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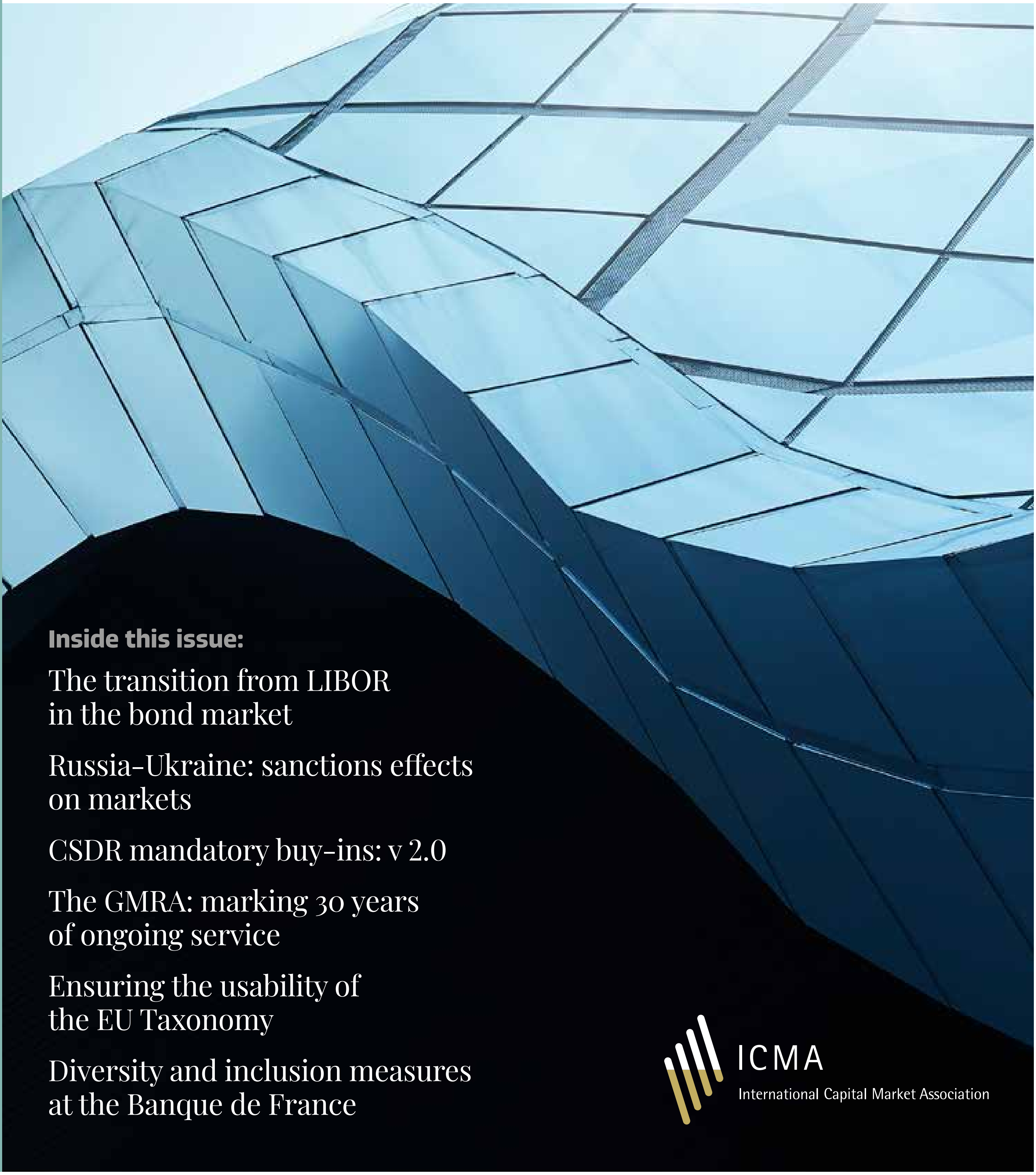

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ICMA
International Capital Market Association

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The mission of ICMA is to promote resilient and well-functioning international and globally integrated cross-border debt securities markets, which are essential to fund sustainable economic growth and development.

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include public and private sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has some 600 members in 64 jurisdictions worldwide.

ICMA brings together members from all segments of the wholesale and retail debt securities markets, through regional and sectoral member committees, and focuses on a comprehensive range of market practice and regulatory issues which impact all aspects of international market functioning. ICMA prioritises four core areas – primary markets, secondary markets, repo and collateral markets, and the green, social and sustainability markets.

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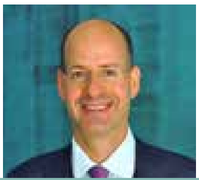

by **Jérôme Haegeli**

A year we had hoped would represent a break from turbulence has turned out darker than virtually everyone anticipated. After two years of COVID-19 disruption, the invasion of Ukraine has shocked us all and ratcheted up the uncertainty level. As we look at the economic outlook, we are facing significant new challenges: higher inflation than previously expected, as commodities, energy and food prices feel the pressure from the conflict; central banks tightening monetary policy into slowing economies, and even the possibility that 1970s-style stagflation may return.

The geopolitical implications for international relations, security and the global balance of power are likely to be of even greater significance than the economic consequences. The conflict in Ukraine has disrupted the international security order, and a new order with a much stronger focus on defence and energy security is taking shape.

This will have profound long-term structural consequences. Changes in the geopolitical order, revisions of national defence budgets and restructuring of energy supply chains, especially in Europe, will redefine multinational relationships. For example, Germany has already committed 0.3% of GDP to offsetting the large increase in energy prices, and pledged to reach the full NATO spending goal of 2% of GDP on defence. The EU is discussing joint bond issuance to fund energy and defence spending. We see this push for self-sufficiency in energy, agricultural commodities and other areas structurally raising prices for consumers in many countries.

ICMA is needed more than ever in this environment. Strong capital markets are the bedrock of the global economy and ICMA's work underpins their transparent functioning and supports market participants. As we see in these times of high volatility and rapid change, it is critical that investors can trust in the integrity of markets. I am honoured and delighted to contribute to this essential work.

The regime shifts in the making have the potential to force a dramatic recalibration in the landscape of ESG investing. The cosy world of old ESG certainties is over. Former assumptions regarding, for example, energy choices – gas in, nuclear out – do not fit with a world in which funds used to buy gas ultimately finance conflict. But if oil and gas are now akin to blood diamonds, what rating will ESG investors place on nuclear power? Similarly, the defence industry's contribution to security and societal resilience is now being acknowledged and could find a home in ESG portfolios. I expect the prioritisation of the "E" in ESG to adjust, to ensure that the "S" of social requirements such as energy security and defence is no longer neglected.

As new events create transformation in financial markets, it is crucial to make sure the system is up to the challenge. There are three key transformations that sit at the intersect of economics and capital markets in which I believe ICMA's work will be crucial for the future. We call these the three "Ds", of divergence, digitalisation and decarbonisation.

Divergence within and between countries is a huge concern as it creates different paths for economic recovery, economic inequality and socio-economic opportunity. Our path forward has to be socially inclusive.

Digitalisation – inclusive digital transformation – is essential to "future proof" the world economy, make businesses more resilient and reduce divergence.

Decarbonisation, the transition to a net-zero carbon emission world, is needed to end carbon emissions and stop climate change. ICMA's work in this field is already innovative and influential, such as the Green Bond Principles. Decarbonisation of energy supplies has been given fresh impetus by the latest geopolitical developments, as well as the energy price crisis. The drive for energy security may accelerate this transition.

The global economic trajectory and strong capital markets both ultimately rely on us understanding and providing leadership in transitions like these. The global economy is not more resilient today than before the global financial crisis. Recent events are a stark reminder that assumed certainties can evaporate at any time and we must be ready to manage change.

Jérôme Haegeli is Group Chief Economist and Managing Director, Swiss Re Institute, and a member of the ICMA Board.

The transition from LIBOR in the bond market: progress and remaining steps

by **Paul Richards**

Summary

Very considerable progress has been made in the transition from LIBOR to risk-free rates, including in the bond market. This assessment considers: the changes to LIBOR at the end of 2021; the reasons for the smooth transition at the end of 2021; the remaining challenge in the legacy sterling and US dollar LIBOR bond market; differences in the legislative approach to the transition of legacy LIBOR bonds; and the remaining steps needed in the legacy sterling and US dollar LIBOR bond market under English law.

Introduction

1 The authorities have for some time planned the permanent cessation of LIBOR,[1] on the grounds that LIBOR poses clear risks to global financial stability, as the market for unsecured wholesale term lending between banks is no longer sufficiently active to support such a widely used reference rate as LIBOR.[2] Instead, the authorities have encouraged the market to adopt near risk-free reference rates, where the volume of underlying market transactions is greatest.

2 This assessment considers: the changes to LIBOR at the end of 2021; the reasons for the smooth transition at the end of 2021; the remaining challenge in the legacy sterling and US dollar LIBOR bond market; differences in the legislative approach to the transition of legacy LIBOR bonds; and next steps. While the assessment sets out the overall context, the focus of the assessment is on progress to date and the remaining steps needed in the legacy sterling and US dollar LIBOR bond market under English law.

The changes to LIBOR at the end of 2021

3 The main changes to LIBOR at the end of 2021 can be summarised as follows:

- 24 of the 35 LIBOR settings in the five LIBOR currencies ceased permanently, including all euro LIBOR and Swiss franc LIBOR settings, and some sterling, yen and US dollar settings.[3]
- In the case of outstanding legacy LIBOR contracts for one, three and six month sterling and yen LIBOR settings, except cleared derivatives, the methodology changed from panel bank LIBOR to synthetic LIBOR.[4]

1. In July 2017, the Chief Executive of the FCA, the regulator and supervisor of the IBA, the administrator of LIBOR, announced that the FCA would no longer persuade or compel banks to submit quotations for LIBOR after the end of 2021.

2. See the FSB Global Transition Roadmap, 2 June 2021. This problem was illustrated during the market turmoil at the start of the COVID-19 pandemic in March 2020, during which LIBOR rates rose when central bank policy rates fell. See the FSB *Statement on the Impact of COVID-19 on Global Benchmark Reform,* July 2020.

3. The overnight/spot next, one week, two month and 12 month sterling and Japanese yen LIBOR settings; and the one week and two month US dollar LIBOR settings.

4. Synthetic LIBOR consists of a term risk-free rate plus a fixed spread. The remaining yen settings will cease permanently at the end of 2022.

- In the case of the remaining five – overnight, one, three, six and 12 month – US dollar LIBOR settings, new transactions are no longer permitted, with very limited exceptions.[5] In the case of legacy US dollar LIBOR contracts using these settings, panel bank US dollar LIBOR submissions will continue only until the end of June 2023.

4 In place of LIBOR, the authorities have encouraged the market to adopt near risk-free rates: SOFR in US dollars; SONIA in sterling; €STR in euro; SARON in Swiss francs; and TONA in Japanese yen:[6]

- In each case, the most robust risk-free rates are overnight rates, which are measured by the volume of overnight transactions and do not depend on any use of expert judgment. To take account of local market conditions, risk-free rates in some currencies are based on secured transactions and in others on unsecured transactions.
- Overnight risk-free rates compounded in arrears have the highest volume of transactions. In the UK, for example, overnight SONIA compounded in arrears is now fully embedded across sterling markets. In the sterling bond market, new floating rate notes (FRNs) and securitisations have been referencing compounded SONIA for some time. The FCA estimates that SONIA FRN issuance since 2018 exceeds £120 billion.[7]
- Although the authorities prefer the market to use overnight risk-free rates, wherever practicable, because these rates are the most robust, they also recognise the need for the market to use forward-looking term risk-free rates in some limited cases. In particular, the authorities in the US and the UK want the market to avoid the use of credit-sensitive rates, which they consider would run similar risks in the future to those experienced in the past with LIBOR.[8]

The reasons for a smooth transition at the end of 2021

5 The changeover at the end of 2021 went smoothly. Sterling markets, for example, navigated the transition at the end of 2021 on time and with minimal disruption, in support of global transition efforts towards alternative risk-free rates.[9] There are two main reasons for this.

6 First, the changeover was well organised and coordinated:

- The authorities and market participants worked closely together at national level through Risk-Free Rate Working Groups, and they were coordinated at global level by the FSB Official Sector Steering Group. The official sector in different jurisdictions kept in regular contact with each other internationally. In addition to the official sector, the Risk-Free Rate Working Groups and their Sub-Groups included representatives of the market as a whole. For example, the UK Bond Market Sub-Group, chaired by ICMA, has included representatives of issuers, banks, asset managers and investors, service providers, relevant trade associations and law firms, all working together with the FCA and the Bank of England.
- The changeover was carefully planned by the authorities in consultation with the market. Roadmaps were agreed by the authorities with the market in advance with clear deadlines, clearly communicated across the market as a whole. This message was reinforced by speeches from senior officials and Dear CEO letters from bank supervisors, which were designed to reinforce the message to senior management in market firms about the need to transition from LIBOR to risk-free rates.
- The authorities encouraged market participants to stop referencing LIBOR in new transactions and start referencing risk-free rates as early in the transition process as possible (eg by coordinating the SONIA First and SOFR First initiatives). This helped to build liquidity in the market for risk-free rates and also helped to reduce the stock of legacy LIBOR contracts outstanding at the end of 2021, as legacy transactions matured.
- The authorities also encouraged market participants actively to transition legacy contracts from LIBOR to risk-free rates in advance, where feasible, as well as to include robust fallbacks to risk-free rates in legacy contracts, where feasible, as a backstop: in particular through the ISDA Fallback Protocol for OTC derivatives and through conversion weekends for cleared derivatives organised by ICE and LCH. This further reduced the stock of legacy contracts and the scale of the conversion risk at the end of 2021.

5. The FSB and IOSCO agreed on 2 June 2021 to stop the use of LIBOR in new transactions, including in US dollars, by the end of 2021, with very limited exceptions.

6. In the euro area, on 4 January 2022, EONIA was replaced by €STR. EURIBOR continues to be published and there has been no announcement indicating that it will cease.

7. Bank of England, FCA and RFRWG: *Finalising LIBOR Transition – Achievements in Sterling Markets and What Remains to be Done,* 9 February 2022.

8. See also the IOSCO *Statement on Credit Sensitive Rates,* 8 September 2021.

9. Bank of England, FCA and RFRWG: *Finalising LIBOR Transition – Achievements in Sterling Markets and What Remains to be Done,* 9 February 2022.

7 Second, the UK authorities took a number of decisions that were critically important to the sterling bond market, where legacy contracts referencing LIBOR need to be transitioned bond by bond (rather than through a protocol), and where the normal market process – consent solicitation – is time-consuming and difficult to achieve in some cases owing to high consent thresholds. All these decisions by the UK authorities were taken in consultation with the market:

- The use of synthetic LIBOR (ie term SONIA plus a spread) for "tough legacy" sterling contracts[10] which had not been able actively to transition was critically important in preventing a large number of legacy sterling LIBOR bonds outstanding at the end of 2021 from falling back from a floating rate to a fixed rate.
- Synthetic LIBOR was made available for all legacy sterling LIBOR bonds in the relevant one month, three month and six month settings, not just some of them, to avoid legal and practical problems.
- The Critical Benchmarks Act was introduced by HM Treasury to ensure continuity of contract in law between panel bank LIBOR and synthetic LIBOR.

The remaining challenge in the legacy sterling and US dollar LIBOR bond market

8 While the changeover at the end of 2021 was smooth, this is not the end of the transition process away from LIBOR to risk-free rates in the bond market. Taking account of the lessons learned from the changeover in the run-up to the end of 2021, there are remaining challenges in cash markets, and in particular in the bond market, in both sterling and US dollars.

9 Although significant progress has already been made on active transition of legacy contracts in the sterling bond market, the remaining challenge is to transition synthetic legacy sterling LIBOR bonds still outstanding to compounded SONIA plus a spread through consent solicitation, where feasible. To encourage active transition, the UK authorities have emphasised that synthetic LIBOR is a bridging solution, not a permanent solution: it cannot last longer than ten years, and may last less, as it is subject to annual review. The UK authorities have also made it clear that some settings may be retired before others.[11] In particular, the FCA has stated that it will seek views on retiring one month and six month synthetic sterling LIBOR at the end of 2022, and on when to retire three month synthetic sterling LIBOR.[12]

10 In the case of the US dollar floating rate bond market, the US and UK authorities have stressed the importance of using SOFR for new transactions, not credit-sensitive rates, which they consider run the same risks as LIBOR. The remaining issue relates to the transition of US dollar legacy LIBOR bonds to SOFR plus a spread. There are large numbers of legacy US dollar LIBOR bonds outstanding, many of which are not due to mature until after 30 June 2023, under both a law of the US and English law.

11 In that context, the Chair of the US Alternative Reference Rates Committee (ARRC) has stated: "Here lies the challenge: Some legacy contracts cannot be amended. While a substantial portion of legacy contracts will no longer be outstanding by the mid-2023 cessation date set by the FCA and IBA, there will still be a tail of contracts that will mature after that, including those that have no effective means to replace LIBOR upon its cessation. We believe legislation to address these contracts specifically is critical."[13] On 15 March 2022, federal US legislation was signed into law.[14] The legislation is designed to "minimise legal and operational risks and adverse economic impacts associated with the transition".[15]

Differences in the legislative approach to the transition of legacy LIBOR bonds

12 The US and UK approaches to the transition of legacy LIBOR bonds have a common objective, which is to end the use of LIBOR and transition to risk-free rates as soon as possible. But although they have a common objective, the UK and the US authorities have so far adopted different legislative approaches to the transition of legacy LIBOR bonds:

- One difference is that active transition[16] of legacy sterling LIBOR bonds has demonstrated that consent solicitation is feasible under English law in some cases, though not in others. The UK authorities stated on 4 January 2022:

10. See Charlotte Bellamy: *"Tough Legacy" Bonds,* ICMA Quarterly Report, First Quarter 2022.

11.Edwin Schooling Latter, FCA: "It is worth noting that the case for three month sterling LIBOR [is] stronger than for one month or six month. When outstanding contracts that still reference a particular LIBOR setting have reduced significantly, it may no longer be proportionate for the FCA to require continued publication of that setting on a synthetic basis.": 8 December 2021.

12. Bank of England, FCA and RFRWG: *Finalising LIBOR Transition – Achievements in Sterling Markets and What Remains to be Done,* 9 February 2022.

13. Tom Wipf, Chair of the ARRC, 3 February 2022.

14. The US Adjustable Interest Rate (LIBOR) Act was signed by the President into law on 15 March 2022.

15. ARRC Welcomes Passage of Federal LIBOR Transition Legislation in Omnibus Spending Package, 15 March 2022.

16. See Katie Kelly: *Continued Active Transition of Sterling LIBOR-linked Legacy Bonds,* ICMA Quarterly Report, First Quarter 2022.

"firms should now focus on converting their legacy US dollar LIBOR contracts by mid-2023".[17] But active transition is not expected in general to be feasible for US dollar LIBOR bonds governed by a law of the US, as consent thresholds are commonly 100%.

- The other difference is that the UK has kept the same LIBOR benchmark for legacy sterling LIBOR contracts but the FCA has compelled the IBA to change the methodology for the benchmark from panel bank LIBOR to synthetic LIBOR, whereas the US has introduced federal legislation to change the benchmark by overriding contractual references from LIBOR to a SOFR-based rate chosen by the Federal Reserve Board.[18] There is a time limit on the FCA's statutory power to compel the IBA to publish synthetic LIBOR of a maximum of 10 years, with annual reviews in the meantime, but there is no time limit on the contractual override provided by federal US law.[19]

13 The implication is that, in the US, on 30 June 2023, when panel bank US dollar LIBOR is due to cease, legacy US dollar LIBOR bonds governed by a law of the US are expected to fall back to a floating (SOFR-based) rate under federal US legislation. In the UK, it is not yet clear what approach the UK authorities will take for legacy US dollar contracts under English law. If panel bank US dollar LIBOR ceases permanently on 30 June 2023, most US dollar LIBOR bonds governed by English law would be expected to fall back to a fixed rate at that point. But if the UK authorities decide to introduce synthetic US dollar LIBOR for legacy US dollar LIBOR contracts (in the same way as for sterling), legacy US dollar LIBOR bonds governed by English law would continue to reference a floating rate until synthetic LIBOR is withdrawn subsequently, when most of them would be expected to fall back to a fixed rate.

14 The deadline for the end of panel bank US dollar LIBOR – ie 30 June 2023 – is later than for sterling, as SONIA has been in market use for much longer than SOFR. This interval until 30 June 2023 should give time: for the legacy stock to be reduced as LIBOR bonds mature; to transition as many as possible of the remainder, where feasible; and to work out the implications of the different legislative approaches to the common objective, and to resolve any outstanding issues.

Next steps

15 In a statement on 9 February 2022, the Bank of England, FCA and Sterling Risk-Free Rate Working Group (RFRWG) said that the RFRWG had met its objective to "catalyse a broad-based transition to SONIA across sterling derivative, loan and bond markets". They also said that "there remains further work to be done to finalise the transition from LIBOR, primarily to support the continued active conversion of legacy sterling LIBOR-linked bonds and loans that are dependent on temporary synthetic LIBOR; and to consider any implications of non-sterling LIBOR transition in UK markets. The RFRWG will therefore be moving forwards in an amended form and with new objectives, and with continued support from the Bank of England and the FCA."[20]

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17. FCA, *Change to LIBOR as of End-2021,* 4 January 2022.

18. Adjustable Interest Rate (LIBOR) Act, 8 March 2022. Separately, on 22 December 2021, the European Commission announced plans to adopt implementing acts to designate statutory replacement rates for certain sterling and Japanese yen LIBOR settings. It is also possible that the European Commission will designate statutory replacement rates for US dollar LIBOR settings in due course.

19. Another difference is that the contractual obligation for dealer polls on bonds before they fall back to a fixed rate at the permanent cessation of LIBOR is no longer required as a result of legislation under New York law, but not covered in legislation under English law. Instead, the UK authorities are following a voluntary approach under which banks are invited to state that they will not respond to requests for dealer polls.

20. Bank of England, FCA and RFRWG: *Finalising LIBOR Transition – Achievements in Sterling Markets and What Remains to be Done,* 9 February 2022.

Russia-Ukraine: sanctions effects on markets

by **Leland Goss**

The Russian invasion of Ukraine and implementation of broad Russian sanctions has impacted the markets and transactions of ICMA members. Over the past several weeks the ICMA Helpdesk has fielded enquiries from members particularly about secondary bond trading settlement fails caused by agreed transactions being frozen that are directly or indirectly subject to sanctions. This has caused questions and some confusion over the status of these unsettled trades, their accounting treatment and how, if at all, these trades can be resolved. The problem has been exacerbated by the speed of evolution of sanctions policies across jurisdictions and their lack of consistency, drawing in a widening pool of sanctioned counterparties and securities. To the extent that the bulk of these trades are unwound or cancelled rather than settled (late), there are likely to be mark to market and value transfer implications.

ICMA is also aware of members attempting to use buy-ins to remedy unsettled transactions, although it is not clear how effective this could be, particularly if the buy-in transaction might also be subject to settlement restrictions.

We are seeing similar issues with the repo market, where end-legs of transactions with sanctioned counterparties or in frozen securities are effectively becoming "orphaned". Not only does this create uncertainty about how best to unwind the transaction, but there are also implications from a valuation and margining perspective. This also potentially creates scenarios where a sanctioned counterparty could be the economic beneficiary of a frozen repo.

We believe the ICSDs are addressing these matters directly with relevant governmental authorities but as of today there has yet to be any indication of licences or other dispensation being granted to unfreeze blocked trades. From a market performance perspective, we have seen situations in the EUR Government bond market in particular where the scarcity of securities, effectively due to large holdings by sanctioned entities, have led to a heavily squeezed market in those instruments, but these issues have been largely normalised by the issuance of additional amounts of the affected securities. Looking at the broader picture, there has been little indication that secondary bond market settlement fails have caused material stress to the financial system or created systemic implications for markets.

