line, and called the meeting to a close.