International Capital Market Association (ICMA)
response to
European Commission Savings and Investment Union (SIU)
Call for Evidence from 3 February 2025[1]

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[1] European Commission seeks feedback on savings and investments union – 3 February 2025

Introduction

ICMA welcomes the opportunity to provide a response to the European Commission's (EC of the Commission) Call for Evidence regarding the establishment of the Savings and Investment Union (SIU) published on their website on 3 February 2025.[2]

This paper combines new insights with recent and previous contributions and how they pertain to the EC's SIU plans launched at the outset of their new five-year mandate 2024-2029.

The EU needs investment to fund its economic growth, support its competitiveness globally, and address challenges such as climate change, digital transition, and pensions for an ageing society. Cross-border capital markets development will be critical in achieving this. These policy objectives have been outlined e.g. in previous EC Calls for Evidence and communications related to the Capital Markets Union (CMU), confirmed by many EU authorities, including the European Central Bank (ECB).[3]

Bond markets have a vital role to play in supporting many of these priorities, particularly in providing the debt finance that EU-based companies and institutions need as part of their overall funding requirements to grow and innovate, as well creating investable instruments for EU citizens. Bond markets also help to rebalance the current reliance on banks, which in the EU remain the primary source of corporate funding through loans and the principal channel for individuals to deploy their savings in the form of deposits. EU citizens can benefit by shifting appropriate parts of their savings into capital, and especially bond markets, as these provide steady income, lower risks compared to other financial instruments and allow investors to diversify their capital.

Bond markets are a fundamental component of capital markets, providing a deep and diverse source of financing for both public and private sector institutions and corporations, whilst offering investors stable returns alongside risk diversification. Broadening and deepening of a truly cross-border EU bond market will be key to the EU meeting the identified challenges ahead and furthering its role as a global economic leader.

EU bond markets are already large. The total size of the EU market, including sovereign and corporate debt, is approximately USD25 trillion. This compares to a bond market size of USD53.6 trillion in the United States (US).[4] However, when it comes to corporate bond markets, the EU and the US could not be more different. In the US, 65% of non-financial corporate debt financing is raised through the capital markets. In the euro area, this proportion is relatively small, with 85% of corporate debt depending on bank financing.[5] This potentially limits the availability of debt financing for EU companies and may increase the EU economy's sensitivity to banking challenges. It could also potentially reduce resilience to financial disruptions, as banks' lending capabilities might become more restricted. Furthermore, it reduces the amount and diversity of investible EU financial assets.

Further developing pan-European corporate bond markets would not only provide a deeper pool of financing for EU economic investment and growth, but it would help to facilitate the flow of capital across EU borders, thereby reducing barriers to funding access, sharing risk more evenly, and reducing the overall cost of capital for EU corporates and institutions.

The reinvigoration of the securitisation market in Europe should be a key priority. It is a broadly used tool in other developed markets such as Australia and Canada and plays a fundamental role for the smooth functioning of capital markets. In 2008, the size of the European securitisation market, including the United Kingdom, was 75% that of the US and in 2020, it was just 6%.[6] With appropriate structuring, securitisation has a key role to play in capital markets' development as a high-quality asset class, as well as providing an important mechanism for banks to free up balance sheet capacity, release capital and provide new lending into the real economy.

7 March 2025

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[2] European Commission's call for evidence regarding the establishment of the Savings and Investment Union (SIU) published on their website on 3 February 2025 [*link*]

[3] Christine Lagarde, President of the ECB, *A Kantian Shift for the Capital Markets Union*, 17 November 2023, https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp231117~88389f194b.en.html

[4] Bank for International Settlements (BIS) Data Portal, *Summary of debt securities outstanding, notional amount outstanding*, data for 2023 Q1, (Sweden and Romania are not included in the calculations due to a lack of data in the BIS data portal) https://data.bis.org/topics/DSS/tables-and-dashboards/BIS,SEC_C1,1.0

[5] French Banking Federation, *Developing Capital Markets in Europe*, February 2020, https://www.fbf.fr/uploads/2021/09/FBF-Memo-9-Developing-capital-markets-in-Europe.pdf

[6] The European Stability Mechanism (ESM), *Blog: Reviving securitisation in Europe for CMU*, 15 July 2021, https://www.esm.europa.eu/blog/reviving-securitisation-europe-cmu

I. Citizens : EU savings product for people : wealth creation for individuals

1. EU investment products

EU citizens need to be able to save for their retirement by investing in bond markets*:* ICMA believes that further unlocking the potential of bond markets requires both careful calibration of existing initiatives and fresh thinking around how to create new opportunities for access. Improvements to encourage the offer of bonds to retail investors in the EU would be welcome. One of the EU's core goals must be to make European investment funds even more attractive, accessible and safer for investors. While encouraging efficient avenues for collective investment, retail investors should also benefit from improved access to the financial markets. Here, heightened financial awareness, education and affordable investment advice will also be important.

The success of the European fund management regulations as global benchmarks needs to be maintained.[7]

These trusted legal frameworks enable both institutional and retail investors to buy bonds, equities, and other investment products, to which they might not otherwise have direct access, and as such offer options to invest savings into capital markets on a highly scalable basis. The safe and efficient regulatory environment for funds in place in the EU attracts local and third country investment into the EU economy.