The recent payment on several Russian Government US$ bond coupons was notable but eyes have been on the US$2 billion repayment due on 4 April. We and others are watching to see whether policy makers agree with the principle – perhaps counter-intuitively to some – that not allowing Russia to service sovereign debt interest and repay principal mainly hurts non-sanctioned market participants but also provides Russia with effectively a form of debt relief. Moreover, such a policy avoids a sovereign default occurring that even in normal circumstances can be messy and give rise to undesirable externalities. The unwind licences – the sanctions' exemption allowing investors to receive these payments – are due to end on 25 May so will need to be extended if this practice is to continue. The fact is that sanctions can both cause defaults and prevent the subsequent restructurings that are the usual and orderly means of resolving sovereign debt defaults.

ICMA will continue to remain close to its members, documenting these and other issues arising from sanctions, providing guidance and frameworks where possible to facilitate orderly market activity, and engaging frequently with regulatory authorities to ensure members' issues and concerns are flagged.

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CSDR mandatory buy-ins: v 2.0

by **Andy Hill**

On 16 March 2022, the European Commission published its much anticipated proposed amendments to the CSD Regulation (CSDR), intended to simplify the rules to make settlement in EU financial markets safer and more efficient. Significantly, this includes the eagerly awaited revised proposal for the mandatory buy-in (MBI) regime.

A two-step approach

Importantly, the Commission has proposed a "two-step" approach under which mandatory buy-ins could become applicable if and when the penalties regime alone does not improve settlement fails in the EU. Essentially, what this suggests is that the eventual application of MBIs will be based on an assessment by the Commission as to their appropriateness in the light of the evolution of settlement efficiency in the EU with respect to different underlying financial instruments or categories of transactions. This will also involve comparisons with settlement efficiency levels in other jurisdictions, as well as views on whether there could be an impact on market stability.

In many respects this two-step approach is in line with the broad industry position of supporting the roll-out of the penalty regime, allowing enough time for this to bed in, possibly with a view to recalibration of the penalty rates, before assessing whether MBIs would make a meaningful additional contribution to improving settlement efficiency, given the cost, complexity, and liquidity impacts that would come with implementation. However, it raises a number of key questions that will need to be addressed by the Commission, and, assuming that the assessment process is delegated, ESMA.

Firstly, what are the criteria for assessing whether settlement efficiency rates for a particular instrument or transaction type warrant the imposition of MBIs? This will likely require a clearly outlined methodology, including identified baseline data points and explicit targets and timelines. Transparency will be key, as will data quality.

Secondly, to what extent will causality be factored into the assessment? Given the extremely complex and heterogeneous nature of the EU's post-trade landscape, with multiple CSDs, CCPs, and payment systems, settlement frictions are an inevitability. This is particularly pertinent when comparing EU settlement data with that of less fragmented markets such as the US or UK.

Thirdly, will this take into account the pre-existence of buy-in mechanisms or similar remedies for settlement fails? For example, contractual buy-ins are already a well-established risk management tool in many bond markets, such as the ICMA Buy-in Rules, used in the international, cross-border bond markets. SFTs traded under standard documentation (such as the GMRA or GMSLA) also have a "buy-in-like" remedy for fails, known as a "mini close-out".

Fixing the framework

In the event that MBIs are ever applied to a particular financial instrument or transaction type, the Commission has also proposed some amendments to the original framework, which can be viewed as positive. Importantly, the payment of the buy-in (or cash compensation) price differential will now be symmetrical, thereby ensuring the economic integrity of the buy-in process. In turn this will allow for a pass-on mechanism to function effectively, which is also introduced in the new proposal. Other welcomed revisions include a slight narrowing of scope (to transactions between two trading parties), and the possibility to suspend the application of the MBI requirement under exceptional market conditions where this could be a threat to market stability. This is a clear acknowledgment of the industry concerns flagged following the March-April 2020 turmoil.

However, many challenges identified with the original proposal will still need to be addressed if MBIs are ever to be enforced. Some of these will be more pertinent to the ESMA re-draft of the Regulatory Technical Standards, such as the requirement to appoint a buy-in agent, or the provision that the buy-in is only completed on successful settlement rather than at the moment of execution – creating undue and unnecessary market risk for the party being bought in. Meanwhile, the process for establishing the reference price for cash compensation, at least in the case of illiquid bonds, seems irreconcilable with the regulatory requirement.

Scope will also remain an area in need of clarification, not least with respect to SFTs. This is likely to be a key focus for the repo and securities lending communities as the proposal goes through the legislative process, and where a Level 1 change is almost certainly required.

The wrong Regulation

Even hoping that the outstanding design faults and ambiguities are addressed in the upcoming Level 1 and Level 2 legislative processes, which are likely to be over the next two-to-three years, and assuming that it is eventually decided to apply the regime to a particular market or transaction type, MBIs still face what may be an unsurmountable implementation challenge. As ICMA has always maintained, a buy-in is not a post-trade process: it is a market transaction between trading parties, with associated market risk. *CSDR not only attempts to force trading entities into executing a market transaction that may not be in their best interest, or that of their clients, but it does so through a Regulation that does not even directly apply to them.* Thus, enforceability relies on the introduction of contractual arrangements through the "settlement chain", starting with EU-regulated infrastructures and their participants (that are subject to the Regulation) and ending with global trading entities (that are not), who are expected to honour the buy-in obligation, regardless of where they are regulated or by whom.

Maybe an additional question to be considered by the Commission when assessing whether MBIs are an appropriate and proportionate remedy for a particular EU financial market should be: *is CSDR the right Regulation through which to do this?*

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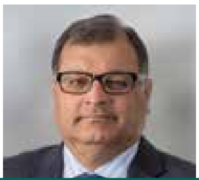
The GMRA: marking 30 years of ongoing service



by **Habib Motani**

This year marks 30 years since the first publication of the Global Master Repurchase Agreement (the GMRA) in 1992, an agreement which, during that period, has become the foremost agreement for documenting cross-border repos. It seems fitting therefore to mark this anniversary by reminding ourselves of the context in which the GMRA was created, the motivations behind its publication and how it has served, and continues to serve, in fulfilling the expectations with which it was born.

The context

The late 1980s saw the beginnings of liberalisation of access to the European financial markets, symbolised in particular by "Big Bang", the day in October 1986 on which the London Stock Exchange abolished many of the restrictions to accessing the London financial market. In the following years, investment banking activity in London mushroomed and London welcomed the presence of increasing numbers of non-UK banks and securities firms, including many large US-based ones. In the US, these institutions had long used the repoing of securities as a tool for accessing liquidity, and, as their operations in Europe grew, they sought opportunities to use that tool in Europe.

The use of securities as collateral to support liquidity was certainly not unknown at that time in Europe. But in a period that preceded the Single European Market, the laws and financial market infrastructures relating to the use of securities as collateral were fragmented across the various European countries. As a result, repurchase transactions were frequently structured as buy sell back transactions, which were operationally relatively simple, but largely undocumented and lacked the certainty that documentation provides, including a cross-transactional mechanism to address counterparty default and the protections afforded by provisions for marking to market of collateral.

At the same time, bank regulators were focusing on formulating standards for bank credit risk management and supporting regulatory capital through the introduction of the Basel Capital Accord (Basel 1) and its successors. Crucially, as the bank regulators continued to refine their approach to the measurement of credit risk and the associated capital adequacy requirements, in the early 1990s they came to accept the relevance and benefits of netting.

Together these elements formed the ecosystem, or primordial soup, out of which the GMRA evolved.

Standardisation of documentation

Many of the institutions seeking to promote the use of repos in the European markets at that time were familiar with the standard used for repos in the US Government bond market, the Master Repurchase Agreement (the MRA) published by the Public Securities Association (the PSA). In the absence of a standard European repo document, these institutions developed their own house documentation, generally based on the MRA but customised. Their counterparties were therefore faced with individual, customised repo agreements with which they were not familiar, and which required individual review, a costly exercise, which some counterparties were reluctant to undertake. Parties were used to the simpler undocumented buy sell back structure and pushed to stick with that. In addition, these MRA based documents often contained provisions taken from the MRA which, although appropriate in the US markets, did not transpose easily into the European context.

Standardisation of market documents sought to address some of these challenges and so the more active institutions turned to the PSA and to ISMA, a predecessor to ICMA, to create a standard repo document for use in the European markets, which, importantly, meant a document that could readily be used across borders, in light of the multiple European jurisdictions which these institutions wished to target. They appreciated that a standard document would assist their counterparties in reviewing the documentation, but also give their counterparties confidence that a market standard document was available. And of course, as between these active institutions themselves, a standard document would facilitate their dealings with each other. All of this created the impetus for the development of the GMRA.

Content

Many of the provisions in the GMRA reflected the content of the MRA but the marking to market structure, the collateralisation mechanism embedded in the agreement, needed reflection. The intended cross-border use of the agreement meant that the collateralisation mechanism in the MRA did not always sit comfortably with European collateral laws. The resolution was the introduction of a transfer of title collateralisation structure, ie a structure where title both to the repod securities and to collateral securities is transferred and the right of the original transferor is to receive back equivalent securities or assets. By itself this does not close the collateralisation circle, but when coupled with a close-out netting mechanism in the event of a default, the economic outcome is as effective as other collateralisation mechanisms. The close-out mechanism involves establishing the values of the repod securities and collateral, aggregating the repurchase prices payable and any outstanding amounts and combining all these into one overall net figure.

The main GMRA text primarily has G10 Government bonds and other liquid debt securities in mind. However, the shape of the GMRA allows its extension, through Annexes incorporating additional provisions required to cover other types of securities and country or counterparty type specific requirements. Indeed, a significant contribution of ICMA has been to continually adapt the GMRA to extend the securities, countries and counterparties with which the GMRA can be used, thus enhancing its usability as widely as possible, underlining its role as the foremost cross-border document for repo.

> "The GMRA gives the repo market a robust, simple and versatile framework that can be relied upon in times of need. This has been tested over and over through the last three decades and improved over several iterations."
>
> ***Gareth Allen, Global Head of Investment and Execution at UBS and Chair of the ICMA European Repo and Collateral Committee***

Netting

At the time the GMRA was being developed, this notion of collateralisation through transfer of title was regarded with caution in some European jurisdictions, often being perceived as a device to circumvent security interest laws.

Over time, the positive benefits for national financial markets of effective close-out netting, particularly in facilitating access to liquidity, have come to be appreciated in these countries and many years of insolvency law reforms in these and other countries has meant that today the collateralisation mechanism and the close-out mechanism of the GMRA are widely accepted across the world. ICMA has contributed to law reform efforts in many of these countries and that remains a focus for ICMA in relation to the GMRA.

The practical way in which effectiveness of the collateralisation and close-out mechanism is verified is through the obtaining of legal opinions confirming the legal position for the relevant jurisdiction. ICMA now has an extensive library of these opinions, reflecting again the substantial work that has gone into promoting law reforms in many of these countries. These legal opinions are regularly updated or reconfirmed, and together they provide ICMA members with access to a hugely valuable resource to support their cross-border activities.

Regulatory capital

Around the time the GMRA was being developed, the bank regulators were getting to grips with close-out netting and the contribution it makes to reducing credit exposures and managing the regulatory capital required to support those exposures. Fortunately, these contributions came to be appreciated by the regulators who from the early 1990s began to accept reductions in regulatory capital requirements based on the availability of close-out netting. However, the regulators set out specific criteria to be satisfied before netting could be applied in a regulatory capital calculation, the principal criteria being the use of a binding written agreement between the parties such as the GMRA and verification of the effectiveness of the close-out netting through confirmatory legal opinions.

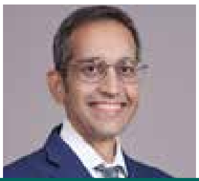
Again, the extensive work that ICMA has done, and continues to do, in obtaining legal opinions across a very wide range of countries provides ICMA members with substantial economic benefit in circumstances where there is an appropriate legal opinion available.

Conclusion

Both the GMRA and ICMA have now served the market for three decades, not simply in managing credit risks and regulatory capital but in continuing to develop the GMRA as a robust standard cross-border contract for accessing liquidity, a robustness that has been tested in a number of court cases over these 30 years. And as this article has explained, facilitating this has underpinned the role, rationale and contribution of the GMRA. Looking ahead, ICMA will, alongside market participants, continue to adapt the GMRA to the needs of the market and prepare the agreement for use in the digital age.

Habib Motani is a Consultant at Clifford Chance LLP where he was previously a Partner and Global Head of its Derivatives Group. He led the Clifford Chance team that drafted the GMRA in 1992 and has been involved in the development of the agreement since then, including holding the pen on the GMRA 2011.

The Asian international bond markets: development and trends



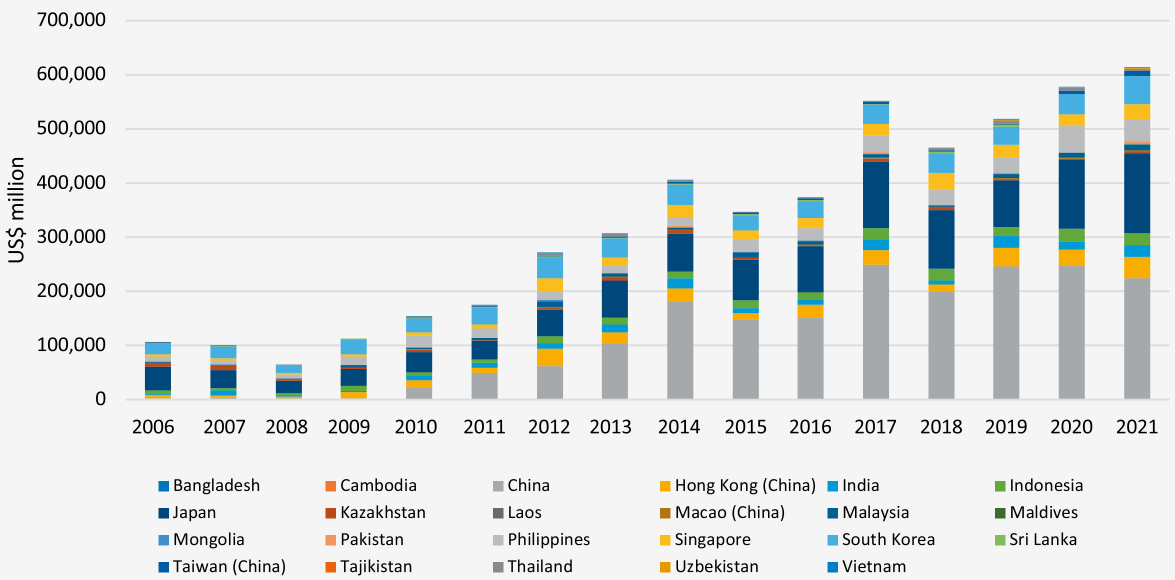
by **Mushtaq Kapasi, Yanqing Jia** and **Andy Hill**

A On 22 March 2022, ICMA published the second edition of its report, *the Asian International Bond Markets: Development and Trends*. Annual issuance of cross-border bonds from Asia has increased more than sixfold from USD107 billion in 2006, reaching USD614 billion in 2021. The report explores the evolution and remarkable growth of the international bond market in Asia over the last 16 years covering both the primary and secondary markets. As with the previous report, it is supported by the Hong Kong Monetary Authority.

Primary markets

For the primary markets, it examines issuances through multiple geographical lenses, by the location of arrangement and execution, the location of listing, the issuer's major place of business and the issuer entity's legal place of incorporation. China, India, ASEAN, Japan, and South Korea, the main sub-regions in Asia, have all witnessed an increase in issuance volume since 2006. Among them, international bond issuance from China has surged and now accounts for 37% of the international issuance volume in Asia. The growth of international bond market in Asia has been fueled in large part by the steady entry of new issuers to the market.

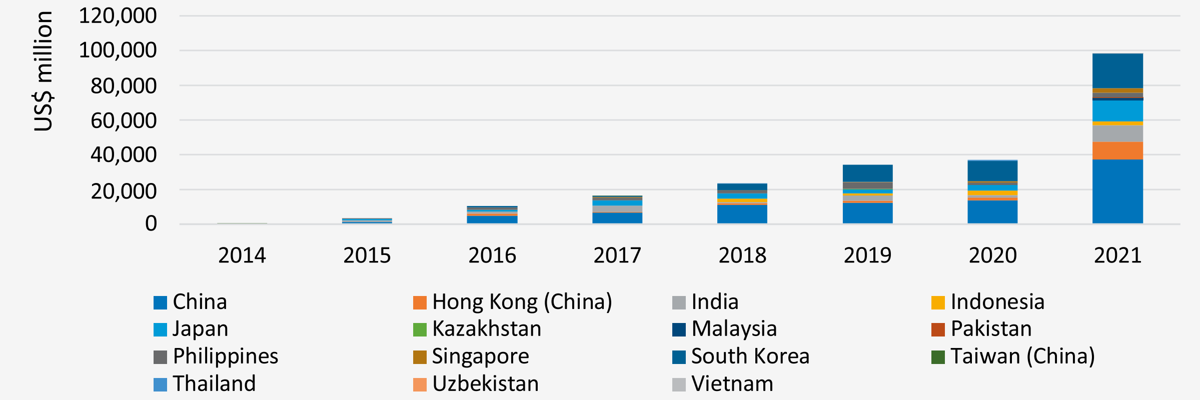
International bond issuance in Asia – by deal nationality



Source: ICMA analysis using Dealogic data (January 2022)

An increasing and more diverse investor base as well as the established professional services provided by lead banks and listing venues have supported the expansion of the market in Asia. Over the years, Asian financial centres have played a larger role and gained market share in arrangement and listing. Overall issuance volumes remained steady from 2020 to 2021, showing the resilience of the markets as the global pandemic continued into its second year. Green, social, sustainability and sustainability-linked bonds (all together "sustainable bonds") have been gaining traction in the Asia international bond markets, with a 2.7-fold increase in the annual issuance amount from USD37 billion in 2020 to USD99 billion in 2021.

International sustainable bond issuance in Asia – by deal nationality



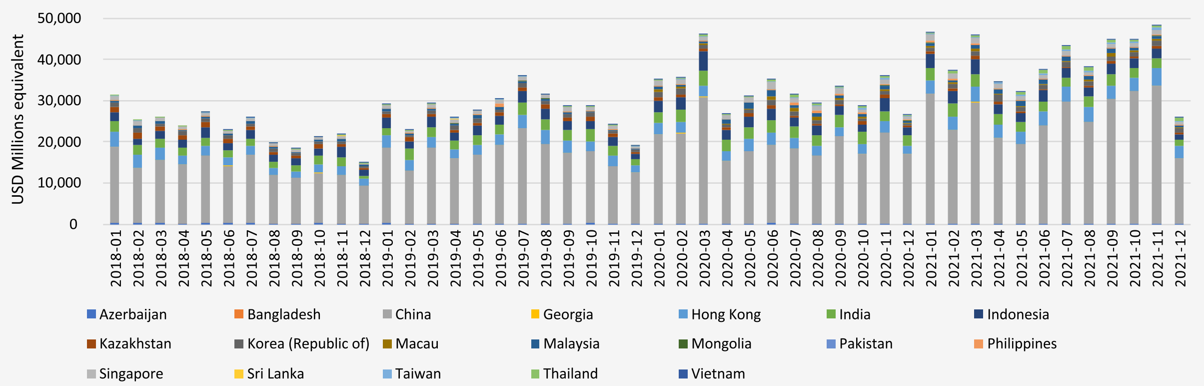
Source: ICMA analysis using Dealogic data (January 2022)

Secondary markets

With respect to the secondary market, the report reviews overall market structure and assesses liquidity conditions, e-trading, and hedging and repo markets in Asia. It also provides a snapshot of recent market performance and market sentiment.

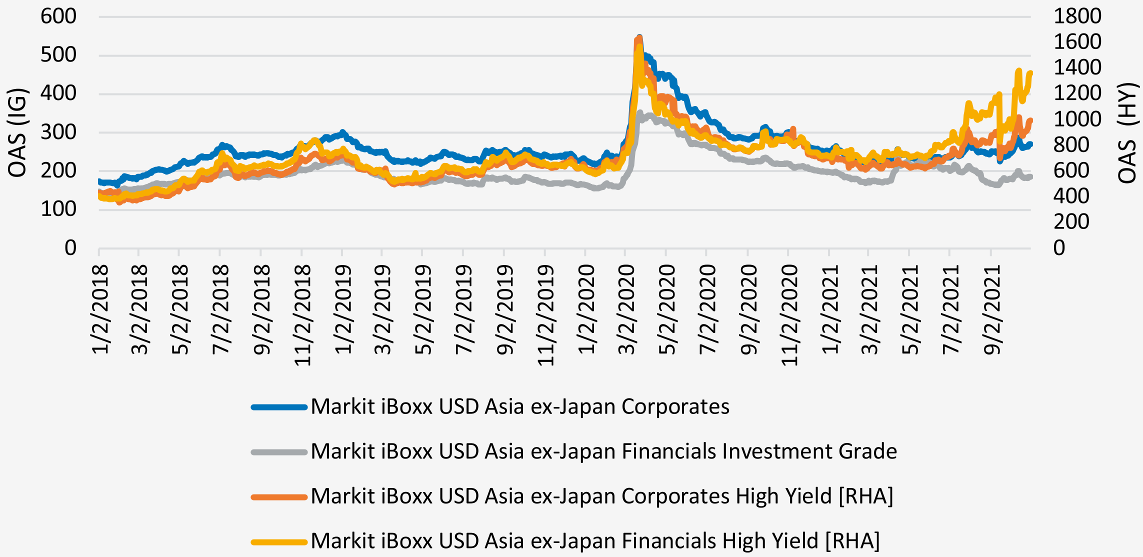
Secondary liquidity in Asia international bonds is mainly supported by market makers, which often organise their trading desks along sector lines. Quantitative data on trade volumes and counts suggest a more active secondary market in 2021 compared with previous years. Chinese issues are dominant in secondary trading, reflecting the make-up of the primary market. While China investment grade (IG) issuances seem to be the most liquid segment, China high yield (HY) bonds experienced more volatility with less liquidity. Across the region, platform-based trading continued to gain momentum over the past 12 months, primarily due to efficiency considerations. Trade sizes on venues tend to be smaller, while trading large size clips still relies on the more traditional approaches of phone or electronic "chat" trading.

Asia international credit (NFCs) secondary market traded volumes by country of risk



Source: ICMA analysis using IHS Markit data sourced from Bloomberg (February 2022)

Markit iBoxx Credit Spreads (OAS)



Source: ICMA analysis using IHS Markit data[1] sourced from Bloomberg (February 2022)

In terms of market performance, the Asia international credit market continued to track the movement of other international USD and hard currency credit markets, with a higher degree of sensitivity in 2021.

Conclusion

Investors are becoming ever more familiar and sophisticated with Asian credits. Despite some headwinds brought about by individual credit events in 2021, volatilities in the market have built up useful statistics and led market participants up the learning curve, reminding the market of risk diversification and a return to the fundamentals. As the market structure, both primary and secondary, becomes more defined and efficient, we should expect the Asian international bond market to continue to expand and deepen.

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1. IHS Markit is now part of S&P Global

Ensuring the usability of the EU Taxonomy


by **Nicholas Pfaff**
and **Ozgur Altun**

Since the EU Taxonomy is remarkable in its ambition, complexity, and comprehensive design, and for its incorporation into financial legislation as a metric for reporting and product alignment. The application of the Taxonomy in these two latter instances raises, however, significant practical challenges in a market and real-world context. These are being referred to as "usability" issues and they are of concern for ICMA members and market participants generally. ICMA published an important paper on this topic on 14 February 2022 with the aim of furthering the debate in the market and making key recommendations to EU co-legislators and regulators.

The implementation of reporting requirements under the related Taxonomy Regulation is now under way with disclosures applying to both non-financial and financial entities and being phased in from January 2022. These involve, among other things, the reporting of Taxonomy eligibility and alignment information under the requirements of Article 8 of the Taxonomy Regulation, the related Delegated Regulation and the Sustainable Finance Disclosure Regulation (SFDR). While not imminent in their application, the legislative proposals for the future Corporate Sustainability Reporting Directive (CSRD) and the EU Green Bond Standard will also both require reporting of Taxonomy alignment information.

Usability challenges

- Requirement for highly granular data
- Reliance on EU legislation and criteria in an international market
- Inconsistency in the use of estimates and third-party data
- Absence of a proportionality lens for smaller companies and projects
- Dynamic Technical Screening Criteria (TSC) and the need for grandfathering
- The use of an economic activity-based classification system (NACE)

Existing and emerging initiatives and solutions

- The recommendations of the European Commission's Technical Expert Group (TEG) on TSC flexibility
- Proposed flexibility on Do No Significant Harm (DNSH) under the EU Sustainable Finance (SF) regulations
- Future issuer and company reporting under Corporate Sustainability Reporting Directive (CSRD)
- The Next Generation EU (NGEU) Green Bonds and other market practice to date
- The approach under the Common Ground Taxonomy
- The work of the EU Platform on Sustainable Finance

ICMA Recommendations

1. Allow flexibility on alignment with the DNSH and Minimum Safeguards (MS) in all cases
2. Enable TSC adaptation to non-EU jurisdictions
3. Allow estimates and third-party data based on a common methodology
4. Simplify NACE classification of complex green and sustainability projects
5. Grandfather the legacy green bond market

We identify in our publication important usability issues that are likely to impair the ability of all concerned parties to provide the Taxonomy alignment information and metrics. These are especially: (i) the requirement for highly granular data for technical Screening Criteria, (ii) the reliance on EU legislation and criteria in an international market, and (iii) inconsistency in the use of estimates and third-party data.

We also discuss existing and emerging solutions. These include the past recommendations of the European Commission's Technical Expert Group; flexibility in DNSH evaluations proposed in EU sustainable finance regulations; reporting under the future Corporate Sustainability Reporting Directive; the precedents set by the EU NGEU Green Bonds and other issuers; the international approach of the Common Ground Taxonomy of the International Platform on Sustainable Finance; and the work to date of the Commission's Platform on Sustainable Finance (PSF) of which ICMA is a member providing especially feedback on market usability issues.

Finally, we make five key recommendations to EU co-legislators and regulators. The first three recommendations are designed to address broad usability concerns for both product alignment and sustainable reporting, while the last two address issues that are more specific to assessing the Taxonomy alignment of green and sustainability bonds. These are:

- Allow flexibility on alignment with the DNSH and Minimum Safeguards in all cases.
- Enable TSC adaptation to non-EU jurisdictions to facilitate international usability.
- Allow estimates and third-party data based on a common methodology to assess Taxonomy-alignment.
- Simplify NACE classification for complex green and sustainability projects.
- Grandfather the Taxonomy alignment of the legacy green bond market for Green Asset Ratio/Green Investment Ratio and the SFDR disclosures.

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Diversity and inclusion measures at the Banque de France

Denis Beau, Deputy Governor, Banque de France

interviewed by Katie Kelly

Introduction

Diversity and inclusion feature highly on the agenda at ICMA; as well as being a social imperative, the business case for diversity and inclusion is stronger than ever.[1] So for this edition of the ICMA Quarterly Report, I am delighted to have had the opportunity to speak to Denis Beau, Deputy Governor of the Banque de France, to describe the significant progress made by the Banque de France on its diversity and inclusion agenda.

Welcome, Denis, and thanks for speaking to us. Can you start by describing the Banque de France's commitments in terms of diversity?

For several years now, we have been implementing measures that promote gender equality and diversity within the Banque de France, taking into account our French legal framework. More recently, in June 2020, we adopted a Diversity and Inclusion Charter to reiterate and demonstrate our strong commitment in this area. With this Charter, we are committed to offering equal opportunities to all our employees, and to raising awareness among all our employees to avoid discrimination and to combat stereotypes.

In addition, HR staff and managers attend dedicated mandatory training sessions on these issues. Furthermore, a specific unit is in charge of developing measures for the integration of people with disabilities in the workplace. The top management of the Banque de France pays close attention to the implementation of measures that strengthen equality and promote an inclusive management.

That shows really impressive commitment indeed across a wide range of issues. Turning specifically to gender equality measures, what are your main objectives, and how have you set out to achieve them?

In terms of gender equality, we want to increase the presence of women at all levels of responsibility, which includes of course the executive committee of the Banque de France setting the tone from the very top. Today, 32% of Banque de France general managers and directors are women, which is 10% more than in 2012. Moreover, we are committed to make further improvements and our target is 35% by the end of 2024.

In addition, for the third year in a row, we obtained a score of 92 out of 100 in the calculation of our "equality index", bearing in mind that it was 88 out of 100 when it was first calculated in 2018.[2] This high score results from the implementation of two successive company agreements in 2009 and 2014, which emphasized in particular the importance of work/life balance.

We pay particular attention to supporting our employees' parenthood. In 2009, with other large French entities, both from the public and private sectors, we signed the Charter for Parenthood in the Workplace[3], renewing our commitment in October 2021 by adopting the revised version of this Charter.

We also have an internal network dedicated to gender equality, *Talentu'elles*, which celebrated its fifth anniversary in October 2021 and has over 1,030 members, 25% of whom are men. It offers awareness-raising initiatives on gender and diversity issues through conferences, webinars, workshops, exhibitions and screenings/debates.

1. Why diversity matters | McKinsey.
2. The legal requirement is a score of 75 out of 100.
3. Published by the Observatory for the Quality of Life at Work.

You mentioned earlier the integration of people with disabilities in the workplace. Can you elaborate on what you are doing in this area?

In January 2021, we signed our 11th company agreement to promote the employment of people with disabilities. It includes numerous measures to recruit and integrate employees with disabilities and to adapt working conditions to their needs. For more than 40 years, we have also had a sheltered employment facility within the Banque de France, which appoints approximately 20 employees with mild or moderate intellectual disabilities. It carries out sub-contracting activities for our units and thus contributes to the professional and social integration of those employees. People with disabilities now account for 6.41% of the overall workforce, exceeding the legal minimum rate since 2017.

In addition, a dedicated team has been set up to deal with issues of digital accessibility, including the creation of a portal dedicated to this issue in 2021. Its objective is to ensure that all new interfaces are easy to understand and can be used by all our employees, regardless of their profile or type of disability. We have also embarked on a vast policy of updating our existing IT applications, both for the websites intended for the public and for the internal IT applications used by our teams.

That is extremely commendable and must have taken a lot of work to deliver correctly and sensitively. Have you encountered other difficulties in implementing any aspects of your equality or diversity policy?

Despite all our efforts, it is difficult to advance our gender equality agenda and to maintain a rate of employment of people with disabilities above 6% in a company whose activities require the recruitment of increasingly technical and scientific profiles. For example, we have a structural shortage of female applicants for positions such as actuaries, data scientists, IT architects and cyber security experts. Like many other companies, we are now confronted with the dual challenge of promoting equality, while putting in place the conditions that will enable us to make further sustainable improvements, by encouraging female vocations and thus promoting equality in recruitment. Nevertheless, we are determined to meet this challenge by giving ourselves the means to succeed!

No doubt you will be successful, although given the obstacles you have highlighted, it will not be easy. So what action plans will you put in place to achieve this?

To consolidate and sustain the results obtained and to go further, we have actions planned in two directions. Firstly, we want to promote women's careers internally through communications on the added value of mixed teams, measures facilitating professional life, intensification of mentoring to support and encourage career development, and lastly, training to enable the development of technical knowledge.

Secondly, we want to encourage more female candidates through external communications on our measures to promote professional equality, and through specific actions targeting young women at different stages of their studies. For instance, we want to support girls at secondary level education in their career choices through a national agreement signed in July 2021 with the *Capital Filles* association as part of a sponsorship programme. We also want to offer internship opportunities earlier in the course of higher education to enable students in their second or third year of postgraduate study to focus their master's degree on the skills sought after by the Banque de France, or even to complete their master's degree as part of a work-study contract within our departments.

These are some very ambitious and well considered plans, Denis, and I wish you every success with their implementation. Maybe we can check in with you again in the future to see how your plans are developing, but meanwhile I would like to thank you for sharing your insights which I am sure our members will find informative and inspirational.

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Summary of practical initiatives by ICMA

The purpose of this section of the Quarterly Report is to summarise recent and current practical initiatives by ICMA with – and on behalf of – members.

Primary markets

1 *ICMA Public Sector Issuer Forum:* At its meeting in Dublin on 16 March 2022, the Public Sector Issuer Forum received a presentation on the ECB's monetary policy from Philip Lane, Chief Economist of the ECB and Member of the ECB's Executive Board, followed by discussion. The agenda also included updates on sustainable finance and the transition from LIBOR to risk-free rates.

2 *ICMA Corporate Issuer Forum (CIF) and Financial Institution Issuer Forum (FIIF)*: At its meetings on 3 February and 9 February 2022 respectively, the CIF and FIIF were requested to respond to a member survey to help steer the future direction of these groups.

3 *ICMA CIF Newsletter:* ICMA's CIF Newsletter is published three times per year. The latest version is available here.

4 *ECB DIMCG Report:* ICMA participated in the advisory group which issued in December 2021 the ECB Debt Issuance Market Contact Group Advisory Report (DIMCG) to the ECB. The report recommended a number of practical improvements to achieve greater harmonisation and efficiency for SSA primary debt issuance and distribution in the euro area.

5 *EU Listing Act:* In February 2022, ICMA responded to the European Commission's Listing Act consultation, including on the EU Prospectus Regulation, EU MAR and EU Transparency Directive.

6 *UK consumer duty:* In February 2022, ICMA responded to the UK FCA consultation on a proposed new consumer duty.

7 *ICSDs' new syndicated closing model:* Following an ICMA paper, which was published in October 2021, the ICSDs' new syndicated closing model was launched on 14 March 2022.

8 *Hong Kong SFC Code of Conduct:* Following ICMA's statement on the Hong Kong SFC Code on Bookbuilding and Placing, ICMA started to engage directly with the SFC in March, ahead of the implementation date in August 2022.

9 *Monetary Authority of Singapore due diligence consultation:* On 15 February 2022, ICMA responded to a Monetary Authority of Singapore consultation on the introduction of due diligence requirements for corporate finance advisers.

10 *ICMA Primary Market Handbook:* ICMA has updated the ICMA Primary Market Handbook to cater more fully for issues of ECP and FRNs referencing risk-free rates and to make certain other updates.

11 *Primary markets technology directory:* In January 2022, ICMA published the latest version of its primary markets technology directory, which covers over 45 solutions available to automate all or part of the process of issuing debt securities.

12 *Common data dictionary:* On 1 April 2022, ICMA held a follow-up meeting to its roundtable in December with market stakeholders to discuss a common data dictionary, which aims to promote STP and interoperability between the ever-growing number of vendor solutions.

Secondary markets

13 *CSDR cash penalties:* In February 2022, ICMA published a set of ICMA FAQs and *Best Practice Recommendations on CSDR Cash Penalties* to support implementation in the international bond and repo markets. ICMA's CSDR Settlement Discipline Working Group is monitoring implementation and will be updating guidance as the new regulatory regime beds in.

14 *CSDR mandatory buy-ins:* ICMA is reviewing the European Commission's revised proposal for an EU mandatory buy-in (MBI) regime, which was published in March 2022. ICMA is currently drafting its formal response to the proposal and will also develop an appropriate advocacy strategy in coordination with its members.

15 *MiFID II bond market transparency regime:* ICMA is engaging with regulators on the *ICMA Proposal for a New Post-Trade Transparency Regime for the EU Corporate Bond Market* to support a consolidated tape.

16 *AMCC Bond Market Liquidity Working Party (BMLWP):* In its capacity as Chair of the AMCC Bond Market Liquidity Working Party, ICMA oversaw publication of

the *BMLWP Report and Survey on Corporate Bond Market Microstructures and Participant Behaviours* in January 2022. This is intended to inform the IOSCO Financial Stability Engagement Group's work on corporate bond market liquidity. The IOSCO-FSEG were also guests at the meeting of the SMPC held on 22 March 2022.

17 *Asian international bond markets:* In March 2022, ICMA, supported by the Hong Kong Monetary Authority, published a second edition of its report, *The Asian International Bond Markets: Developments and Trends*. In particular, the new report delves deeper into secondary market structure and evolution. As previously, the research combines quantitative analysis of market data along with qualitative input provided though stakeholder interviews.

18 *Electronic trading directory:* ICMA has updated its electronic trading directory, which maps solutions available for electronic cash bond trading. It includes over 50 platforms and systems. A briefing note to provide background on market dynamics was published in January 2022.

19 *ICMA Secondary Markets Update:* ICMA's Secondary Markets Update is published on a monthly basis. Sign up to receive it (ICMA members only).

Repo and collateral markets

20 *ERCC elections 2022:* On 10 February 2022, ICMA announced the results of the elections to the ICMA European Repo and Collateral Council (ERCC) Committee. The term of office of the 19 elected Committee members will be approximately one year starting immediately and ending on the day that the results of the 2023 ERCC elections are announced.

21 *Settlement efficiency:* On 1 February 2022, the ICMA ERCC published a discussion paper on *Settlement Efficiency*. The paper is the outcome of an ERCC initiative launched in early 2021 and reflects the results of a series of workshops. It focuses on a number of relevant settlement optimisation tools, including partial settlement and auto-partialling, the shaping of settlement instructions and auto-borrowing functionality.

22 *Repo and sustainability:* ICMA has established a Task Force on Repo and Sustainability as a joint group with representatives from both the ERCC and the Green & Social Bond Principles. The objectives of the group are to promote dialogue around repo and sustainability and to develop guidance or market best practices, as needed.

23 *ERCC Buy-side Repo Workshops*: On 9 February 2022, ICMA held a repo workshop involving around 20 buy-side firms, to discuss: different uses and relative importance of the repo market; challenges in accessing the repo market and possible alternatives; and potential solutions to improve access. Based on this and subsequent workshops, the ICMA ERCC plans to develop a white paper, which could provide a platform for regulatory and broader industry engagement.

24 *ECB AMI-SeCo:* The ERCC is represented on the ECB's Advisory Group on Market Infrastructure for Securities and Collateral (AMI-SeCo) and is playing an active role on its Collateral Management Harmonisation Task Force (CMH-TF).

25 *SFTR public data:* ICMA continues on a weekly basis to collect, aggregate and publish the Securities Financing Transaction Regulation (SFTR) public data released by the trade repositories (TRs), covering both UK SFTR and EU SFTR.

26 *Repo trading technology directory* and *operations FinTech directory for repo and cash bonds:* ICMA has updated both directories which list over 200 post-trade and 20 repo trading solutions respectively.

27 *ICMA Asia-Pacific repo market report:* ICMA is preparing a report on developed and emerging repo markets in Asia-Pacific by jurisdiction, with summaries of regulatory landscape, infrastructure, market size and liquidity, and relevant law and regulation.

28 *GMRA clause library project:* Phase 1 of the ICMA GMRA clause library project to digitise market standard agreements has been completed.

29 *ICMA ERCC Repo and Collateral Newsletter:* The ICMA ERCC Repo and Collateral Newsletter is published on a monthly basis. Sign up to receive it (ICMA members only).

30 *ERCC Annual General Meeting:* The ERCC's 2022 Annual General Meeting will be held on 26 April as a two-hour virtual event. For more information and to register please visit the ICMA website.

Short-term markets

32 *Commercial paper and sustainability:* In February 2022, ICMA launched a task force on sustainable commercial paper as a joint group with representatives from both the ICMA Commercial Paper Committee and the Green & Social Bond Principles to promote dialogue and develop guidance on market best practices, as needed.

Sustainable finance

33 *EU Taxonomy:* In February 2022, ICMA published a paper on *Ensuring the Usability of the EU Taxonomy* which identifies usability challenges and makes recommendations on addressing them.

34 *EuGB Regulation:* In January 2022, ICMA published an *update* to its previous July *note*, analysing and commenting on the European Parliament *rapporteur's* proposed amendments to the EuGB Regulation.

35 *Proposal for an EU Social Taxonomy:* On 28 February 2022, the EU Platform on Sustainable Finance, of which ICMA is a member, published its final report on a Social Taxonomy. The proposal will now be analysed and considered by the European Commission.

36 *Securitisation and sustainability*: A dedicated task force was launched in January 2022 under ICMA's auspices with the objective of adapting the appendix to the Principles in order to reflect best market practices for sustainable securitisation.

37 *Flowchart:* In January 2022, ICMA published a one-page sustainable data flowchart summarising disclosures required by issuers and investors based on core EU sustainable finance regulation and related ICMA resources.

38 *ICMA response to the Common Ground Taxonomy consultation:* ICMA responded to IPSF's consultation on the Common Ground Taxonomy. As background, the Common Ground Taxonomy was released by the IPSF in November 2021 and provides an initial comparison between the EU and Chinese taxonomies based on a specific methodology.

Asset management

39 *AIFMD and ELTIF reviews:* Following publication of the AIFMD and ELTIF reviews on 23 November 2021, AMIC has held a series of discussions with the official sector (including the German Ministry of Finance, the Irish Financial Attachés and the Italian Consob). On behalf of the French EU Presidency, the Trésor participated in the AMIC Executive Committee meeting on 23 March 2022.

40 *AMIC updates:* ICMA publishes an AMIC Regulatory Update newsletter and market update podcast on a monthly basis. Sign up to receive the AMIC Regulatory Update (ICMA members only).

41 *AMIC events:* AMIC is organising its annual Covered Bond Conference with the Covered Bond Report. This is due to be held on 30 June 2022 in Frankfurt.

FinTech in international capital markets

42 *Common Domain Model (CDM) for repo and bonds:* Following completion of Phase 1 of the CDM for repo and bonds, ICMA is consulting members on the proposed CDM roadmap for Phase 2 which is due to be launched in Q2 2022. A CDM video explainer as well as CDM factsheets, amongst other materials, are available on ICMA's website.

43 *FinTech Advisory Committee (FinAC):* Meetings were held on 27 January, featuring a presentation by the Swiss National Bank, and on 9 March 2022. Members agreed on strategic priorities, including the creation of new working groups for the common data dictionary (CDD) initiative and DLT-based digital bonds to explore market guidance and "demystify" digital securities.

44 *Bank of England data collection transformation plan*: ICMA is participating in the Bank of England Data Standards Committee. On 10 February 2022, the Bank published its latest update on *Transforming Data Collection Communication to Firms.*

45 *ESMA call for evidence on DLT*: ICMA gathered feedback from members and submitted its response to ESMA's call for evidence on the EU's DLT pilot regime and potential changes to MiFIR on 2 March 2022. On 31 March, ICMA attended ESMA's workshop on the DLT pilot regime's call for evidence for further discussion on the feedback received.

46 *FinTech regulatory roadmap:* ICMA continues to update its FinTech regulatory roadmap, highlighting relevant developments in prospect over the next few years. The timeline draws upon key milestones presented by regulators and national authorities and is broken down by national, EU and global initiatives.

47 *New FinTech applications in bond markets:* ICMA continues to update its tracker of distributed ledger technology and artificial intelligence/machine learning applications in capital markets, with a focus on bond markets. The tracker currently lists more than 70 announcements or transactions.

48 *DLT regulatory directory:* ICMA continues to update its DLT regulatory directory, covering regulatory and legislative developments, national blockchain initiatives, publications and consultation papers. The directory seeks to provide a non-exhaustive overview of developments in selected jurisdictions across Europe, North America, and Asia-Pacific and is available to ICMA members on the website.

49 *FinTech and sustainable finance library*: ICMA maintains a non-exhaustive list of recent publications on FinTech and sustainable finance, with a focus on bond markets. The library aims to highlight the current views from academic, market, and official sector studies on the potential of FinTech to further sustainable debt capital markets and is available here.

50 *FinTech Newsletter:* ICMA's FinTech Newsletter is published on a monthly basis. Sign up to receive it (ICMA members only).

Transition from LIBOR to risk-free rates

51 *Bond Market Sub-Group terms of reference:* Following a smooth transition in the sterling bond market from panel bank LIBOR to synthetic LIBOR over the New Year, the Bank of England and the FCA are considering revised terms of reference for the RFR Bond Market Sub-Group, chaired by ICMA, to include the transition of legacy US dollar LIBOR bonds to risk-free rates in UK markets under English law. ICMA has also been asked to join the new UK RFR Steering Group, which includes the Bank of England and the FCA.

52 *Communication with members:* ICMA continues to keep members up to date with its work on the transition to risk-free rates via a dedicated webpage, the ICMA Quarterly Report, regular ICMA committee and working group meetings, podcasts and e-mails to the ICMA Benchmark Group. ICMA is also coordinating with other trade associations.

53 *LIBOR transition event:* ICMA co-hosted and participated in an event with Bloomberg on 3 March 2022 on *Life after LIBOR: Navigating Asia's new RFR Bond Markets.*

Other meetings with central banks and regulators

54 *ICMA Regulatory Policy Committee (RPC):* Claudia Trauffler, Head of Capital Markets at HM Treasury, held a discussion with members of RPC on 17 February 2022.

55 *Other official groups in Europe:* ICMA is represented, through Bryan Pascoe, on the ECB Bond Market Contact Group and, through Martin Scheck, on the ESMA Securities and Markets Stakeholder Group; through Nicholas Pfaff on the European Commission Platform on Sustainable Finance; through Charlotte Bellamy on the Consultative Working Group on ESMA's Corporate Finance Standing Committee; through Alexander Westphal on the Consultative Working Group of ESMA's Post-Trading Standing Committee; and through Gabriel Callsen on the Data Standards Committee of the Bank of England and FCA joint transformation programme for data collection from the UK financial sector.

ICMA suspension of Russian members: 1 March 2022

Dear ICMA member,

We have been closely monitoring the situation in Ukraine and the global response over the last few days. Given the escalation of the situation on the ground and additional sanctions we have seen over the weekend and yesterday we now feel that we need to take action, both from the perspective of adherence to current and possible wider sanctions and to act in the best interests of our membership globally.

On that basis the ICMA Executive Committee has resolved, effective immediately, to suspend until further notice the membership of our Russian members and their relevant affiliates. We are also suspending generally the participation of these members/Russian organisations in our working groups.

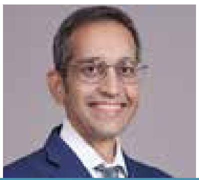
It is our hope that this measure will be temporary, and we will keep under review external developments with a view to consideration of affected members' status.

Should you have any queries, please contact membership@icmagroup.org.

Yours faithfully,
Bryan Pascoe
Chief Executive

Primary Markets



by **Ruari Ewing, Charlotte Bellamy, Katie Kelly and Mushtaq Kapasi**

European Commission consultation on the Listing Act

On 11 February 2022, ICMA responded to the European Commission's targeted consultation on the Listing Act: making public capital markets more attractive for EU companies and facilitating access to capital for SMEs.

The targeted consultation formed part of a European Commission initiative aimed at making the listing of both equity and non-equity securities on EU public markets more attractive for companies, in particular small and medium-sized enterprises (SMEs). The goal is to make it easier for EU issuers to finance their activity and to grow, innovate and create jobs, while preserving a high level of investor protection and market integrity.

This initiative is in line with the objectives of the European Commission's Capital Markets Union Action Plan of September 2020. Specifically, in Action 2 of the Action Plan, the Commission announced that it will assess whether the rules governing companies' listing on public markets need to be further simplified.

The consultation posed a wide range of questions relating to the state of public capital markets in the EU and the associated regulatory regimes, namely the EU's Prospectus Regulation (PR), Market Abuse Regulation (MAR), MiFID, Transparency Directive and Listing Directive.

The key points from ICMA's response are as follows.

(1) The EU's primary bond markets currently function efficiently, particularly in the wholesale space. The regulatory environment for listing wholesale bonds in the EU is considered to be reasonably well-calibrated, although is perceived to place more emphasis on investor protection than ensuring access to finance for bond issuers.

(2) Given the well-functioning nature of wholesale primary bond markets currently, many ICMA members would welcome only necessary adjustments to the PR. However, some more ambitious proposals to increase flexibility for bond issuers could also be considered. In any event, the base prospectus format, wholesale disclosure regime and flexibility for bond issuers to choose their home Member State under the PR work well and must be retained. Similarly, the public offer exemptions and application to securities to be admitted to a regulated market (but not MTFs) provide important flexibility.

(3) In relation to MAR, the broad scope (namely its application to securities listed on regulated markets, MTFs and OTFs), the definition of "inside information", obligations relating to insider lists and the market soundings regime are considered problematic or disproportionate.

(4) Changes to the listing-related requirements under MiFID, Transparency Directive and Listing Directive are, on balance, not considered to be necessary at this time.

(5) There is scope to develop a pan-EU retail bond market, but regulation is only one factor among various other commercial and market drivers. Constructing an appropriate regulatory regime would require a holistic consideration of various regulatory tools and incentives. The situation is similar for SME issuer access to public bond markets, where investors tend to need more (rather than less) information about the issuer. While challenges exist in both the retail and SME contexts, they should be considered separately given retail investors are less likely to be able to assess and bear the increased risks associated with investing in SME bonds.

The consultation period closed on 25 February. The next step is for the European Commission to consider the responses it received and adopt legislative proposals. This is planned for the third quarter of 2022.

ICMA plans to continue to engage with the European Commission and other relevant policy makers on behalf of its members on this important EU initiative for the international bond markets. As ever, an overarching concern is avoiding unnecessary barriers to cross-border bond issuance. This will be a particular focus as the EU's and UK's regulatory regimes develop and diverge post-Brexit, as seen in the context of the UK prospectus regime reforms discussed below.

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UK Prospectus Regulation review outcome

Introduction

HM Treasury published the outcome of its review of the UK Prospectus Regulation on 1 March 2022. Whilst it is still too early to say what the precise implications will be for bond markets, ICMA was pleased to see that some of the key suggestions it made in its response to the consultation will be taken forward.

The background to the review of the UK Prospectus Regulation is the UK Listing Review, chaired by Lord Hill, which was launched in November 2020 as part of a plan to strengthen the UK's position as a leading global financial centre. Both the UK Listings Review and the consequential HM Treasury consultation on the UK Prospectus Regulation had a strong equity focus. However, the adjustments to the UK Prospectus Regulation will undoubtedly impact bond market participants.

What will change?

The current UK Prospectus Regulation is a close mirror image of the EU Prospectus Regulation, on-shored, with relatively minor amendments, at the end of the Brexit implementation period at the end of 2020. Under the European Union (Withdrawal) Act 2018, the UK Prospectus Regulation and related detailed rules that derive from EU law have a status equivalent to statute and can only be amended via an Act of Parliament.

HM Treasury intends to repeal the UK Prospectus Regulation and related detailed rules entirely and replace them with a new regime comprised of (i) high level fundamental laws that will sit in statute and (ii) powers for the FCA to make detailed regulations. Going forward, the FCA will therefore be able to amend the detailed rules quickly, either to correct errors or to deal with changed circumstances, without requiring primary legislation. This is consistent with the UK Government's broader direction to return responsibility for designing and implementing financial services regulatory requirements to the regulators, following the Future Regulatory Framework Review.

The precise impact of the changes for bond market participants will depend in large part on how the FCA exercises the significant powers that will be granted to it under the UK's new prospectus regime. These powers will include specifying if and when a prospectus is required, what a prospectus should contain, whether it needs to be reviewed and approved prior to publication and other detailed rules currently contained within the UK prospectus regime. It is anticipated that the FCA will consult upon the exercise of these expanded powers in due course.

In addition to the grant of significant new powers to the FCA, a key feature of HM Treasury's proposals is a structural change that will separate the regulation of public offers of securities on the one hand from the regulation of admissions of securities to trading on the other hand (reflecting the UK's approach to prospectuses before the first EU Prospectus Directive). While this is a striking change in terms of the structure of the UK's prospectus regime, this is not expected to give rise to any new barriers to bond issuers' ability to offer bonds on a pan-European or global basis.

Related to this point, ICMA was pleased to see that HM Treasury intends to set the threshold for the exemption to the UK public offer regime based on minimum denominations at £50,000, and not £100,000. This was a key concern for international bond market participants, noting that bonds with the commonly-used €100,000 minimum denomination would meet the current EU Prospectus Regulation threshold but would not meet a UK regulatory threshold if it were to be set at £100,000. ICMA had emphasised this point in its engagement with HM Treasury; and is pleased to see this concern addressed.

A key area of focus for many of ICMA's members are prospectus content requirements. These requirements have a significant practical impact for bond issuers, underwriters and other market participants. As previously mentioned, the FCA will have the power to specify rules related to prospectus content going forward, and so it is still too early to determine precise implications in this area. However, the overarching test for what must be disclosed (known as the "necessary information" test) will be set out in statute. HM Treasury has indicated that it will make certain adjustments to the current test. There are two changes which will be of particular interest to ICMA members.

First, the UK Government intends to remove minimum denomination as a factor in the "necessary information test" on the basis that this is considered to create an artificial incentive to issue high-denomination securities. Currently, the EU and UK regimes provide for lighter disclosure requirements and an exemption from the obligation to prepare a prospectus summary where a bond has a minimum denomination of €100,000. This lighter ("wholesale") disclosure regime and exemption from the prospectus summary are considered to be helpful for international bond issuers. The removal of the minimum denomination factor from the statutory "necessary information" test is not considered to be concerning in and of itself because the test is still expected to state that the "necessary information" will differ depending on the "type of securities" (thereby allowing for a differentiation between retail and wholesale bonds). As highlighted in ICMA's response to HM Treasury's consultation, it will be important that the FCA considers carefully and consults market participants on how best to implement a disclosure regime that does not introduce unnecessary or disproportionate costs for issuers of wholesale bonds.

The second change that will be of interest to ICMA members is that a modified necessary information test will apply to debt securities which focuses on the issuer or guarantor's *creditworthiness*, rather than *prospects*. ICMA has long argued that this would be a useful change to the regulatory regime for bond prospectuses; and is pleased to see that HM Treasury will take this forward. It will be interesting to see how the FCA intends to reflect this change when it comes to consider detailed prospectus content requirements. ICMA has previously noted that the annexes to the UK Prospectus Regulation Delegated Regulation (to the extent they are retained by the FCA) would need to be revised, either by deleting the extraneous requirements or preferably by including a general provision stating that the disclosure items in the annexes are needed only to the extent they are necessary to meet the "necessary information" test.

In other areas, HM Treasury is proposing to:

- develop a new regime of regulatory deference for offers into the UK of securities listed on certain designated overseas stock markets, which will permit offers into the UK using an overseas offering document without FCA review and approval;
- include offers of securities which are or will be admitted to trading on certain MTFs to the list of public offer exemptions;
- develop a mechanism by which MTF admission documents will be treated as a type of prospectus, whilst not changing the current system in which MTF operators establish admission criteria and rules subject to FCA rules and oversight; and
- raise the threshold for liability that applies to certain categories of forward-looking information in prospectuses.

None of these changes appear to be problematic, and indeed the regulatory deference and forward-looking information changes are likely to be welcome.

When will it change?

The timing for the implementation of these changes is not yet clear. HM Treasury states that the UK Government will introduce legislation "when parliamentary time allows". The full suite of reforms will take full effect after the FCA has consulted on, and is ready to implement, new rules under its expanded responsibilities.

Conclusion

It is still too early to draw conclusions as to whether the reform of the UK Prospectus Regulation will deliver "far-reaching and permanent benefits in terms of reducing regulation and encouraging efficient capital raising" that were mentioned in Lord Hill's review. Much will depend on how the FCA chooses to exercise its expanded powers. At the moment, the direction of travel appears to be broadly welcome: a more flexible regime with some of the features outlined by HM Treasury (such as an effective regulatory deference mechanism) may well be positive.

ICMA plans to continue engaging with HM Treasury, the FCA and members on these important reforms for primary bond markets, focusing in particular on the need to avoid new and unnecessary barriers or increased disclosure requirements for international wholesale bond issuance.

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The UK's new consumer duty

On 11 February, ICMA submitted its response to UK Financial Conduct Authority (FCA) consultation CP21/36: *A New Consumer Duty: Feedback to CP21/13 and Further Consultation*.

Vanilla retail bond context: The response welcomed the FCA's general intention to exclude vanilla bonds from the scope of the new consumer duty (with *inter alia* elements of both the PRIIPs and MiFID product governance regimes), as some investor protection measures (notably the PRIIPs and MiFID product governance regimes) do not properly address "flow" securities markets and have diminished borrowers' appetite to offer bonds to retail investors. But the "non-complex financial instrument" exclusion seems likely to be of only marginal relevance in this respect, notably given its limitation to bonds that are "regularly traded" (a narrow, subjective and unpredictable concept as defined) and on a UK exchange (when bonds tend to trade OTC and be listed on a range of stock exchanges of repute internationally) – as well as only being issued by "real economy" borrowers (excluding financial and even seemingly official borrowers). The exclusion should be consequently widened.

Institutional bond context: The response also welcomed the FCA's general intention to exclude institutional/wholesale bond markets from the scope of the new consumer duty, as these have been reliably providing trillions in financing to Europe's economy over the years and care needs to be taken not to disrupt them. But the "non-retail financial instrument" exclusion does not seem to achieve this, notably given its limitation to bonds with a denomination of GBP100k or more (or equivalent) when USD/EUR institutional issuance (largely in USD/EUR100k denominations – ie around GBP70-80k) represents over 79%/91% of overall issuance in number/volume terms. The minimum denomination requirement should be calibrated to GBP50k and (consistently with the Prospectus Regime) also be alternative to the professional "eligible investor" requirement. (In this respect, ICMA will be reviewing closely the FCA's recent PRIIPs consultation conclusions, to which ICMA had previously responded as noted in the Fourth Quarter 2021 edition of this Quarterly Report.)

Other aspects: The response also distinctly noted that pre-existing bonds should be grandfathered in terms of ongoing obligations (to avoid retrospective regulation) and that the proposed nine-month implementation period seems very short given what is involved (and also is materially shorter than the one-to-three year timelines cited in prior industry feedback).

ICMA will continue to engage on this topic in the context of its overall focus on retail access to bond markets.

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European Commission ESAP proposal

On 20 March 2022, ICMA submitted feedback on the European Commission proposals of 25 November 2021 for a European single access point (ESAP) for public information. This follows ICMA's prior detailed input noted in the Second Quarter 2021 edition of this Quarterly Report.

The feedback noted:

(1) it was not possible to comment definitively or in detail, as much depends on logistical and subsidiary specifics that are still to follow;

(2) allowing for information to be in a "data extractable format" (including a PDF with computer-recognisable characters) and not just in a "machine-readable format" (involving content structuring/standardisation that could be inappropriate in many cases) is welcome;

(3) that it may be worth revisiting in due course the current conclusion that the ESAP be only an information repository (given significant reported stakeholder support for the ESAP allowing direct upload of information and being a publication channel);

(4) prominent and robust responsibility terms should apply to any e-translation functionality of the ESAP;

(5) that in terms of submitted information needing to be kept available for at least ten years (subject to any specific sectoral rules), prospectus information would be expected to remain available until the maturity of the securities concerned (which could often exceed ten years);

(6) the novelty of a qualified electronic seal, the Commission's concluding of an annual cost of €600 in this respect (including also an LEI) and seals needing to be accessible to multiple staff within submitting entities;

(7) that sectoral regime considerations be taken into account when defining relevant search criteria, as these are likely to vary materially between sectoral regimes.

ICMA will continue to engage with this topic as it evolves.

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Hong Kong SFC bookbuilding and placing conduct code: industry implementation

Following the Hong Kong Securities and Futures Commission (SFC) October 2021 consultation conclusions on a new Code of Conduct for capital market transactions (reported in the First Quarter 2022 edition of this Quarterly Report), ICMA has been engaging with members and other market participants (both underwriters and investors) – as well as the SFC – to consider potential practical approaches to compliance in locally-led and internationally-led DCM issuance transactions.

ICMA acknowledges that in bond offerings where all the underwriters are in-scope entities, acting either as a capital market intermediary (CMI) or as an overall coordinator CMI (OC), the relevant requirements under the Code will apply to those underwriters. The Code would most likely apply to all CMIs in bond offerings involving Hong Kong or China-based issuers where the underwriter syndicate managers are based in Hong Kong and a substantial portion of the bookbuilding and placing activities would take place in Hong Kong. The scope of the Code in such bond offerings is generally clear to ICMA members.

ICMA's focus particularly concerns scenarios with global and Asian bond offerings led by a mix of in-scope and out-of-scope underwriters, where different degrees of bookbuilding and placing activities are conducted in Hong Kong.

ICMA's focus will also cover some important situations where, even though the Code clearly applies to a bond offering, there may be practical ambiguities or challenges in compliance. The overall aim is to establish suggested industry practices that comply with the Code, that are feasible in the typical timelines of DCM bookbuilding, and that preserve Hong Kong's competitiveness as a DCM execution hub.

In this respect, ICMA is currently considering issues related to various scenarios and aspects of the Code as listed below.

Scenarios with CMIs that are both in scope and out of scope for the Code:

- Transactions with mixed underwriter syndicates, where some OCs or CMIs must comply with the Code and others are outside of Hong Kong and not subject to the Code: (a) appointment of issuer; (b) code provisions that require syndicate cooperation and information sharing; (c) intra-syndicate disclosure requirements; (d) order book updates.
- Transactions involving a non-syndicate CMI in Hong Kong that is affiliated with an out-of-scope syndicate CMI or OC.
- Transactions led by syndicate teams outside Hong Kong, but that involve DCM origination teams based in Hong Kong.
- Private banks (both in Hong Kong and outside of Hong Kong) and related compliance with relevant Code provisions.

Situations for in-scope transactions:

- Multiple orders from the same investor, and identification of duplicate orders.
- Associated investor identification procedures.
- Underlying investor disclosure.
- Preferential and guaranteed allocations, and related disclosure procedures.
- Order book updates.
- Risk management transactions, and related communications to issuers.
- Price discovery, inflated orders, and treatment of proprietary and associated orders.
- Record keeping procedures (eg advice to issuers, indications of interest, rebate payments, allocation rationale).

Other issues:

- Equity-linked debt and Stock Exchange of Hong Kong requirements related to issuers.

ICMA will continue this engagement with a view to helping market participants ready themselves for the Code coming into effect from 5 August 2022.

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Singapore due diligence requirements

On 15 February 2022, ICMA submitted its response to a Monetary Authority of Singapore (MAS) consultation P020-2021: *Introduction of Due Diligence Requirements for Corporate Finance Advisers*.

The ICMA response noted that banks and transactions must often comply with applicable regulation in many jurisdictions and that materially onerous inconsistencies in individual jurisdictions may hamper local issuer, underwriter and investor participation in cross-border financings. In this respect the proposed Singapore requirements are inconsistently granular and prescriptive compared to international established regulation and best practice. Furthermore any local regulatory changes consequent to IOSCO's work on conflicts of interest and associated conduct risks during the debt capital raising process (last covered in the 2020 Fourth Quarter edition of this Quarterly Report) should be delivered in a globally consistent manner.

The response also noted that due diligence has been a long-standing practice in the context of public offerings of both debt and equity securities where parties face civil liability for material misstatements and omissions made in the context of the offering disclosure. The appropriate level of bond underwriter duties in relation to issuer disclosure has been the subject of decades' worth of statute and case law. Issuers are the ones primarily responsible for making proper disclosure in relation to their bond issues. Underwriters, however, may well find themselves being pursued whenever an issuer becomes insolvent and are acutely conscious of the dynamics surrounding due diligence defences in such cases. In this respect, due diligence is impacted by the varying facts and circumstances of each case (including, *inter alia,* the nature and timing of an offering, respective roles of underwriters, whether the offeror is a new equity issuer seeking an IPO or an existing listed issuer and whether the securities being offered are equity or debt). The response cited in this respect the ICMA Primary Market Handbook's ICMA Recommendation 3.3 and related item 3.4 that since January 2000 have provided guidance to market participants on the nature and extent of due diligence for bond offerings.

ICMA will continue to monitor this topic as it evolves.

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ICMA Primary Market Handbook updates

In January 2022, ICMA published the following updates to the ICMA Primary Market Handbook:

- amended item 7.3A, Pricing references for new Sterling bonds, in Chapter 7, Pricing;
- amended Appendix A1, Agreement Among Managers (Versions 1 and 2);
- amended Appendix A5, Day count fraction: ICMA Actual/Actual; and
- amended paragraph 18 in Appendix A12, Pre-sounding, bookbuilding and allocations.

The purpose of the amendments was:

- in the case of amended item 7.3A, to reflect ICMA's 10 September 2021 Notice, Pricing references for new sterling Eurobonds, regarding certain gilts generally considered inappropriate as credit benchmarks;
- in the case of amended Appendix A1, (i) to include further provisions related to UK requirements for contractual recognition of bail-in powers in advance of certain post-Brexit transitional relief that ended in March 2022 and (ii) to include a provision related to Hong Kong rules on contractual recognition of resolution stay powers;
- in the case of amended Appendix A5, (i) to update a cross-reference to the 2006 ISDA Interest Rate Derivatives Definitions to refer to the 2021 ISDA Interest Rate Derivatives Definitions and (ii) to clarify the drafting of the day count fraction; and

- in the case of amended paragraph 18 in Appendix A12, to acknowledge that in certain circumstances returned bonds might be re-allocated at the re-offer price.

ICMA also published further updates to the ICMA Primary Market Handbook in March 2022:

- amended Appendix A5, Day count fraction: ICMA Actual/Actual;
- amended Appendix A7, ECP documentation for Investment Grade issuers; and
- amended Appendix A8, Final terms and pricing supplement.

The purpose of the amendments to Appendix A5, Day count fraction: ICMA Actual/Actual, was to clarify that the ICMA Actual/Actual day count fraction is not specifically envisaged to operate in the context of adjusted interest periods.

The purpose of the amendments to Appendix A7, ECP documentation for Investment Grade issuers, was: (i) to cater for ECP to be issued referencing GBP-SONIA, USD-SOFR, EUR-EuroSTR or EURIBOR by reference to the 2021 ISDA Interest Rate Derivatives Definitions; (ii) to update certain regulatory language following the end of the Brexit transition period; and (iii) to clarify or delete obsolete provisions in the Global Note related to payments.

The purpose of the amendments to Appendix A8, Final terms and pricing supplement, was: (i) to cater for the issuance of floating rate notes referencing the 2021 ISDA Interest Rate Derivatives Definitions; (ii) to remove references to LIBOR; and (iii) to update certain regulatory language following the end of the Brexit transition period.

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Common data dictionary for primary bond markets

The digital transformation of primary bond markets continues to accelerate. An ever-growing number of vendor solutions are coming to the market, targeting different areas of the bond issuance process. According to ICMA's latest version of the primary markets technology directory, there are over 45 solutions for debt issuance, more than doubling compared to 2018.

A key focus for market participants is the risk of fragmentation resulting from the rapid growth of technology solutions. While some providers compete in particular areas such as bookbuilding or investors' order submissions, none of the solutions covers the entire front-to-end process, encompassing roadshow data management, drafting of legal documentation, communication, bookbuilding and pricing, to transmitting deal information electronically for settlement processes, amongst others. Connecting with different solutions as seamlessly as possible is therefore critical.

To support straight-through-processing (STP) and interoperability in primary bond markets, ICMA presented a proposal for a common data dictionary at a roundtable in December 2021. The proposal responds to the feedback received from banks, investors, issuers, market infrastructures, law firms and vendor firms at a previous roundtable. Stakeholders were broadly in agreement on the benefits of STP and the need for common data standards which can be used by each stakeholder and provide for choice and interoperability. Importantly, the aim is not to standardise the issuance process.

In the absence of a taxonomy, the key information of a new issue is defined and labelled inconsistently, according to different guidelines and vendor specifications. For example, variations of currency include "notional", "nominal", "denomination" or "issuance" currency. Some terms such as payment can relate to issuance, interest or redemption. As a result, market participants are required to map or translate individually between vendor solutions and internal systems.

ICMA's common data dictionary proposal aims to provide a framework which builds on existing standards and initiatives and which market participants can use to integrate new solutions and further automation. An initial proposal is to focus on bond term sheets. A dedicated working group will be established under ICMA's FinTech Advisory Committee to develop the common data dictionary, define use cases and scope, and discuss implementation formats.

Members who would like to become involved are welcome to get in touch.

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Secondary Markets


by **Andy Hill and Elizabeth Callaghan**

CSDR cash penalties

On 1 February 2022, the CSDR cash penalty regime went live. The penalty framework requires EU regulated (I)CSDs and CCPs to levy cash penalties on participants who fail to settle a transaction, while crediting the equivalent amount to the non-failing party. The penalties which are specified in Level 2 regulation, are an *ad valorem* fee based on the current market value of the failing securities, and are applied on every business day for the duration of the failed settlement. The applied penalty fee varies depending on the underlying asset class.

Leading up to the launch of the "go-live", members of ICMA's CSDR-SD Penalty Workstream (a sub-group of ICMA's CSDR Settlement Discipline Working Group) had raised concerns about inconsistencies with the previous month's market "dry run" intended to identify any challenges with the reporting processes of the various EU CSDs and ICSDs. While there was intense focus among all stakeholders on addressing many of these issues, it was widely anticipated that the first month of the go-live would be fraught with implementation difficulties.

As we rolled into March, and the 14 March deadline passed for CSD participants to file appeals to the CSDs for incorrectly processed penalties, as per the daily penalty reports provided by CSDs, and as the 18 March date for CSDs to send out their monthly aggregate reports approached, it became clear that a successful application of the monthly penalty collections and redistributions would not be possible on the scheduled date of 23 March.

On 17 March, the European CSD Association (ECSDA) announced that an industry proposal, led by AFME and supported by ICMA, to delay the collection and redistribution process had been accepted by ESMA. Accordingly, CSDs would have an extended period in which to send out their monthly reports (up to 30 March), with the collection and redistribution process deferred until 13 April.

The hope was that the delay would be a one-off, and that the penalty process would be back on track from April (with respect to March). However, concerns remain that, while many of the issues are being addressed, a possible delay to the March collection and redistribution process should not be ruled out.

ICMA continues to monitor closely the roll-out of the CSDR penalty regime, while supporting its successful implementation for the bond and repo markets, including through the publication and updating of FAQs and Best Practice Recommendations.

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ICMA's recommendations on MiFIR bond transparency regime

Toward the end of 2021, the European Commission published its proposed amendments to MiFIR as part of the overall CMU package announcements. ICMA welcomed the announcements regarding the establishment of a consolidated tape and the fact the Commission has planned for one consolidated tape per asset class. This is particularly welcome news for bond traders and investors.

However, in order to create a well-functioning and competitive EU bond market, ICMA has suggested modifications to some of the European Commission's proposals. These recommendations concern pre- and post-trade transparency as well as the analysis required for a successful bond consolidated tape.

The following outlines ICMA's views and recommendations regarding the appropriate bond market transparency regime and its vehicle, the consolidated tape.

Pre-trade transparency

Market participants broadly agree MiFIR pre-trade transparency is not desired or used in bond market trading. ICMA considers that the European Commission and ESMA should recognise the importance of pre-trade pricing distribution definitions[1] and best practice, as illustrated

1. Bond pricing distribution standardised definitions: Cash bonds – corporates & sovereigns:

in ICMA's published *Industry Guide to Definitions and Best Practice Bond Pricing Distribution,* whilst focusing on post-trade transparency. ICMA notes that transparency is not a goal in and of itself. The goal is a well-functioning, competitive bond market.

In addition, to date the European Commission has not carried out an in-depth cost-benefit analysis for MiFIR pre-trade transparency. ICMA considers that, had the European Commission carried out this analysis, it would have observed there are few "benefits" to bond markets in return for the implementation costs and industry effort.

ICMA's Transparency Task Force agrees with HM Treasury's view of MiFID pre-trade transparency set out in the UK's Wholesale Market Review: "The available evidence from the operation of the MiFID II transparency regime for bonds [and derivatives] is that the application of pre-trade transparency to such markets has not worked effectively."

Bond pricing distribution standardised definitions: cash bonds – corporates and sovereigns

	Run	Market-run	Axe	Streaming	Executable
Direction	Bid or offer/ Optional to publish/ Indicative (but should not change)	Bid and offer	Bid or offer	Bid or offer	Bid or offer
Price/ Quote	Optional to publish/ Indicative state	Optional to publish/ Indicative state (but should show price)	Optional to publish/ Indicative state	Mandatory to publish/ Indicative state	Mandatory to publish/ Firm state
Size	Optional to publish/ Indicative state	Optional to publish/ Asymmetric or Identical/ Indicative state	Mandatory to publish/ Indicative state (but ideally firm)	Mandatory to publish/ Firm state	Mandatory to publish/ Firm state
Trade interest	Non-committal	Non-committal	Committed	Committed	Committed
Good until	N/A	N/A	Cancelled	Cancelled	Cancelled

Post-trade transparency

Getting a post-trade transparency regime right is crucial for well-functioning markets. However, many ICMA members have observed how strongly MiFIR is equity-biased in language, workflow understanding and terminology. In financial markets, if the EU is going to propose deferral frameworks, it is important that policy makers understand the asset class they are "framing". Specifically, there is no asset class referred to as "non-equities". It is also not defined in the Article 2 definitions of MiFIR. It would seem that "non-equities" refers collectively to the individual asset classes of bonds, structured finance products, emission allowances and derivatives. These asset classes are radically different to each other not only in terms of underlying market structure, but also in how they trade. In Article 11, these individual asset classes are co-mingled, making it difficult to set out how an individual asset class deferral regime should be framed.

ICMA recommends that Level 1 sets out post-trade transparency regime frameworks based on individual asset classes and their respective needs, even if the more detailed deferral/threshold work is carried out in Level 2. This will result in Level 1 sub-sections (bonds, derivatives, structured finance products, emission allowances) under Article 11 that will cover the European Commission proposed deferral framework per individual asset class. Accordingly, it will be easier for Council and Parliament members to understand Commission deferral proposals and to address any changes that may be required.

The following post-trade transparency amendment suggestions are solely related to cash bonds.

- Post-trade transparency promotes price competition and facilitates accurate assessment of current market and liquidity dynamics, increasing overall investor confidence, particularly during a time of market volatility.

- Balancing simplicity and complexity in a post-trade transparency regime is key to a workable transparency regime. Overcomplicating the transparency regime is unproductive while the same is true for oversimplifying the transparency regime. It is important to keep in mind the complexity and nuance of bond markets when determining any future post-trade transparency regime.

- ICMA considers that, in the case of debt instruments, there should be three transparency buckets: small, medium and large. The small bucket should provide real-time transparency, which is considered to be as soon as technically possible and within 15 minutes (to allow for bond market participants who may not have access to institutional toolkits to report), with data being based on one variable of transaction "size"; whereas the medium and large credit buckets should incorporate the two additional variables of amount outstanding and investment grade/high yield credit rating of the underlying bond. Appropriate deferrals for price and size publication are determined using these three variables.

- The medium and large variables, which are additional factors to transaction size, are required in order to have a granular enough deferral regime to support both the orderly functioning of liquid secondary bond markets and increased transparency. The principle underlying ICMA's position is to try to provide as much transparency into the corporate bond market as possible in order to aid price formation for participants and potential participants who do not currently have sufficient information. This pro-transparency position is tempered by the trade-off between transparency and liquidity provision where liquidity is provided by risk-taking intermediaries, as opposed to information-only intermediaries. The reason for ICMA's multi-dimensional (rating/amount outstanding/ trade size) approach versus the single dimension (trade size) approach is an attempt to isolate the activities (instruments and trades) that are most sensitive to information leakage and the risk of diminished liquidity, and to limit transparency only in relation to those trades. Simultaneously, the proposal aims to provide as much transparency as possible to activity that is most likely to benefit from increased visibility and least likely for liquidity to be compromised.

- The "small, medium, and large transparency buckets with three variables" proposed amendments are targeted primarily at corporate bonds. However, ICMA considers that, since corporate bonds represent some of the least liquid sub-classes of bonds, a similar framework, without the credit rating classification, could be applied to sovereign bonds, although further analysis is required before any final calibrations can be suggested for sovereign bonds.
- Lastly, market participants strongly believe that a bond consolidated tape should include both corporate bonds and sovereign bonds, which appears to be in line with the European Commission's proposed amendments. However, for sovereign bonds to populate a bond consolidated tape, competent authorities should not allow market operators and investment firms the ability to publish multiple sovereign bond transactions in aggregated form. Instead, the publication of sovereign bond transactions can allow for the deferral of the price and volume for individual transactions for an extended period of deferral; but not an indefinite period of time. Aggregation of sovereign bond trades does not provide market insight and improved transparency for end-investors, whether institutional or retail.

Consolidated tape and Commission expert industry stakeholder group

Greater transparency in OTC bond markets and other "non-equity" asset classes is one of the key objectives of MiFID II and MiFIR. However, in the case of bond markets, MiFID II/R has not fully achieved its objective of creating greater transparency. A key reason for this is attributed to the lack of a central database, which aggregates the various post-trade data sources into a single "golden source": also referred to as a "consolidated tape". Instead, post-trade data is fragmented across the different Approved Publication Arrangements (APAs) with inconsistent presentation formats and differing modes of machine readability. Insufficient data quality poses yet a further challenge.

The goal of the bond consolidated tape, as perceived by ICMA members, is to improve transparency, assist decision-making and provide market insights to end-investors, large or small, retail or institutional. Adoption of the appropriate structure will benefit the whole market, by providing a centralised, high quality, affordable, trustworthy data source, offering a comprehensive market view. This will bring immediate benefits to both the professional bond market and the retail sector more widely. The resulting consolidated tape will become the "vehicle" for all bond market transparency.

In order to determine the appropriate thresholds and deferrals for transparency in bond markets, it will be necessary to analyse the operational effectiveness of bond markets. This is particularly nuanced in the case of bond markets, given that liquidity provision is primarily risk-based.

Therefore, to properly analyse bond market functioning on an ongoing basis, one must analyse *both* market data quality *and* the efficiency of balance sheet usage by bond market liquidity providers. Together, these two elements will determine what thresholds and deferrals should be applied in order to accurately reflect current bond market functioning as well as what information is useful for market participants.

Well-rounded analysis of bond markets should be quantitative and data-led as well as qualitative and expert-based. As such, ICMA supports the creation of a Commission expert industry stakeholder group which would comprise senior market data experts as well as senior trading specialist experts. These experts would rotate, as required, but both would contribute to a semi-annual report that would make recommendations for any necessary modifications to the current standards, transmission formats and reporting requirements, as well as recommending any increases, decreases or holds to bond market post-trade transparency thresholds. These expert stakeholder recommendations would be based on real market experiences and backed up with quantitative and qualitative evidence. Moreover, these stakeholder recommendations should be considered "actionable".

In times of exceptional adverse market conditions, the senior trading expert specialists could also recommend and publish emergency changes to post-trade transparency thresholds.

ICMA considers the European Commission should investigate legal measures to establish six month repetitive delegated acts to allow the European Commission to set up an expert industry stakeholder group as described below.

- This would consist of buy-side and sell-side senior trading specialists to meet on a six monthly basis to review the transparency framework and liquidity conditions over the previous six months and make recommendations on the appropriate calibration for the next six months. If the market is working well with current thresholds and deferrals, and the trading specialists agree, on a majority basis, that there would not be any undue risk to increasing transparency, then thresholds and deferrals could be changed to increase transparency. However, if there are found to be negative market liquidity impacts, perhaps from reduced sell sides' balance sheet risk provision or a willingness to show competitive prices, then thresholds could be modified to provide less transparency. This trading specialist senior expert sector of the stakeholder group shall provide advice in the form of "increase", "decrease" or "hold" recommendations on a six month basis. That advice should be made public. The buy-side and sell-side senior trading specialists should include a balance of natural transparency preferences (ie a mix of firms who, generically, would benefit from either less or more transparency).
- The expert group would consist of trading venue, data provider, buy-side and sell-side senior market data specialists to look back at the last six months to provide advice on the quality and the substance of market data, the common interpretation of market data and the quality of transmission protocol. This market data expert sector of the stakeholder group should

provide advice on a six monthly basis. That advice should be made public.

The Commission should be empowered to specify:

- every six months, the necessary changes to the current transparency thresholds and deferrals based on recommendations from the trading based expert stakeholder group;
- every six months, the quality and the substance of the market data and the quality of the transmission protocol.

The expert stakeholder group should specify in detail all of the following:

- "Increase", "decrease", or "hold" recommendations regarding bond transparency regime thresholds and deferrals;
- the market data that contributors need to provide to the CTP in order to produce the core market data needed for the CTP to be operational, including the substance and the format of those market data.

Conclusion

Transparency is not a goal in and of itself. The goal is a well-functioning, competitive EU bond market. As such, ICMA considers the focus of pre-trade transparency should be on *Bond Pricing Distribution Definitions and Best Practice*. Regarding post-trade transparency, ICMA considers there should be a framework of three buckets of transparency: small, medium and large and variables of amount outstanding, size and high yield and investment grade. This framework will provide the most accurate and workable regime for bond market trading. However, in order to future-proof bond market transparency regime, it will be necessary to set up an expert stakeholder group to properly analyse bond market functioning on an ongoing basis (every six months) to analyse both market data quality and the efficiency of balance sheet provision. Together, these two elements will determine what market data and transparency threshold changes should be regulated in order to accurately reflect bond market functioning, creating a competitive EU bond market.

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by **Rowan Varrall**

Electronic trading market trends: ETC member feedback

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Alongside the review of the electronic trading directory (ETD) published in Q4 2021, ICMA gathered the views of members from the Electronic Trading Council (ETC) on the direction of travel with recent market developments and horizon scanning in electronic cash bond trading. Common themes raised by ETC members included the ever-increasing importance of data, the efforts toward harmonisation of electronic communications standards, the use of various trading protocols and the evolution of portfolio trading.

Drivers and evolution of electronic trading

Pre- and post-trade processing efficiency gains continue to be the most important drivers of greater electronification and automation within bond markets. Automation is at the forefront of trading desks' minds – investing to be better, smarter, more automated. A reduction in the number of clicks required to execute a trade, for example, would be one outcome of greater efficiency. The trend towards electronification and automation, initially focused on sovereign bonds, seems to be naturally expanding to credit and further toward emerging and high yield markets.

Limitations on automation, however, remain and the market turmoil during the height of the COVID-19 pandemic brought with it a reminder of the role of traders. This is also evident from ICMA's May 2020 report on the COVID-19 crisis on European investment grade corporate bond trading. Many algorithms ("algos") are still reliant on backward-looking data and when market dynamics fall outside of their usual parameters human intervention is required beyond oversight and adjustments.

Outside unusual periods of market activity, automation is also typically used for normal to smaller ticket sizes. As one member remarked, intending to electronify their bond business and coming from an equities background, they had underestimated both the complexity of bond products and the problem of liquidity.

Data

A key requirement for the continued development of e-trading and automation is harnessing the ever-increasing amount of usable data available on one system. Data aggregation, however, involves the sourcing of information from multiple providers and presenting it in a consistent format, which is often not defined.

Electronic communication messaging standards

Data standardisation and efforts toward harmonisation of electronic communications protocols featured through discussions among ETC members. The FIX protocol enables firms to exchange trade information electronically, though commonly customised by individual firms – a uniform implementation does not exist. Different standards inhibit growth, and improvements in electronic methods to communicate will improve trading insights and lower post-trade costs. The growing commercialisation of data generated by trading is expected to continue to drive requirements for codified, standardised data for value extraction.

Trading protocols

The evolution of bond portfolio trading featured as another core theme. Portfolio trading consists of trading a basket of securities (varied sizes, maturity, and liquidity) in one single transaction with one counterparty. Pricing on a portfolio basis was initially seen as an effective strategy to execute a high number of trades that would otherwise be individually processed via RFQ. However, many ETC members seemed sceptical of the trend towards bundling more illiquid ISINs into portfolios with tight prices. Additional concerns were raised around the consolidation of liquidity in a smaller number of institutions, raising uncertainty on the sustainability of the portfolio trading execution method looking ahead.

Various protocols are offered by trading venues and OMS/EMS for electronic cash bond trading, as highlighted within ICMA's ETD. Per *ICMA's 3rd study on the State of the European Investment Grade Corporate Bond Secondary Market* (March 2020), selective or multiple request for quote (RFQ) is the most commonly used between buy side and sell side. However, market volatility in the preceding 18 months saw many participants resorting to voice trading to avoid the risk of pricing across electronic platforms, as well as a slight shift from the use of multiple RFQ to anonymous RFQ.

Conclusion

A common theme of ever-increasing importance for electronic cash bond trading is data. Increasing capabilities to collect and leverage data are a key requirement for the growth of bond e-trading and automation. This naturally leads to additional emphasis on the role and development of electronic communication messaging standards. Portfolio trading is a notable development and offers a range of benefits, but the longer-term sustainability of this execution method remains uncertain. ETC members also discussed the evolution and use of various electronic trading protocols available on venues and via OMS/EMS, though noted many participants resorted to voice trading at the height of the COVID pandemic and ensuing market turmoil.

The full briefing note and the ICMA electronic trading directory are available from the ICMA website.

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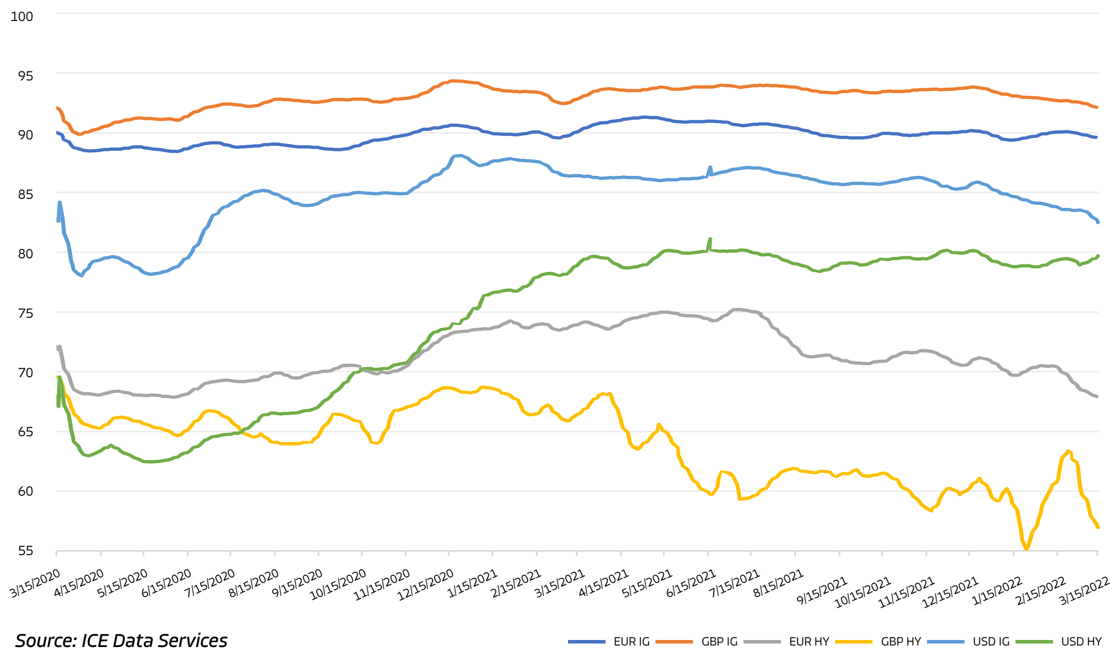
Corporate Bond Market Liquidity Indicators™

Market liquidity declined in Q1, with the exception of USD HY

Liquidity Tracker



Source: ICE Data Services

Commentary

Credit market liquidity initially remained steady before dropping towards the end of the last quarter. An exception is USD HY liquidity, which remained largely unchanged, and as a result of the decline of USD IG liquidity conditions, appears to be on a path towards convergence. On the other side, the GBP HY liquidity curve displays signs of increased volatility, recording a spike in liquidity conditions paired with new lows.

More secondary bond market data and analysis can be found on ICMA's secondary market data webpage.

ICE Liquidity Indicators™ are designed to reflect average liquidity across global markets. The ICE Liquidity Indicators™ are bounded from 0 to 100, with 0 reflecting a weighted-average liquidity cost estimate of 10% and 100 reflecting a liquidity cost estimate of 0%. The ICE Liquidity Indicators™ are directly relatable to each other, and therefore, the higher the level of the ICE Liquidity Tracker the higher the projected liquidity of that portfolio of securities at that point in time, as compared with a lower level. Statistical methods are employed to measure liquidity dynamics at the security level (including estimating projected trade volume capacity, projected volatility, projected time to liquidate and projected liquidation costs) which are then aggregated at the portfolio level to form the ICE Liquidity Indicators™ by asset class and sector. ICE Data Services incorporates a combination of publicly available data sets from trade repositories as well as proprietary and non-public sources of market colour and transactional data across global markets, along with evaluated pricing information and reference data to support statistical calibrations.

Repo and Collateral Markets




by **Andy Hill, Alexander Westphal, Zhan Chen and Lisa Cleary**

ICMA ERCC buy-side workshop

On 9 February 2022, the ICMA European Repo and Collateral Council (ERCC) held a workshop that brought together a range of buy-side participants in the European repo market. The aim of the workshop was to identify the various challenges that different types of buy-side institutions face. This would set the scene for a potential second workshop which would be intended to include representatives of other market stakeholders and to broaden the discussion to the challenges facing liquidity providers, as well as potential solutions.

The workshop was structured around three key topics: (i) the role and importance of the repo market for buy sides; (ii) challenges in accessing the repo market; and (iii) and improving access to the repo market.

Buy-side perspectives

Buy sides use the repo market for a range of different purposes and to support a variety of different investment strategies. Depending on the type of investment firm, or the underlying investment strategy, this includes: sourcing leverage; managing liquidity; covering shorts for relative value trades; margin maintenance for derivatives transactions; portfolio yield enhancement; collateral optimisation; and portfolio duration gap management. Transaction types can be in a range of collateral types and currencies, executed bilaterally or through triparty, ranging from very short to very long maturities, and vanilla or structured, or even synthetic in nature.

Barriers to accessing the market for buy sides can come from a variety of sources. These can relate to the onboarding process with dealers, including the negotiation and signing of GMRAs, which can be time-consuming and resource-intensive. Similarly, providing for straight-through-processing of transactions (STP) and the connecting of order and execution management systems (OMS/EMS) to trading venues can entail a significant investment in technology builds. While it can make sense to dedicate such resources and investment for banks, where repo desks are usually a major revenue generator, it may be more difficult to justify from the perspective of many buy sides.

But the ultimate barrier, and of biggest concern to buy sides, is the uncertainty of liquidity provision from banks, particularly over key reporting dates, such as quarter and year-ends, or during episodes of extreme market volatility or stress, as experienced in early 2020. This has led to behavioural changes in how buy sides manage their liquidity risk, including, in some cases, the use of committed repo facilities.

The participants discussed a number of potential solutions to help facilitate wider access to liquidity, including e-trading, sponsored clearing, peer-to-peer models, and alternatives such as total return swaps (TRS). However, the overarching view was that the smooth and effective functioning of the repo market is ultimately reliant on the ability and appetite of banks to provide intermediation, and, in the European context at least, this remains a potential vulnerability.

Next steps

The ERCC will look to hold a follow-up workshop in the near future, most likely bringing sell sides into the discussion. There also seems to be a desire among the ERCC buy-side membership to broaden its engagement through the ERCC more generally. Meanwhile, ICMA intends to use the workshops to inform a white paper that can be used as a platform to raise regulatory awareness around some of the dynamics and challenges affecting buy-side access to the European repo market.

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ICMA ERCC discussion paper on settlement efficiency

On 1 February 2022, the day of the "go-live" of CSDR cash penalties, the ERCC released its discussion paper, *Optimising Settlement Efficiency*. The paper aims to focus attention on key opportunities to strengthen settlement efficiency in Europe, which are seen as complementary to the CSDR measures. It consists of two main parts. The first part assesses the current state of settlement efficiency in Europe, relying mainly on helpful analysis prepared by T2S and participating CSDs. The second part of the paper focuses on a number of key optimisation tools, such as the shaping of settlement instructions, partial settlement and auto-partialling, as well as automatic borrowing and lending facilities offered by (I)CSDs. All three tools, used to their full potential, are considered crucial to help the industry to further reduce settlement fails, mitigate their economic impacts and support market liquidity.

The paper is the outcome of an ERCC initiative launched in early 2021 and builds on numerous discussions with members over the past year, including in a series of dedicated workshops. Recognising the importance of best practice in this context, we published along with the paper a compilation of relevant recommendations extracted from the ERCC Guide to Best Practice and endorsed by the ERCC Committee. An important next step will be to broaden the discussion to other stakeholders and markets. In particular, the paper and the related best practices have already been presented to ICMA's Secondary Market Practices Committee (SMPC) in order to assess whether and how these can be extended to cash bond trading. The ERCC will also continue to closely collaborate with the relevant market infrastructure providers, including trading platforms, CCPs and CSDs, making sure that the initiative leads to some concrete improvements.

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Repo and sustainability

ICMA has successfully launched a new Task Force on Repo and Sustainability, with an objective to promote dialogue around repo and sustainability, monitor and assess existing or upcoming market and regulatory initiatives, as well as to develop relevant standards and best practices. Over 70 individuals across more than 40 firms attended the kick-off meeting held on 17 January 2022. Members discussed key topics and potential deliverables for the Task Force with an immediate focus to launch the work on definitions and best practices to provide further clarity to the market on this important topic.

Following the first meeting, three coordinators, from BNP Paribas, Eurex and TD Securities, have been appointed to help drive the work of the Task Force going forward. In terms of next steps, ICMA is currently working on a paper to outline some high-level categorisations in relation to sustainability-related repo products and transactions that have emerged in the market and to provide some early observations and preliminary conclusions on current market practice. The draft paper will be shared with the Task Force for review and discussion ahead of the next meeting in April.

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SFTR reporting

Updated EU and UK validation rules: The updated EU validation rules and reporting schemas went live on 31 January 2022. Despite the relatively short time for firms to implement, the "go live" went relatively smoothly. However, trade repositories have highlighted some technical issues with net exposure collateral reports which will require further fixes. In order to resolve the issue, ESMA has proposed a number of relaxations to the XML schemas which will apply as of 29 April. In the UK, the new validation rules and schema updates will apply from 13 April.

Updated ESMA Q&As: Since the previous edition of the ICMA Quarterly Report, ESMA has published two updates to its SFTR Q&As. The latest update released on 25 February aims to further clarify previous guidance on the reporting of settlement fails, which continues to be a highly problematic area for reporting firms. Unfortunately, the latest guidance adds to the problems as it seems to require firms to report fails that have not been discovered before the reporting deadline as a new repo with a new UTI. The discussion on the practical application of this new guidance continues.

Reporting of SFTs with central banks: Following an earlier consultation, the FCA confirmed that the reporting requirements in the UK for SFTs concluded with the Bank of England and EU central banks would change from 1 April. So far, these trades had to be reported under MiFIR, which created significant practical challenges. Going forward, SFTs with the Bank of England will not have to be reported, while SFTs with EU central banks (and other central banks) are reported consistently under SFTR. ICMA strongly supported this approach. On the EU side, SFTs with EU central banks continue to be reportable under MiFIR.

ICMA's continuing work on best practice: ICMA's SFTR Task Force continues to meet on a monthly basis to review the latest regulatory guidance, discuss ongoing reporting issues and agree related best practices. Reflecting the ongoing discussions, *ICMA's Recommendations for Reporting under SFTR* and other best practice documents continue to evolve. One topic that has recently been a focus is the reporting of historical corrections under SFTR, ie corrections to past reports. Following initial discussions in the SFTR Task Force, a dedicated workshop was held on 2 March to allow for a more in-depth discussion of the related problems and possible best practices.

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ICMA Repo Guide to Best Practice: updated version

On 29 March 2022, the ERCC published an updated version of one of its flagship documents, the *Guide to Best Practice in the European Repo Market*. The detailed Guide provides recommended practices, conventions, and clarifications intended to support the orderly trading and settlement of repos. The latest version introduces a number of new guidelines intended to address issues that have arisen since the last publication in March 2021. These include further updates to best practices relating to settlement efficiency, reflecting on the outcome of the related ERCC initiative mentioned above, but also a number of other issues. For comparison, the updated Guide has been published along with a blackline version which shows all the latest changes. The ERCC will continue to review the Guide and make further updates in line with future market evolution.

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ICMA Guide to Asian Repo Markets

As part of its continued commitment to promoting the development of repo markets around the world, ICMA is publishing a series of reports on domestic repo markets in the Asia-Pacific region, describing the main features of each market including market infrastructure, types of repo and collateral, market participants, post trade operations and the legal and regulatory framework. On 25 February 2022, ICMA published the first part of this comprehensive study, focusing on the Japanese repo market, followed by the Indonesia repo market on 30 March. The jurisdictions to be covered in future releases include Vietnam, Philippines, Thailand, Malaysia, China, Hong Kong, Taiwan, Korea, Singapore and Australia.

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ERCC elections 2022

On 10 February, ICMA announced the results of the latest annual elections to the ERCC Committee, the governing board of the ERCC. 19 individuals were elected to form the new ERCC Committee for a term of office of approximately one year ending on the day that the results of the 2023 ERCC elections are announced. Participation in the elections continued to be strong with valid votes received from 76 ERCC members out of a total of 114 member firms. ICMA thanks all members who participated in the process either as a candidate and/or by voting as Named Repo Contact for their firm. We appreciate the continued active engagement.

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ERCC General Meeting

Registrations are open for the next ERCC Annual General Meeting which will be held on 26 April as a virtual event. The compact two-hour afternoon session includes a mix of keynote speeches and panel discussions. As part of the agenda, we will take a closer look at the particular challenges that the buy side is facing in relation to repo. Another key topic will be the increasing importance of digitisation in the repo market, focusing on ICMA's two flagship projects in this space: ICMA's Common Domain Model for repo and bonds as well as the GMRA Clause Library and Taxonomy project which ICMA is developing. The full agenda will be available in due course.

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Sustainable Finance

by **Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck, Ozgur Altun** and **Julia Rodkiewicz**



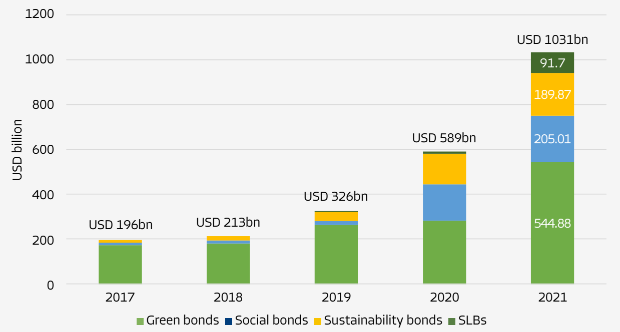


Introduction

This update provides a final summary of 2021 market developments while highlighting the data confirming that the voluntary principles supported by ICMA remained the global issuance standard last year. We report on the recent controversial legislative proposal to include nuclear and gas in the EU Taxonomy while also pointing to our recent publication on the usability challenges of the Taxonomy. We also cover regulatory developments regarding future corporate reporting requirements in the EU, as well as the progress with the establishment of the International Sustainability Standards Board.

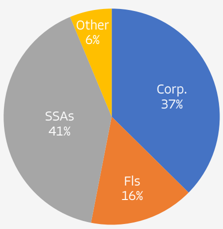
Sustainable bond market update
Key trends in 2021

Sustainable bond issuance per category (USDbn)

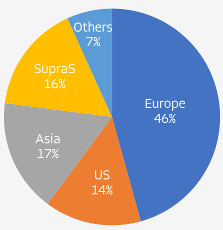


ICMA analysis based on Environmental Finance Database (EF data contact: phil.manley@fieldgibsonmedia.com)

Sustainable bonds in 2021 – by sector



Sustainable bonds in 2021 – by region



ICMA analysis based on Environmental Finance Database (EF data contact: phil.manley@fieldgibsonmedia.com)

2021 was a landmark year for the sustainable bond market with final issuance volume exceeding the USD1 trillion threshold for the first time representing a 75% increase compared to 2020. The other major trends that marked 2021 were:

- *Continuing prominence of European issuers*: European issuers issued sustainable bonds for a total of USD469 billion equivalent, representing 46% of the total market (vs. 42% in 2020). Cumulatively European issuers have issued in total over USD1 trillion between 2017 and 2021 (inclusive) representing over 40% of the total. In 2021, Asian, supranationals, and US issuers followed their European peers with sustainable bond issuance of USD173 billion (17% of total), USD166 billion (16%), and USD148 billion (14%) respectively.

- *SSAs underpin the market:* In 2021, SSAs continued to represent the largest segment among issuer types with a total of USD419 billion (41%). They were followed by corporates at USD386 billion (37%) and FIs at USD161 billion (16%). Also, in 2021, many sovereigns (eg Colombia, Malaysia, Italy, UK, Spain) issued their inaugural sustainable bonds, contributing to a total of USD103 billion (over 140% year-on-year growth). The European Commission also issued its inaugural green bond of EUR12 billion 15-year under its NGEU green bond programme aligned with the Green Bond Principles. The Commission aims to issue under this landmark programme up to EUR250 billion of green bonds until the end of 2026.

- *SLB issuance take-off:* SLB issuance reached a total of USD91 billion, a ten-fold expansion against 2020. Market research shows that 70-80% of issuers include

GHG emission reduction KPIs, demonstrating that SLBs are particularly suitable for climate transition finance purposes. It is also noteworthy that 95% of SLB issuers were corporates.

- *Increased interest for EMs sustainable bonds:* several important EM-focused funds were launched with notably KfW's fund focused on green bonds from Latin America, the new IFC-Amundi BEST initiative, and BIS' announcement on an Asia green bond focused fund (made official subsequently in 2022).

Update on the market in 2022

Sustainable bond issuance in 2022 as of 18 March stood at USD87 billion against a total of USD171 billion in 2021 over the same period. This slower start reflects especially the absence of the landmark social bond deals that marked early 2021 with the European Commission and Cades issuing near EUR45 billion of these instruments during the period.

We have nonetheless seen two important SSA transactions in early 2022. Firstly, the Republic of Chile issued the first ever SLB from a sovereign, a USD2 billion 20-year bond that received an order book of 4.1x spread across investors in Europe, Asia, and the Americas. The KPIs and SPTs of the Chile SLB Framework relate to both its international commitment under the Paris Agreement as well as national goals in terms of renewable energy. This landmark transaction shows the way for other sovereigns that may wish to use the SLB market to finance their Nationally Determined Contributions (NDCs) as part of their commitments under the Paris Agreement.

Secondly, in January 2021, the Kingdom of Denmark issued its inaugural DKK5 billion 10-year green bond based on the twin structure concept first introduced by Germany in 2020. The proceeds will focus on financing renewable energy (wind and solar) and the green transition in the Danish transport sector. Denmark's green bond framework is also potentially the most detailed attempt to align with the EU Taxonomy while its framework is explicit on the challenges for a full DNSH alignment for a sovereign.

ICMA supported Principles remain global issuance standard in 2021

As in 2020, our analysis based on the data from Environmental Finance shows that ICMA-supported standards continued to underpin an overwhelming majority of sustainable bond supply internationally and represent the global market standard. Specifically, USD998bn equivalent of sustainable bond issuance in 2021 aligned with the GBP, SBP, SBG, and the SLBP, representing 98% of total international issuance.

Percentage of sustainable bonds by region that were based on GBP, SBP, SBLP (excluding supra) in 2021:

Circle size is proportional to total sustainable bond issuance by region.

S Controversial inclusion of certain nuclear and fossil gas activities in the EU Taxonomy

On 2 February 2022, the European Commission adopted a controversial Complementary Delegated Act (CDA) which supplements the Climate Delegated Act of 9 December 2021 and includes certain nuclear and gas activities within the EU Taxonomy's scope for climate mitigation and adaptation. Specifically, the CDA includes the following activities:

- *Nuclear:* (i) advanced technologies with closed fuel cycle (Generation IV); (ii) new plants using best-available technologies (Generation III+) (date of construction approval to be obtained until 2045); (iii) modifications and upgrades of existing nuclear installations for the purposes of life-time extension (approval by competent authority to be obtained until 2040).
- *Fossil gas:* (i) electricity generation; (ii) high-efficiency co-generation of heat/cool and power; (iii) production of heat/cool in an efficient district heating and cooling system.

Recognised in the CDA as "transitional" for the mitigation objective, both nuclear and fossil gas activities are subject to a detailed list of eligibility requirements. For instance, the nuclear-related projects should be in a Member State which has implemented specific measures in relation to radioactive waste management and nuclear safety. Fossil gas-related activities are subject to, among other things, quantitative CO2 performance thresholds, conditions such as replacement of a higher emitting plant, limitation on production capacity increase following such replacement, switching fully to renewable/low carbon gaseous by 31 December 2035, third-party verification, etc.

It is important to note that the CDA also amends the Article 8 Delegated Regulation (stipulating the entity-level Taxonomy disclosures) and requires from both large corporates and financial entities additional disclosures on their nuclear and fossil gas activities as covered by the CDA. This aims to heighten market transparency and enhance an informed investment decision-making process regarding these activities that have been subject to much public debate and stakeholder reaction recently.

The CDA remains subject to scrutiny of the European Parliament and the Council for four months (with a possible two-month extension). The Council can object to it by a reinforced qualified majority (20 MS representing 65% of the EU population at minimum) while the Parliament can object by a majority of its members voting against in plenary (ie at least 353 MEPs). Following the scrutiny period, the CDA would apply as of 1 January 2023 (if passed).

Ensuring the usability of the EU Taxonomy

ICMA published on 14 February a paper which identifies challenges for the financial and corporate sector in providing information on the alignment of their activities with the EU Taxonomy as required by existing and proposed future regulatory reporting. The paper makes five key recommendations EU co-legislators and regulators to address these usability concerns. The objective is to ensure the availability of Taxonomy information to help guide market participants and policy makers alike in their decisions relating to sustainable strategy and policy making. This is covered in greater detail in a feature article in this edition of the Quarterly Report.

S Regulatory developments and dialogue

Future regulation of sustainable corporate reporting in the EU

The Legal Affairs Committee (JURI) of the European Parliament in its vote on 15 March 2022 introduced several changes to the proposed Corporate Sustainability Reporting Directive (CSRD). Notably, listed small- and medium-sized enterprises (SMEs) have been taken out of the scope of mandatory reporting. The justification given was that the "COVID-19 pandemic has had a profound impact on SMEs. … Inclusion in the scope would impose an excessive and unjustified burden on these undertakings, as well as to put their viability at risk". Furthermore, the Committee indicated that priority should be given to developing transparency rules for fossil fuel industries given that "European capital markets are exposed to climate-related risk – the vulnerability of coal, oil and gas companies is particularly pronounced". Trilogue negotiations between the European Commission, Parliament and Council will start on 28 March 2022, with the proposal expected to be finalised over the course of the next few months.

On 23 February 2022, the European Commission adopted a proposal for a Directive on corporate sustainability due diligence. The proposal aims to foster sustainable and responsible corporate behaviour throughout global value chains. It will be applicable to EU companies and non-EU companies active in the EU. In a next step, the proposal will be presented to the European Parliament and the Council for approval. Once adopted, Member States will have two years to transpose the Directive into national law and communicate the relevant texts to the Commission.

It is important to note that in parallel with the EU's legislative and regulatory initiatives regarding corporate sustainable reporting, there is a major international effort under way with the establishment of the International Sustainability Standards Board (see related box).

Update on the International Sustainability Standards Board (ISSB)

The Trustees of the IFRS Foundation signed MOUs in March with German public and private sector institutions to formalise the partnerships and funding arrangements required to establish the presence of the International Sustainability Standards Board (ISSB) in Frankfurt. The Frankfurt office of the ISSB will provide the seat of the Board and the office of the ISSB Chair. The ISSB will develop reporting standards to cover core sustainability topics (environmental, social, governance–ESG). It will begin with climate, due to the urgent need for information on climate-related matters with a single materiality perspective. Conversely, EU reporting standards being developed by EFRAG that will become mandatory under the future CSRD will have a double materiality perspective, meaning not just what is financially material to an organisation but also what is material to the economy, environment, and people.

The ISSB will develop both thematic and industry-based requirements. The ISSB will build on the work of existing investor-focused reporting initiatives–including the Climate Disclosure Standards Board, the Task Force for Climate-related Financial Disclosures (TCFD), the Value Reporting Foundation's Integrated Reporting Framework and SASB Standards, and the World Economic Forum's Stakeholder Capitalism Metrics–with the aim of becoming the global standard-setter for sustainability disclosures for the financial markets.

On 1 April 2022, the ISSB delivered proposals on its first two proposed standards: general sustainability-related disclosure requirements and climate-related disclosure requirements. These build upon the recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD) and incorporate industry-based disclosure requirements derived from the Sustainability Accounting Standards Board (SASB) Standards. ICMA is considering a response to the public consultation which is open until 29 July 2022.

Report on an EU Social Taxonomy

On 28 February 2022, the EU Platform on Sustainable Finance (of which ICMA is a member) presented its final report on a proposed social taxonomy to the public. The recording of the presentation can be found here. Following a public consultation on an initial draft in July 2021, feedback from 300 responses was taken into account and resulted, for example, in a collapse of a proposed vertical and horizontal dimension into a single structure. Overall, the structure of the proposed social taxonomy is similar to that of the environmental taxonomy in that it proposes social objectives and criteria reflecting the "substantial contribution" (SC) and "do no significant harm" (DNSH) elements.

The social objectives were selected based on three stakeholder groups: workers, consumers and communities. In addition, sub-objectives have been developed based on resources such as the Sustainable Development Goals (SDGs) and the European Pillar of Social Rights. Like the environmental taxonomy, the social taxonomy differentiates between two types of substantial contribution: (i) avoiding and addressing negative impact and (ii) enhancing the positive impact inherent in an economic activity. The first one would apply to sectors where the risk of job losses or wages being below a "living wage" is high and the latter one would apply to sectors providing products and services for basic human needs such as healthcare or housing. The question of environmental minimum safeguards in a Social Taxonomy (reflecting the social and governance minimum safeguards in the Taxonomy Regulation) remains open. As a next step, the proposal will now be analysed and considered by the European Commission.

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Sustainable finance data flowchart

Following the publication of ICMA's disclosure paper in 2021, ICMA has created an overview of data disclosures required by issuers and investors based on core EU sustainable finance regulation in the form of a flowchart. The flowchart aims to provide clarity and structure to data requirements per Corporate Sustainability Reporting Directive (CSRD), Non-Financial Reporting Directive (NFRD), Sustainable Finance Disclosure Regulation (SFDR), Taxonomy Regulation and related Delegated Acts, while embedding links to relevant ICMA documentation on sustainability-related work.

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Asset Management

by **Irene Rey and Julia Rodkiewicz**

AIFMD and ELTIF reviews

Since the European Commission (EC) in November 2021 published its proposals to review the Alternative Investment Fund Managers Directive (AIFMD) and the European Long-term Investment Funds (ELTIF) Regulation, the ICMA Asset Management and Investors Council (AMIC) Risk Management Working Group has proposed targeted amendments to support the EU law makers in preparing their positions.

AIFMD

Regarding the AIFMD review (which also amends the UCITS Directive), AMIC was generally satisfied with the proposals and identified four key priority areas on which it proposed targeted amendments. Some of the key points included:

- *Liquidity Management Tools (LMTs):* In response to the EC proposed detailed provisions (as outlined in a previous Quarterly Report article), which risk generating procyclical behaviours and lead to systemic risks, AMIC proposed that the deployment of LMTs should remain at the discretion of fund managers, that the notification for use of LMTs should be limited to exceptional circumstances, and that fund managers have access to the full toolkit when having to choose a mandatory tool.

- *Delegation:* AMIC noted that, as long as the parent group remains in the EU, intra-group delegation notifications should be exempt as these models have already been approved by National Competent Authorities (NCAs) and the 2017 ESMA legal opinions ensure appropriate levels of delegation oversight.

- *Loan Originating Funds:* AMIC noted that there are legitimate scenarios where AIFMs would need to sell a loan they have originated – they need to have the flexibility to sell their assets to adhere with their investment mandates when conditions change in order to manage risks and achieve their desired returns. Thus AMIC proposed (i) a prohibition on originating loans with sole intent to sell on secondary market or (ii) a minimum holding period.

- *Reporting:* UCITS data is already provided by EU fund managers to national central banks in full detail. Instead of adding extra reporting requirements, AMIC suggested that the most direct way to upgrade the UCITS supervisory data would be to grant ESMA and other securities regulators access to the data the ECB and national central banks already receive from fund managers.

Next steps: The European Parliament’s Economic and Monetary Affairs Committee (ECON) draft report on AIFMD is expected in mid-May, followed by further discussions in the Parliament over the coming months. Negotiations in the Council of Ministers are expected to continue over the course of 2022. It is hoped that significant progress will be made by June.

ELTIFs

On ELTIFs, AMIC members found the review positive and considered that the proposed amendments should help uptake of this fund structure.

AMIC specifically welcomed the reduction in barriers that have prevented retail investors from accessing ELTIFs with the removal of the €10,000 minimum entry ticket and the 10% investment limit as well as the streamlining of the ELTIF suitability test with MiFID II. These proposed changes will make these funds more accessible, allow for the development of the ELTIF retail passport and align distribution with other investment products.

In order to further increase the chances of the labels’ success and attractiveness, AMIC proposed the following:

- remove the 20% cap for aggregate exposures to securitisations;

- remove the 40% limitation on being able to invest in other funds as this limits retail ELTIFs from adopting full fund of fund structures;

- reduce thresholds from 60% to 50% for capital which has to be invested in eligible assets.

Next steps: The European Parliament's ECON draft report on ELTIFs was published in March. Negotiations in the Council of Ministers are expected to continue over the course of 2022. It is hoped that significant progress will be made by June.

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MiFID sustainability preferences

On 27 January 2022, ESMA published a consultation paper reviewing its MiFID II Suitability Guidelines. The purpose of the updated guidelines is to help firms navigate the new requirements (under Delegated Regulation EU 2021/1253) where, from 2 August 2022, the MiFID suitability assessments will have to consider clients' sustainability preferences.

The proposed guidelines specify how to conduct the collection of information from clients, the assessment process of the expressed preferences as well as the organisational requirements.

The assessment of the sustainability preferences will be undertaken as a secondary step after the client's other suitability criteria have been assessed (knowledge, experience, financial situation, investment objectives etc). As the first step in evaluating a client's sustainability preferences, the distributor, undertaking the assessment, would need to define and explain the distinction between the options by which the preferences will be assessed: (a) products which are Taxonomy aligned; (b) products which are sustainable as defined under the Sustainable Finance Disclosure Regulation (SFDR); (c) products which consider principle adverse impacts (PAI); and (d) products which do not include any of these features.

The clients will have to indicate: (i) if they have any sustainability preferences (yes/no approach); (ii) to what extent the client has preferences regarding options (a) – (c); and (iii) if the client has a preference for a combination of the three options.

Firms will need to adopt a neutral and unbiased approach when conducting the assessments. They will need to keep detailed records of the expressed preferences and potential adaptation of their preferences. Staff will also need to be trained to ensure the necessary knowledge and experience in the sustainability preferences criteria.

There are several issues which AMIC and the wider industry have identified in applying these guidelines as of August 2022:

- The full Taxonomy data set will not be available until 2024[1] and the disclosures in relation to the percentage of sustainable investments under SFDR will only take effect on 1 January 2023. This current discrepancy in scope and timelines between investee companies and product disclosures means that there is a significant data gap resulting in firms having to rely on estimates which could risk compromising the quality and reliability of the information provided to clients – which also raises the question of greenwashing and reputational risk.
- The final guidelines are expected to be published at some point in Q3 2022 – after the 2 August implementation deadline. The timing of the publication of the final guidelines will leave product manufacturers little time to ensure their products meet the classification criteria of the products offered to clients from 2 August 2022 onwards. Combined with the unavailability of the necessary data, there is the concern that there will be limited, or no, products available to offer clients which meet their preferences.

AMIC is currently considering with members its feedback on the detail of the proposed guidelines, which will be published on the ICMA website following the response submission. A key AMIC recommendation would be for ESMA guidelines to allow firms to consider using a disclaimer up-front, before taking their clients through the questions on their sustainability preferences to manage the clients' expectations and protect the firm from liability risks. The disclaimer could cover the current level of data availability and explain the limited investment universe given the data gaps and unfinished nature of the Taxonomy Regulation and SFDR. It would also be welcomed for the final guidelines to be more flexible in their approach on how "sustainable investments" and "principal adverse impacts" (PAI) are defined to clients. When explaining the concepts, the advisers should be able to reference existing market practices to help the client understand the nuances and differences in the products available under each (or in combination) of the three offered options, as opposed to being limited to explaining the options as they are defined under the Taxonomy and SFDR.

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1. Asset managers product disclosures have started to apply in 2022 but issuers will only start reporting their taxonomy alignment over the course of 2023.

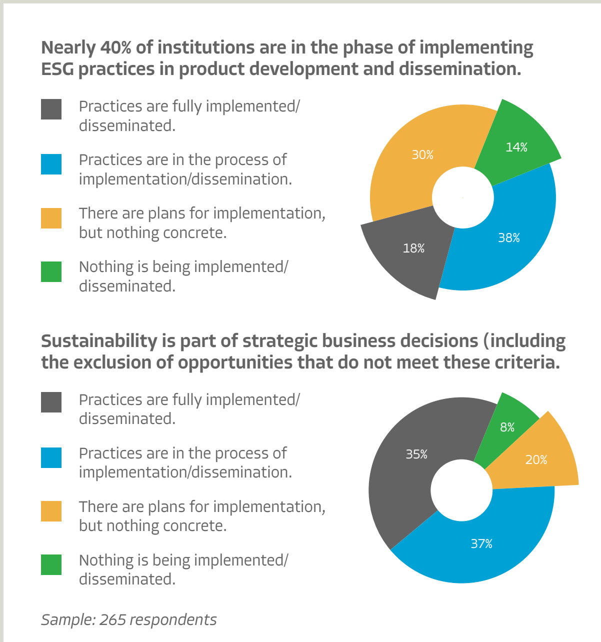
by **José Carlos Doherty**

Brazil's experience in identifying sustainable investment funds

Sustainability initiatives aimed at ensuring the sound evolution of the sustainability agenda in the Brazilian capital market have multiplied recently, in line with what is happening in other jurisdictions. In 2021, local regulators took important steps in the prudential rules of financial institutions and in the disclosure of information by said participants[1], as well as by issuing companies in this regard. On the buy side, the Brazilian Association of Financial and Capital Market Institutions (ANBIMA)[2] published new rules for the identification of sustainable investment funds, which came into force in 2022.

ANBIMA's performance regarding sustainability in this segment is not new. A working group formed in 2015 carried out two mapping exercises on the evolution of ESG practices in the asset management space. This work led to the launch of the ANBIMA ESG Guide[3] which pioneered a collection of case studies and guidelines for local managers – we are currently in the Guide's second edition. In 2020, a reformulated senior consultative group established a strategic agenda for the topic, which included carrying out a comprehensive survey on sustainability in the local capital market and defining self-regulation rules for the identification of sustainable investment funds.

Regarding self-regulation for funds, the offer of green, ESG or similar products was already booming in the domestic market. At the same time, the adoption of sustainability policies by managers, adequate governance and the implementation of ESG integration methodologies and procedures is still in progress, as the survey results showed.



Source: Landscape of Sustainability in the Brazilian Capital Market, ANBIMA, 2021[4].

Therefore, the Association's rules seek to ensure an expansion in the offer of products, in line with the relevance of the ESG agenda and due transparency, while mitigating greenwashing risks. On the other hand, the creation of the rules considered the experience of other jurisdictions, seeking to bring to the local market criteria in line with international guidelines.

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1. More information available at https://www.bcb.gov.br/en/about/bcbhastag_

2. ANBIMA represents more than 290 banks, intermediaries and asset managers in Brazil and is a Self Regulatory Organization (SRO) for the local market.

3. ANBIMA ESG Guide – 1st Edition available at https://anbi.ma/esgguide

4. Available at anbi.ma/sustainability

Self-regulation criteria are currently in force to be met by investment funds – equity and fixed income funds – identified or intending to identify themselves as sustainable investment funds, using this or similar terms (ESG, Green, Impact, etc) in their denomination. These are those who have sustainable investment as their objective. They must formally attest to this commitment in their documentation, adopt strategies and monitoring compatible with achieving this objective, and provide transparency about these characteristics to investors and the general audience.

The new rules also allow that, even if they do not have the sustainability objective, funds that take into consideration ESG issues in their investment policies can be differentiated from those that do not also by meeting certain requirements and disclosing said condition in their marketing materials.

Sustainable Investment Fund (IS Fund)	Investment Funds that are not IS but take ESG into consideration
Sustainable Investment as the Fund Objective	ESG considered in the Fund Policies
Formal documentation, Sustainability Strategy, monitoring procedures and	Investment Policies, monitoring procedures and transparency required
Fund Name includes IS	Marketing material informs ESG consideration

Source: ANBIMA[5].

Since the consideration of ESG issues is a process not limited to the portfolio composition approach, managers of such funds are also subject to the verification of requirements on policy and governance dedicated to sustainability and transparency regarding said procedures.

ANBIMA's option for self-regulation – which includes the supervision and enforcement of these rules – considers a roadmap for the coming months and years: although it firstly addresses equity and fixed income funds, the idea is to establish criteria for other types of funds. Likewise, progress in ESG practices adopted by fund managers is expected in terms of scope and maturity. The possibility of differentiating funds that consider ESG factors in their management aims to encourage the incorporation of said elements into risk management and investment policies across the universe of funds. The Association's idea is that, in the future, these procedures will be the general rule and that said differentiation will no longer be necessary.

Sustainable funds, on the other hand, represent a differentiated type of collective investment, with specific risks and opportunities. In line with IOSCO's recommendations, ANBIMA's self-regulation will possibly "improve product-level disclosure in order to help investors better understand: (a) sustainability-related products; and (b) material sustainability-related risks for all products"[6].

In addition to the fund segment, the Association's lines of action in sustainability for the coming years include other initiatives focused on relevant topics on this agenda. Among them are the integration of content on sustainability in the certification of distribution professionals (in progress); the fostering of good practices in the structuring of sustainable bonds (sell side); and driving a diversity agenda in the local market.

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5. More information available at: anbi.ma/fundosesg
6. IOSCO, November 2021 – Available at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf

FinTech in International Capital Markets


by **Gabriel Callsen and Rowan Varrall**

ICMA FinTech Advisory Committee

ICMA's FinTech Advisory Committee held further meetings on 1 December 2021, 27 January and 9 March 2022. On the agenda were green bond tokenisation, wholesale central bank digital currency (CBDC) and implications for capital markets, as well as ICMA's strategic FinTech priorities for 2022.

In December, the HKMA and BIS Innovation Hub Hong Kong jointly presented *Project Genesis*, which leveraged distributed ledger technology (DLT) to develop prototype digital platforms for green bonds. The aim was to enhance retail investors' access to green government bonds, increase transparency and traceability by displaying accrued interest as well as $CO2$ reductions in real-time via an app. In addition, retail investors were able to access brokers' and banks' different order books through a single interface in the app.

While the use of DLT generated efficiencies for bond issuance, the broader financial ecosystem and regulatory framework would require adjustments, for example, to support secondary market trading and settlement in near real-time. Participating vendor firms also explored the technical feasibility of tokenising HK$. Subject to regulatory development, the use of stablecoins for settlement may be possible in the future.

In January, the Swiss National Bank (SNB) presented *Project Helvetia Phase II: Settling Tokenised Assets in Wholesale CBDC*, a joint project with the BIS Innovation Hub Swiss Centre and SIX, and *Project Jura: Cross-border Settlement Using Wholesale CBDC*, a collaboration with the BIS Innovation Hub Swiss Centre, Banque de France and a private sector consortium.

Building on Phase I, the aim of Project Helvetia Phase II was to test the integration of overnight wholesale CBDC in core banking systems of both the SNB and commercial banks. By this, the settlement of interbank, cross-border and monetary policy transactions using wholesale CBDC could be tested end-to-end. Further to that, a legal assessment of solution design was conducted and alternative settlement options were analysed conceptually. Project Jura investigated the use of intraday wholesale CBDC accessible by eligible resident and non-resident banks in light of shortfalls in today's cross-border settlement of FX and assets.

Both projects found that domestic and cross-border delivery-versus-payment, payment-versus-payment and payment settlement in wholesale CBDC are functionally feasible. Atomic settlement using wholesale CBDC reduces settlement risk and is conducive to financial stability. However, the use of overnight compared to intraday wholesale CBDC has different implications. Access to wholesale CBDC, notably for non-resident financial institutions, raises intricate policy questions. Both projects were of experimental nature and do not indicate that the SNB intends to issue a wholesale CBDC.

In January, members exchanged views on strategic priorities for 2022 which were subsequently confirmed at the March meeting. In line with the Committee's mission statement, members agreed on the following priorities which will be driven by dedicated working groups:

- Support electronification of repo markets and promote interoperability by extending the CDM to open repos, floating-rate repos, and evergreens in Phase 2 of the CDM, which is due to be launched in Q2.
- Promote interoperability between the ever-growing vendor solutions and support automation in primary bond markets by developing a common data dictionary.
- Explore market guidance to support liquidity in digital (DLT-based) bonds, with a focus on legal and operational aspects, and demystify digital bonds.

In light of the continued growth of green, social and sustainability bond markets and future regulatory disclosure and reporting obligations, the Committee aims to identify ESG data requirements, foster standardisation and facilitate integration into pre-trade, trade execution and post-trade processes, in coordination with ICMA's GBP stakeholders.

Members are invited to reach out to us if they would like to become involved. Further information on the FinAC can be found on ICMA's dedicated FinTech webpage.

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Common Domain Model: Phase 2

The future of financial markets is digital and repo markets are no exception. To support the electronification of open repos, floating rate repos and evergreens, ICMA distributed a CDM roadmap for Phase 2 to ERCC members for review by March 2022.

While best practices in the European repo market are reflected in the ERCC Guide, market participants can choose between a broad range of vendor firms and internal solutions to translate workflows into their internal systems for trading, risk management, or reporting, amongst others. This leads inevitably to divergence, manual intervention and increased operational costs.

The CDM as a standardised data model removes any ambiguity and facilitates the automation of workflows and lifecycle events. The aim of Phase 2 is therefore to enable member firms to automate transaction management such as re-rate and re-price events as well as settlement-related processes of open repos, floating rate repos and evergreens.

By extending the CDM, member firms will be able to:

- reduce manual intervention and automate reconciliations in the middle and back office as the CDM enables firms to view a transaction through the "same lens" and enhances data quality;
- build and adapt internal IT systems more easily to trade open repos electronically as the CDM generates the workflows and code, freeing up software developers' time;
- future proof operations for new technologies such as DLT as well as evolving reporting requirements, for example, under SFTR.

ICMA also intends to work more closely with ISDA and ISLA on collateral-related processes in the spirit of the Memorandum of Understanding signed last year. The aim is to build on commonalities between repo, securities lending and derivatives, but also enable firms to use the CDM to support processes that are specific to each market segment.

As regards governance and licensing, ICMA, ISDA and ISLA continue to discuss arrangements for transferring the CDM repository to a third party to host the CDM and facilitate member-driven contributions.

Next steps: Phase 2 of the CDM for repo and bonds is due to be launched in April 2022 and concluded by Q1 2023. ICMA is looking to establish a CDM Steering Committee to provide guidance and actively contribute to the modelling and testing of the CDM. Please get in touch if you would like to be involved.

Instructions on how to access the CDM, as well as a new CDM video explainer and additional materials can be found on ICMA's website.

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ESMA call for evidence on DLT pilot regime

ICMA submitted its response to ESMA's call for evidence on the DLT Pilot Regime on 2 March 2022. The call for evidence sought feedback from stakeholders on the need to amend the pre- and post-trade transparency and data reporting requirements under MiFIR RTS in the context of the DLT Pilot Regime (DLT PR). ICMA's response focuses on points most relevant to international debt capital markets and ICMA's membership.

ICMA welcomes the objectives set out of the DLT PR, to support the development of secondary markets for tokenised financial instruments and promote the uptake of distributed ledger technology (DLT) in the financial sector while ensuring market integrity and financial stability. The DLT PR provides a cross-border framework for raising capital, which is why it is important for ICMA members, many of which are based in the EU.

Implementation timelines and uncertainty on the duration of the DLT PR may reduce incentives for firms to invest in building a DLT market infrastructure. Some ICMA members noted the speed of current market innovation in developing DLT-based securities may see the DLT PR redundant by the time it enters into force.

In addition, the narrowly defined scope for both bond initial issuance/recording sizes and total market value creates further disincentives. Bonds with an issuance size of less than €1 billion are within the scope of the regime. There is also a cap of €6 billion total market value for all instrument recordings. This is probably the most dissuasive limit and should be significantly enhanced.

To fully realise the expected benefits of tokenised securities, such as reduced counterparty risk and (near) instant settlement, there is a need for credible digital currencies available on DLT to implement on-chain delivery versus payment (DvP) mechanisms. Ideally, this would be in the form of Central Bank Digital Currency (CBDC), and/or other forms of digital cash such as tokenised commercial bank money or stablecoins.

Based on feedback received, ESMA will reflect whether RTS amendments are necessary, and any amendments would be proposed by ESMA within a separate consultation paper. The full response is available on ICMA's FinTech resources page.

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F FinTech regulatory developments

IOSCO: decentralised finance in financial markets

On 24 March 2022, IOSCO published its report on decentralised finance (DeFi). The IOSCO report offers a comprehensive review of the fast-evolving DeFi market, its new products, services and principal participants. It identifies some products and services which are novel to DeFi. But most of the new services which are emerging replicate more traditional financial services and activities, but with weaker regulation and increased risks for investors. The report casts doubt on a key claim of DeFi innovators that it is a peer-to-peer marketplace with no centralised insiders in control. By looking in detail at how DeFi works, it identifies central actors who, it concludes, often retain control – for example, through the distribution of "governance tokens". It also highlights the important role played by centralised trading platforms who often face substantial conflicts of interest. In response to the report, IOSCO has also announced the establishment of a new task force.

BIS Innovation Hub and central banks: completion of mCBDC prototypes

On 22 March 2022, the Bank for International Settlements (BIS) Innovation Hub, the Reserve Bank of Australia, Bank Negara Malaysia, the Monetary Authority of Singapore, and the South African Reserve Bank announced the completion of prototypes for a common platform enabling international settlements using multiple central bank digital currencies (mCBDCs). Led by the Innovation Hub's Singapore Centre, Project Dunbar proved that financial institutions could use CBDCs issued by participating central banks to transact directly with each other on a shared platform. This has the potential to reduce reliance on intermediaries and, correspondingly, the costs and time taken to process cross-border transactions.

FSB: FinTech and market structure in the COVID-19 pandemic

On 21 March 2022, the Financial Stability Board (FSB) published its report on *FinTech and Market Structure in the COVID-19 Pandemic*. The COVID-19 pandemic has accelerated the trend toward digitalisation of retail financial services. Comprehensive data on market shares of FinTechs, BigTechs and incumbent financial institutions in retail digital services are lacking, but proxies in the form of revenue and app downloads, and insights from market outreach suggest that BigTechs and larger FinTechs have further expanded their footprint in financial services. In some markets, concentration measures are high, but there is no evidence yet of a generalised increase.

ESMA: electronic trading and flash crashes in sovereign bond markets

On 18 March 2022, ESMA published its report *Flash Crashes on Sovereign Bond Markets – EU evidence*. The analysis focuses on two flash events in the German and Italian bond markets and shows how liquidity vanished ahead of the crashes, resulting in trades having a large price impact on prices. The findings document that, during the flash event of 29 May 2018, activity on Italian bond futures and cash markets diverged: trading activity in futures surged, while it plummeted on the cash market. In addition, it shows that the effects of flash events on the liquidity in the affected markets can last up to several weeks. The findings call for increased monitoring of electronic trading markets, taking into account the pace of financial innovation, and for pursuing more integrated approaches in the presence of highly interlinked markets.

EBA, EIOPA, ESMA: warning to consumers on crypto-asset risks

On 17 March 2022, the three European Supervisory Authorities (EBA, EIOPA and ESMA) published a joint warning to consumers on the risk of crypto-assets. The ESAs note growing consumer activity and interest in crypto-assets, including so-called virtual currencies and the emergence of new types of crypto-assets and related products and services, for instance, so-called non-fungible tokens (NFTs), derivatives with crypto-assets as underlying, unit-linked life insurance policies with crypto assets as underlying and decentralised finance (DeFi) applications, that claim to generate high and/or fast returns.

BIS BCBS: artificial intelligence and machine learning

On 16 March 2022, the Basel Committee on Banking Supervision published its newsletter to provide greater detail on internal discussions regarding artificial intelligence and machine learning. Banks are increasingly exploring opportunities for using AI/ML. AI/ML technology is expected to increase banks' operational efficiency and also facilitate improvements in risk management. While significant opportunities are emerging from the increasing use of AI/ML in many areas of banking, there are also risks and challenges associated with these techniques. Banks are still in the process of developing best practices for risk management. Given the increasing adoption of this technology as well as the potential risks, the Committee is analysing banks' use of AI/ML and potential implications for bank supervision.

European Parliament: MiCA position

On 14 March 2022, European Parliament's ECON agreed its position on the Markets in Crypto-assets Regulation (MiCA). Key provisions agreed by MEPs for those issuing and trading crypto-assets (including asset-referenced tokens and e-money tokens) cover transparency, disclosure, authorisation and supervision of transactions. In addition, the legal framework supports market integrity and financial stability by regulating public offers of crypto-assets. Finally, the agreed text includes measures against market manipulation and to prevent money laundering, terrorist financing and other criminal activities. To reduce the high carbon footprint of crypto-currencies, particularly of the mechanisms used to validate transactions, MEPs have asked the Commission to present MEPs with a legislative proposal to include in the EU taxonomy (a classification system) for sustainable activities any crypto-asset mining activities that contribute substantially to climate change, by 1 January 2025.

OECD: framework for classifying AI systems

On 22 February 2022, the OECD published its *Framework for Classifying AI Systems*. The OECD developed a user-friendly framework for policy makers, regulators, legislators and others to characterise AI systems for specific projects and contexts. The framework links AI system characteristics with the OECD AI Principles (OECD, 2019), the first set of AI standards that governments pledged to incorporate into policy making and promote the innovative and trustworthy use of AI. The framework classifies AI systems and applications along the following dimensions: People & Planet, Economic Context, Data & Input, AI Model and Task & Output. Each one has its own properties and attributes or sub-dimensions relevant to assessing policy considerations of particular AI systems.

FSB: risks to financial stability from crypto-assets

On 16 February 2022, the FSB published its *Assessment of Risks to Financial Stability from Crypto-assets*. The report examines developments and associated vulnerabilities relating to three segments of the crypto-asset markets: unbacked crypto-assets (such as Bitcoin); stablecoins; decentralised finance (DeFi) and other platforms on which crypto-assets trade. These three segments are closely interrelated in a complex and constantly evolving ecosystem and need to be considered holistically when assessing related financial stability risks. The report notes that although the extent and nature of the use of crypto-assets vary somewhat across jurisdictions, financial stability risks could rapidly escalate, underscoring the need for timely and pre-emptive evaluation of possible policy responses.

BIS Irving Fisher Committee: big data in Asian central banks

On 11 February 2022, the BIS Irving Fisher Committee published its working paper on *Big Data in Asian Central Banks*. The analysis reveals four main insights. First, Asian central banks define big data in a more encompassing way that includes unstructured non-traditional as well as structured data sets. Second, interest in big data appears higher in Asia; the focus is in particular on projects developed to process natural language, conduct nowcasting/monitoring exercises, and develop applications to extract economy insights as well as SupTech/RegTech solutions. Third, Asian central banks report dealing with big data to support a wide range of tasks. Fourth, big data poses new challenges, with specific attention paid in the region to cyber security and data strategy. As a result, there is a growing need for international policy cooperation, especially among public authorities in Asia to facilitate the use of payments data and promote innovative technological solutions.

IMF: emerging trends, insights, and policy lessons from global CBDC projects

On 9 February 2022, the IMF published its report *Behind the Scenes of Central Bank Digital Currency*. The majority of IMF member countries are actively evaluating CBDCs, with only a few having issued CBDCs or undertaken extensive pilots or tests. This paper looks at the handful of countries in the hope of identifying and sharing insights, lessons, and open questions for the benefit of the many countries following in their footsteps. The purpose of the paper is not to evaluate the courses taken by different jurisdictions, but to study and discuss their key experiences and lessons. The paper studies six advanced CBDC projects, drawing on collaboration and exchanges with the respective central banks to get insights beyond what has previously been published.

EBA, EIOPA, ESMA: joint response to EC digital finance call for evidence

On 7 February 2022, the three European Supervisory Authorities (EBA, EIOPA and ESMA) published a *Joint Report in Response to the European Commission's February 2021 Call for Advice on Digital Finance*. The ESAs note that the use of innovative technologies in the EU financial sector is facilitating changes to value chains, that dependencies on digital platforms are increasing rapidly, and that new mixed-activity groups are emerging. These trends open up a range of opportunities for both EU consumers and financial institutions, but also pose new risks. The proposals include a holistic approach to the regulation and supervision of the financial services value chain, among others.

IMF: FinTech and the evolution of commercial law

On 27 January 2022, the IMF published a note exploring FinTech and the evolution of commercial law. The note explores the interactions between new technologies with key areas of commercial law and potential legal changes to respond to new developments in technology and businesses. Given the cross-border nature of new technologies, international cooperation among all relevant stakeholders is critical. The note is structured as follows: Section II describes the relations between technology, business, and law, Section III discusses the nature and functions of commercial law; Section IV provides a brief overview of developments in FinTech; Section V examines the interaction between technology and commercial law; and Section VI concludes with a preliminary agenda for legal reform to accommodate the use of new technologies.

IMF: blockchain consensus mechanisms

On 26 January 2022, the IMF published its report on *Blockchain Consensus Mechanisms: A Primer For Supervisors*. The primer is designed for financial supervisors at central banks, regulatory authorities, and government departments. It adds to existing literature by summarizing key aspects of popular consensus mechanisms at a high level, with a specific focus on how such mechanisms may impact the mandates of supervisors and policymakers when deployed in financial services markets. It could also help inform IMF staff on policy development and technical assistance related to crypto-assets, stablecoins, and blockchains.

OECD: why DeFi matters and policy implications

On 19 January 2022, the OECD published its report *Why Decentralised Finance Matters and Policy Implications.* The growing application of decentralised finance (DeFi) and its increasing interconnectedness with traditional markets presents an urgent challenge for policy makers, as DeFi applications give rise to important risks and challenges for participants and the markets. The report provides an explanation of DeFi and its applications and then describes the evolution of DeFi markets to date. It explores the benefits and risks of DeFi and the DeFi/CeFi intersection and puts forward policy considerations.

BIS Innovation Hub: Project Helvetia Phase II

On 13 January 2022, the BIS Innovation Hub, in collaboration with the Swiss National Bank and the financial infrastructure operator SIX, published its report *Project Helvetia Phase II: Settling Tokenised Assets in Wholesale CBDC*. Project Helvetia Phase II was concluded in January 2022. It demonstrated that a wholesale central bank digital currency (wCBDC) can be integrated with existing core banking systems and processes of commercial and central banks. Furthermore, it showed that issuing a wCBDC on a distributed ledger technology (DLT) platform operated and owned by a private sector company is feasible under Swiss law. The experiment – conducted together with five commercial banks – explored the settlement of interbank, monetary policy and cross-border transactions on the test systems of SIX Digital Exchange (SDX), the Swiss real-time gross settlement system – SIX Interbank Clearing (SIC) – and core banking systems.

IOSCO: operational resilience of trading venues and market intermediaries during the COVID-19 pandemic

On 13 January 2022, IOSCO published its consultation report *Operational Resilience of Trading Venues and Market Intermediaries during the COVID-19 Pandemic*. The report (i) summarises some of the existing operational resilience work by IOSCO and other international organizations; (ii) outlines how the pandemic impacted regulated entities; (iii) examines the key operational risks and challenges that regulated entities faced during the pandemic. The pandemic also increased cyber security risks, accelerated the adoption and use of existing, new and emerging technologies and created disruptions to arrangements with third parties; (iv) builds on existing IOSCO and other international organizations' principles and guidance on operational resilience by providing additional observations and identifying lessons learned from the pandemic. This should inform regulated entities' future operational resilience arrangements; and (v) seeks feedback on the observations and possible lessons learned, set out in the report.

IMF: note on crypto-assets and equity markets

On 11 January 2022, the IMF published its note *Cryptic Connections: Spillovers between Crypto and Equity Markets*. Crypto assets have emerged as an increasingly popular asset class among retail and institutional investors. Although initially considered a fringe asset class, their increased adoption across countries—in emerging markets, in particular—amid bouts of extreme price volatility has raised conc erns about their potential financial stability implications. The note examines the extent to which crypto assets have moved to the mainstream by estimating the potential for spillovers between crypto and equity markets in the United States and in emerging markets using daily data on price volatility and returns. The analysis suggests that crypto and equity markets have become increasingly interconnected across economies over time.

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ICMA FinTech Newsletter

FinTech Newsletters in the last quarter noted updates to ICMA's FinTech regulatory roadmap, highlighting relevant developments over the coming years, and recent DLT guidance, legislative initiatives, and publication updates covered by the DLT regulatory directory. In February, the Swiss Federal Council published its digital finance priorities for 2022+, including the instruction for the Federal Department of Finance (FDF) and State Secretariat for International Finance (SIF) to strengthen the use of DLT in the financial sector. Following the Swiss DLT Bill entering into force on 1 August 2021, the Swiss National Bank announced that it will admit DLT trading facilities with FINMA licences to the Swiss Interbank Clearing (SIC) system.

ICMA's FinTech Newsletters bring members up to date on our latest cross-cutting technology initiatives and provide insights into regulatory updates, consultation papers, relevant publications, recent FinTech applications in bond markets, new items, and upcoming meetings and events. To receive future editions of the newsletter, please subscribe or update your mailing preferences and select FinTech, or contact us at FinTech@icmagroup.org.

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Southbound Bond Connect: an important step in opening up China's bond market

by **China Foreign Exchange Trade System (CFETS)**

On 24 September 2021, China's Southbound Bond Connect arrangement was officially launched. Southbound Bond Connect enables Mainland institutional investors to invest in the Hong Kong bond market through a connection between Mainland and Hong Kong financial market infrastructures.

Momentum in Northbound Bond Connect

Northbound Bond Connect had been in operation for more than four years before the launch of Southbound Bond Connect. Over this time, Northbound Bond Connect became a crucial channel for overseas investors to access China's domestic interbank bond market, offering optimized trading and settlement mechanisms. Northbound Bond Connect witnessed rapid growth in the number of investors, trading volumes, and outstanding bonds. As of the end of 2021, bonds outstanding of overseas investment in China's domestic bond market had reached 4 trillion yuan (around 630 billion USD), with an average annual growth rate over 40%. Currently, 78 of the world's top 100 asset managers participate in the China Interbank Bond Market.

Launch of Southbound Bond Connect

Southbound Bond Connect, which now allows Chinese domestic investors to invest in Hong Kong's international bond markets, fully draws upon the successful experience of Northbound Bond Connect. Without changing the current policy arrangements for onshore investors to "go global" and invest in Hong Kong and the global bond market, Southbound Bond Connect provides a convenient channel for onshore domestic Chinese investors to allocate their portfolios to global bonds by strengthening cooperation between financial market infrastructures in the bond markets of the two places.

The role of CFETS

China Foreign Exchange Trade System (CFETS), also known as the National Interbank Funding Center, is a sub-institution directly affiliated to the People's Bank of China and is an important infrastructure for China's domestic financial markets. CFETS provides a series of services covering issuance, trade, post-trade processing, information and training services for spot and derivatives products in the interbank bond market, money market and FX market. CFETS has continued to diversify trading channels and modes for foreign investors, including agency trading and direct trading. Through the connectivity of CFETS and third-party platforms, onshore market makers provide quotations and trade with overseas investors on the CFETS trading platform, facilitating foreign investment in RMB bonds and promoting the efficient opening-up of China's bond market.

Southbound Bond Connect enables Chinese domestic investors to trade global bonds directly through CFETS. Also, it is an important initiative for CFETS in aligning with international regulations and integrating with global financial markets during the two-way opening-up of China's bond market. By connecting its systems with third-party platforms, Shanghai Clearing House, the Cross-Border Interbank Payment System (CIPS), custodian banks and other infrastructures, CFETS enables domestic investors to trade global bonds in various currencies with market makers under Southbound Bond Connect and adopt diversified custody and settlement arrangements. Specifically, domestic Chinese investors can execute enquiries and trades in the form of request-for-quote (RFQ) with Southbound Bond Connect market makers on the CFETS trading platform. Market makers can access directly or through third-party platforms, and display market-making quotations on the CFETS trading platform. By use of the existing connections with domestic institutions and infrastructures, CFETS applies the online processing for the front and back desks to overseas bond trading, which fully accommodates the trading and settlement practices of domestic investors.

So far, more than 50 onshore investors have concluded transactions through CFETS under Southbound Bond Connect, with a variety of investor types, covering primary dealers such as policy banks, large commercial banks, joint-stock commercial banks, urban commercial banks, as well as Qualified Domestic Institutional Investors (QDIIs) and RMB Qualified Domestic Institutional Investors (RQDIIs) such as wealth management subsidiaries, fund companies, and asset managers of securities companies. Traded bonds include CNH, HKD, USD and euro-denominated bonds.

Under the guidance of the People's Bank of China, CFETS will further strengthen infrastructure development to better serve investors at home and abroad. Through closer cooperation with overseas electronic trading platforms and concerted coordination with relevant market infrastructures, CFETS will continuously improve the trading mechanisms to support the opening-up of bond markets, better satisfy the allocation demands of domestic and foreign investors and continue the high-quality development of financial markets.

Capital market regulatory developments in China A



by **Mushtaq Kapasi, Ricco Zhang and Yanqing Jia**

Rules for bond lending in the interbank market

In February 2022, PBOC published its rules for bond lending in the interbank bond market. NAFMII will formulate a master agreement for bond lending and all parties that conduct bond lending and borrowing activities should sign the master agreement. The rules replace the current interim regulations and will be effective from July 2022.

FinTech Development Plan (2022 to 2025)

PBOC issued the FinTech Development Plan (2022 to 2025) in January 2022, setting out the overall plan, development goals, key tasks, and implementation measures for the digital transformation of the financial sector.

Greater Bay Area Fintech Pilot Trial Facility

In February 2022, HKMA and PBOC started to accept applications from financial institutions and technology firms for conducting pilot trials of cross-boundary FinTech initiatives in the Greater Bay Area.

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2022

ICMA Capital Market Research

ICMA Capital Market Research

The Asian International Bond Markets: Development and Trends (second edition)
Published: 24 March 2022
Authors: Andy Hill, Mushtaq Kapasi, and Yanqing Jia, ICMA, with support from the Hong Kong Monetary Authority

Ensuring the Usability of the EU Taxonomy
Published: 14 February 2022
Authors: Nicholas Pfaff and Ozgur Altun, ICMA

Optimising Settlement Efficiency: An ERCC discussion paper
Published: 1 February 2022
Author: Alexander Westphal, ICMA

ICMA ERCC Briefing Note: The European Repo Market at 2021 Year-End
Published: 17 January 2022
Author: Andy Hill, ICMA

ICMA position paper: Proposal for a New Post-Trade Transparency Regime for the EU Corporate Bond Market
Published: 8 December 2021
Author: Elizabeth Callaghan, ICMA

Bonds to Bridge the Gender Gap: A Practitioner's Guide to Using Sustainable Debt for Gender Equality
Published: 16 November 2021
Author: ICMA/UN Women/IFC Joint Report

ICMA CPC White Paper: The European Commercial Paper and Certificates of Deposit Market
Published: 29 September 2021
Author: Andy Hill, ICMA

The First Year of SFTR Public Data on Repo
Published: 28 September 2021
Author: Richard Comotto

Investing in China's Interbank Bond Market: A Handbook
Published: September 2021
Authors: Ricco Zhang and Yanqing Jia, ICMA; Jianjian Yang and Fangzhu Li, NAFMII

The Sustainability Disclosure Regime of the European Union
Published: 22 September 2021
Authors: Nicholas Pfaff, Simone Utermarck, Arthur Carabia, and Ozgur Altun, ICMA

ICMA ERCC Consultation on the Role of Repo in Green and Sustainable Finance: Summary Report
Published: 20 September 2021
Author: Zhan Chen, ICMA

Guide to Tough Legacy Bonds in Asia-Pacific
Published: 25 May 2021
Authors: Mushtaq Kapasi and Katie Kelly, ICMA; Justin Kesheneff and Dennis To, Bloomberg

Overview and Recommendations for Sustainable Finance Taxonomies
Published: 18 May 2021
Authors: Nicholas Pfaff, Ozgur Altun, and Yanqing Jia, ICMA

ICMA AMIC Discussion Paper: ESG KPIs for Auto-loans/leases ABS
Published: 17 May 2021
Author: Arthur Carabia, ICMA

Industry Guide to Definitions and Best Practice for Bond Pricing Distribution
Published: 17 May 2021
Author: Elizabeth Callaghan, ICMA

ICMA ERCC Consultation Paper: Green and Sustainable Finance: What is the Role of the Repo Market?
Published: 22 April 2021
Author: Zhan Chen, ICMA

The Asian International Bond Markets: Development and Trends
Published: 3 March 2021
Authors: Andy Hill, Mushtaq Kapasi, Yanqing Jia, and Keiko Nakada, ICMA, supported by the Hong Kong Monetary Authority (HKMA)

The Internationalization of the China Corporate Bond Market
Published: 14 January 2021
Authors: Andy Hill and Yanqing Jia, ICMA

ICMA ERCC Briefing Note: The European Repo Market at 2020 Year-End
Published: 13 January 2021
Author: Andy Hill, ICMA

ICMA Events

Register now for these ICMA events

ICMA European Repo and Collateral Council (ERCC) Annual General Meeting, 26 April Virtual

Catch up on what's happening in the repo market and related ERCC initiatives, including digitisation with reports on ICMA's Common Domain Model for repo and bonds and the GMRA Clause Library and Taxonomy project.

The Covered Bond Investor Conference 2022, Frankfurt, 30 June

ICMA, the Association of German Pfandbrief Banks (vdp) and The Covered Bond Report will jointly host the 9th Annual Covered Bond Investor Conference on 30 June 2022 at the German National Library. The event has been designed to air and address the concerns of investors and other key players in the covered bond market.

The premier event for the global capital markets is back after an absence of two years with a host of top-level speakers from the international industry, central banks, regulators and the official sector.

They will be part of a full programme of panel discussions and presentations on key themes, among them the future of bond markets in an environment of rising rates and ending of QE, capital market fragmentation, de- globalisation and geopolitical threat; the impact of fintech; creating an inclusive culture in financial markets and the challenges for sustainable finance. With technical sessions on what's happening in commercial paper, secondary bond and repo markets.

Save the date!

The 8th Annual Conference of the Green & Social Bond Principles will be held on 8 July in Singapore.

All our events, virtual and in-person are open to ICMA members free of charge.

Recordings of many of our virtual events are available in the ICMA Webinars and Podcasts section of our website along with more than 200 episodes of the ICMA podcast, featuring interviews with market stakeholders on a range of current issues.

If you would like to sponsor a future ICMA event, including the ICMA AGM & Conference 2022, contact: **shannelle.rose@icmagroup.org**

We also will be making advertising opportunities available in future editions of the Quarterly Report. To discuss the options, contact: **margaret.wilkinson@icmagroup.org**

ICMA Education

ICMA Diploma Programme

As an association that promotes the development of the global capital markets, the concept of ongoing professional development where participants use a combination of work-place experience and practical training to become fundamentally better at what they do over the course of time is something we wholeheartedly endorse.

The ICMA Diploma Programmes in Debt Capital Markets, Securities & Derivatives and Financial Market Operations are examples of how professionals can build a qualification that has the flexibility to incorporate their specific interests, but also the practically based content to be immediately applicable in their daily roles with content that has been designed by market experts for market participants.

Each diploma consists of one or two foundation-level courses (depending on a candidate's experience) that cover the fundamentals of the primary markets, secondary bond markets or securities operations, introducing them to the key concepts, stakeholders and regulations impacting their area of work. Foundation courses are available in live or online formats to provide even more flexibility and convenience.

Once candidates have passed the initial exam/s, they have the option of taking the remaining elements of their diploma at their convenience over the next 18 months, with the only requirement to have completed the advanced exam and attended their specialist courses within the allotted time frame.

While the advanced-level course for each diploma is mandatory – the Primary Market Certificate for the Diploma in Debt Capital Markets; the Fixed Income Certificate for the Diploma in Securities & Derivatives; and the Operations Certificate Programme for the Diploma in Financial Market Operations – each diploma has a large range of thematically cross-cutting specialist courses that include Sustainable Finance and Repo & Collateral Market courses in addition to topics that fall within their field of study.

With competitive pricing, a flexible study environment, accredited courses and endorsed by the ICMA Centre, Henley Business School, University of Reading, the ICMA Diploma is a great choice to advance your career in the capital markets.

For more information, contact us at education@icmagroup.org

Livestreamed courses in 2022

Operations Certificate Programme (OCP), 4-25 April

Inflation-Linked Bonds & Derivatives, 7-14 April

Introduction to Bond Markets Qualification (IBMQ), 20-29 April

Credit Derivatives, 26 April-4 May

Fixed Income Certificate (FIC), 4-25 May

Securities Lending, 9-17 May

Introduction to Primary Markets Qualification (IPMQ), 16-24 May

Corporate Actions: An Introduction, 31 May 31-7 June

Study for our qualifications at your own pace with Online Self-Study courses which start on the 1st of every month – register now to start in May 2022

Financial Markets Foundation Qualification (FMFQ)

Introduction to Primary Markets Qualification (IPMQ)

Introduction to Bond Markets Qualification (IBMQ)

Securities Operations Foundation Qualification (SOFQ)

Introduction to Repo

Introduction to Green, Social & Sustainability Bonds

Fixed Income Certificate (FIC)

Collateral Management

Understanding the GMRA

Find out more at: www.icmagroup.org/education

Diversity and Inclusion at ICMA

When ICMA London staff were finally back in the office again in the autumn of 2021, among the changes of the preceding 18 months it was very noticeable that diversity and inclusion (D&I) was featuring increasingly on the agenda of all member firms, and that as well as being a social imperative, it is also attracting more and more regulatory focus. For instance, in the UK, the FCA released a Discussion Paper in July 2021, recognising that "diversity and inclusion are critical to our work on culture and governance, particularly for boards and senior management".

Internally, under the leadership of its new Chief Executive Bryan Pascoe, ICMA has taken steps to update and make available to members and staff its D&I framework (see box below). We recognise that there is more to do to meaningfully integrate D&I into every aspect of the association and we are reviewing the practical steps that this would involve.

> "Our goal is that our staff and membership will be truly representative of diverse sections of society, and each feels respected and able to give their best."
>
> **Bryan Pascoe, ICMA Chief Executive**

ICMA Diversity and Inclusion Framework

ICMA is committed to creating a diverse and inclusive environment within our industry and at ICMA, including its Board, Executive Committee, and staff.

As an equal opportunity membership association, we recognise that there is more we can achieve to promote active inclusivity. We will work with our members and the industry to show the value that a diverse workforce brings.

The purpose of this framework is to promote inclusion, respect, and fairness for all within ICMA's staff and membership and to ensure that we do not discriminate on the grounds of gender, gender preference, marital status, race, ethnic origin, colour, nationality, national origin, social status, stage of life, disability, sexual orientation, religion, age, or any other protected status.

This means creating a workplace which is fair, safe, accessible, and inclusive, where everyone feels that they belong, that they have a voice, and they can thrive and succeed.

ICMA's commitment is to:

- Foster an environment in which individual differences and the contributions of all our staff and members are recognised and valued
- Create and maintain an environment that promotes dignity and respect to all. No form of bias, intimidation, bullying or harassment will be tolerated
- Ensure that training, development, and progression opportunities will be available to all staff
- Promote the fact that diversity and inclusion in the workplace is good management practice, makes sound business sense, and is a fundamental principle that businesses and other organisations should embrace to reach their full potential
- Assure that our hiring and recruitment practices will evidence our efforts in enhancing diversity
- Monitor and review this framework on an on-going basis

Expanding the reach of the ICMA Women's Network

ICMA has been running a successful women's network (ICMA Women's Network, or IWN) and future leaders committee (ICMA Future Leaders, or IFL) for almost 7 years. IWN and IFL have been important and successful initiatives, but the D&I initiative transcends both gender and youth issues. The IWN specifically can play an important part in advancing the equality agenda.

One positive from the pandemic was that virtual meetings were an opportunity for the IWN to expand its reach globally, starting from a solid foundation of over 3,000 individual members drawn from around 600 ICMA member firms in more than 60 countries. The IWN has been restructured and decentralised, and we now have an international steering committee with representatives from 12 regions, mirroring ICMA's regional organisation, empowered to connect and organise on topics relevant to their jurisdictions and present them on the global platforms or at local live events.

The international meetings we have had so far have been inspiring and enlightening, bringing together a mix of very different cultural views and concerns. We will be introducing individual Steering Committee members on Linkedin over the next few months – for now they are listed to the right.

IWN Mission Statement: Networking. Progression. Equality.

The ICMA Women's Network (IWN) provides a global, impartial and open forum to encourage, support and inspire women at all stages of their career and to further the aim of gender equality within the bond markets.

Through a combination of live events and online content, the IWN delivers practical workshops focused on skills for career progression and hosts discussions on relevant issues between influential industry stakeholders. Networking is central to the offering, supporting links between colleagues of different generations and levels of seniority, helping to foster inclusion throughout the industry.

The IWN supports gender equality at a global level: all employees of ICMA member firms are welcome to join, and international connectivity is achieved through active IWN committees operating in twelve regions worldwide. The IWN also actively welcomes participation from all genders and ethnicities, acknowledging that broad participation is essential in achieving positive, sustainable change.

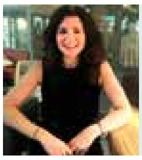
The IWN International Steering Committee

France
Nathalie Masset
(Interim chair)
Euronext Paris SA

Germany
Cristina Freudenberger
White & Case LLP

Nordic
Rebekah L. Bray
Skandinaviska Enskilda Banken AB (publ)

Asia-Pacific
Thuy-Van Nguyen
Clearstream Banking S.A.



UK
Camille McKelvey
MarketAxess Europe Limited

West Africa
Jumoke Olaniyan
FMDQ HOLDINGS PLC

Spain
Susana de Pablo
Banco Bilbao Vizcaya Argentaria, S.A.

South Africa
Mosidi Sibaya
South African Reserve Bank

Italy
Nicole Della Vedova
Enel SpA

Belgium
Sandra Timmermans
Bank Degroof Petercam SA/NV

MENA
Nadia Zubairi
Bank ABC

Switzerland
Charlotte Müller
Swiss Reinsurance Company Ltd

IWN Events

Although we are only a few months into the new organisation, the IWN French Region has already delivered a successful virtual event Carrières au féminin, surmontez les obstacles and more are under development. The UK region will be hosting an evening event on 12 May with Clare Woodman from the FCA as a speaker. At the ICMA AGM and Conference in Vienna in June there will be IWN networking drinks where we hope to meet network members from around the world. We'll be announcing these on LinkedIn and to our network.

Follow the ICMA Women's Network LinkedIn page.

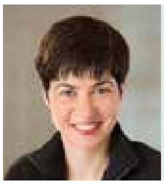
Sign up here to join the network

Or e-mail us at icmawomensnetwork@icmagroup.org

Our People

Introducing the ICMA Board

The ICMA board comprises 22 members, 21 of which are normally elected by the general meeting and one of which, the Chief Executive, is appointed by the board. The term of office of each of the 21 elected board members is three years, with an option to be re-elected for a further three. Nomination of candidates for election to the board reflects the balance of the geographic composition of the Association, different areas of the market and functions within the bank, with an emphasis on diversity.



Mandy DeFilippo
(Chair)
Morgan Stanley
London

Joanna Cound
BlackRock Investment Management (UK) Limited
London

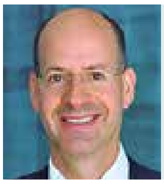
Virginia Laird
Citigroup Global Markets Limited
London

Jean-Marc Mercier
(Deputy chair)
HSBC Bank plc

Dr. Frank Engels
Union Investment Management Holding, Frankfurt
(as of 1 July 2022)

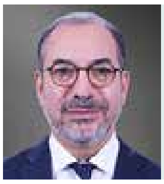
Jean-Luc Lamarque
Crédit Agricole Corporate and Investment Bank
London

Gareth Allen
UBS AG



Jérôme Jean Haegeli
Swiss Re Management Ltd
Zurich

Marc Lewell
J.P. Morgan Securities plc
London



Amine Bel Hadj Soulami
BNP Paribas
Bahrain

Reiko Hayashi
Bank of America Merrill Lynch
Tokyo

Ingo Ralf Mainert
Allianz Global Investors GmbH
Frankfurt am Main

Jonathan Brown
Barclays Capital Securities Limited
London

Kun Hu
Bank of China Limited, London Branch London

Chris Muyldermans
KBC Bank N.V.
Brussels

Alessandro Brusadelli
UniCredit S.p.A.
Milan

Eila Kreivi
European Investment Bank
Luxembourg

Per-Åke Nyberg
Swedbank AB (publ)
Stockholm

Bryan Pascoe
(ex-officio as ICMA's Chief Executive)
ICMA London

Heleen van Rooijen
Nederlandse Waterschapsbank N.V.
The Hague

Roman Schmidt
Commerzbank AG
Frankfurt am Main

Janet Wilkinson
RBC Europe Limited
London

Observer:
Christophe Roupie
MarketAxess, Chair of ICMA's Market Infrastructure Advisory Group

Glossary

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AI	Artificial intelligence
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
AMI-SeCo	Advisory Group on Market Infrastructure for Securities and Collateral
APA	Approved publication arrangements
APP	ECB Asset Purchase Programme
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BMR	EU Benchmarks Regulation
bp	Basis points
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBDC	Central bank digital currency
CBIC	ICMA Covered Bond Investor Council
CBIRC	China Banking and Insurance Regulatory Commission
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDM	Common Domain Model
CDS	Credit default swap
CIF	ICMA Corporate Issuer Forum
CMU	Capital Markets Union
CoCo	Contingent convertible
COREPER	Committee of Permanent Representatives (in the EU)
CPC	ICMA Commercial Paper Committee
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payments and Settlement Systems
CRA	Credit rating agency
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
CSPP	Corporate Sector Purchase Programme
CSRC	China Securities Regulatory Commission
DCM	Debt Capital Markets
DLT	Distributed ledger technology
DMO	Debt Management Office
DNSH	Do no significant harm
DVP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council (of the EU)
ECON	Economic and Monetary Affairs Committee of the European Parliament
ECP	Euro Commercial Paper
EDDI	European Distribution of Debt Instruments
EDGAR	US Electronic Data Gathering, Analysis and Retrieval
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFC	Economic and Financial Committee (of the EU)
EFTA	European Free Trade Area
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMDE	Emerging market and developing economies
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	Environmental, social and governance
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
ETP	Electronic trading platform
EU27	European Union minus the UK
ESTER	Euro Short-Term Rate
ETD	Exchange-traded derivatives
EURIBOR	Euro Interbank Offered Rate
Eurosystem	ECB and participating national central banks in the euro area
FAQ	Frequently Asked Question
FASB	Financial Accounting Standards Board
FCA	UK Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FICC	Fixed income, currency and commodity markets
FIIF	ICMA Financial Institution Issuer Forum
FMI	Financial market infrastructure
FMSB	FICC Markets Standards Board
FPC	UK Financial Policy Committee
FRN	Floating-rate note
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FSC	Financial Services Committee (of the EU)
FSOC	Financial Stability Oversight Council (of the US)
FTT	Financial Transaction Tax
G20	Group of Twenty
GBP	Green Bond Principles
GDP	Gross Domestic Product
GFMA	Global Financial Markets Association
GHOS	Group of Central Bank Governors and Heads of Supervision
GMRA	Global Master Repurchase Agreement
G-SIBs	Global systemically important banks
G-SIFIs	Global systemically important financial institutions
G-SIIs	Global systemically important insurers
HFT	High frequency trading
HKMA	Hong Kong Monetary Authority
HMRC	HM Revenue and Customs
HMT	HM Treasury
HQLA	High Quality Liquid Assets
HY	High yield
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositories
IFRS	International Financial Reporting Standards
IG	Investment grade
IIF	Institute of International Finance
IMMFA	International Money Market Funds Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
ISSB	International Sustainability Standards Board
ITS	Implementing Technical Standards
KID	Key information document
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio (or Requirement)
L&DC	ICMA Legal & Documentation Committee
LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
LTRO	Longer-Term Refinancing Operation
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II/R	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
ML	Machine learning
MMF	Money market fund
MOU	Memorandum of Understanding
MREL	Minimum requirement for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NAFMII	National Association of Financial Market Institutional Investors
NAV	Net asset value
NCA	National competent authority
NCB	National central bank
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio (or Requirement)
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
OTC	Over-the-counter
OTF	Organised Trading Facility
PBOC	People's Bank of China
PCS	Prime Collateralised Securities
PEPP	Pandemic Emergency Purchase Programme
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RFRs	Near risk-free reference rates
RM	Regulated Market
RMB	Chinese renminbi
RMO	Recognised Market Operator (in Singapore)
RPC	ICMA Regulatory Policy Committee
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted asset
SBBS	Sovereign bond-backed securities
SEC	US Securities and Exchange Commission
SFC	Securities and Futures Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SLB	Sustainability-Linked Bond
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SARON	Swiss Average Rate Overnight
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
STS	Simple, transparent and standardised
T+2	Trade date plus two business days
T2S	TARGET2-Securities
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TONA	Tokyo Overnight Average rate
TR	Trade repository
VNAV	Variable net asset value

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