Funds are also an important vehicle for retirement savings for EU citizens, particularly through the long-established and successful Undertakings for the Collective Investment in Transferable Securities (UCITS) investment funds which are subject to a harmonised set of EU rules. In the future, it is expected that the European Long-Term Investment Fund (ELTIF) will join alongside UCITS as a trusted flagship product.

Considering existing EU investment products: there are a variety of existing EU investment product such as UCITS funds including ETFs[8] (Exchange Traded Funds), which typically include a diversified exposure to equities, bonds and other financial instruments and asset classes.

ETFs have experienced market growth recently.[9] They are an easy way for retail and institutional investors to gain market exposure on a diversified basis, typically exhibit low up-front and dealing costs and generally provide consistent liquidity, particularly for trading in small size.

While the growth of fixed income ETFs in Europe has lagged that of the US, we have seen a surge of new products and investor inflows in recent years, with over 500 listed ETFs and $260 billion AUM. The two key dynamics underpinning the rapid growth in fixed income ETF development and activity are technological innovation and bond market data.

While ETFs are only one instrument among many, it is clear that they have become an established investment vehicle for the bond market, both at the institutional and retail level. Diversification across multiple investment products and strategy remains key. As the market grows in reach and complexity, with the seemingly continuous drive for innovation, spreading into the world of private credit or collateralised loan obligations (CLOs), as well as building leverage into their structures, so the need for investor education, and protection, will come more into focus. Here the industry and regulators have a joint responsibility.

In addition to ETFs themselves (which are part of UCITS funds in the EU), the non-ETF UCITS funds have also been contributing significantly to the Fixed Income market in the EU for several decades – and still do – as in particular the UCITS diversification rules fit well with the variety of types of fixed income issuances provided by Member States and corporates, thus contributing positively to the financing needs of the European Union.

ICMA recommends that EU institutions preserve and promote the success of the legal framework:

- For the revised AIFMD, the implementing rules should be not lead to the introduction of additional requirements for investment funds on cost disclosure and it should be ensured that there is full consistency with other legislative pieces.

[7] "Net assets of investment funds domiciled in Europe, UCITS and AIFs, totalled EUR 19.8 trillion at the end of Q2 2023. Luxembourg and Ireland are the two largest domiciles of UCITS and AIFs, with a market share of 26% and 19%, respectively (Q2 2023). Germany, France and the United Kingdom follow in this ranking." EFAMA, *Our industry in numbers*, https://www.efama.org/about-our-industry/our-industry-numbers

[8] UCITS is an EU regulatory framework, whereas ETFs are a specific investment fund structure, hence not all UCITS funds are ETFs. If domiciled in the EU, ETFs are usually subject to the UCITS framework, otherwise are referred to as non-UCITS ETFs.

[9] EFAMA Asset-Management-Report-2024.pdf

- To ensure the success of the reviewed ELTIF Regulation, it is similarly important that the forthcoming implementing rules do not go beyond to those adopted under other legislations, notably in the area of cost disclosures.
- Regarding the EC's macroprudential policy workstream, ICMA welcomed the opportunity to respond[10] to the EC's consultation paper on *Assessing the adequacy of macroprudential policies for NBFI* , where ICMA further highlighted how under the UCITS Directive and AIFMD, they are long established and successful EU investment products that are already subject to a comprehensive set of rules that have recently been revised where implementation should be prioritised before any further measures are to be considered.
- Focus on product clarity, simplicity and fair value is key as these are crucial elements for investors.
- Overall, the existing wholesale market architecture is considered robust and largely suitable also for the retail sector.

2. Investor education, financial literacy and inclusion

Financial literacy has a key role to play in underpinning an understanding of the financial ecosystem that supports the functioning of the real economy and provides options for households to invest their savings. Lack of familiarity with and knowledge of bond markets, wealth management tools, brokerage access, affordable financial advice and functioning of financial markets more broadly, is a factor hampering a greater participation of retail markets.

Bonds, in many cases, provide relative safety of investment (compared to equities) and at the same time excellent diversification opportunities. Familiarity with bonds will not only potentially boost direct purchases from investors (where regulation permits) but also, and more importantly, encourage more bond investment through mutual funds and savings plans which should be the principal and most effective route through which retail investment can have improved access to bond markets.

In some EU countries, there has been a recent surge in government retail-targeted bond issuance. Financial literacy aligns with issuing governments' ambitions of encouraging a culture of saving and investing beyond those individuals who are already financially sophisticated.

ICMA welcomes financial literacy initiatives at both global, EU and national levels, for instance the International Organization of Securities Commissions' (IOSCO) World Investor Week, the joint EC and the Organisation for Economic Co-operation and Development (OECD) financial competence frameworks and the Belgian Financial Services and Markets Authority's (FSMA) interactive financial education centre Wikifin Lab.

Further initiatives to build financial knowledge and familiarity among citizens of bonds as an attractive "asset class" should be undertaken with urgency.

ICMA offers industry-leading education and training programmes in capital markets and would be very pleased to work with the appropriate authorities to devise suitable and relevant training programmes to boost the broad-based understanding of bond markets and how bonds can fit more effectively into an investment plan or portfolio.

ICMA recommends in the area of investor education are to:

- Promote financial literacy at early age as a standing item throughout the school curriculum;
- Approach investor education in a comprehensive way by highlighting some key financial instruments including equities and bonds;
- Raise more awareness related to online scams and fraud promising high, quick returns at low risk in the retail investor space.

[10] ICMA-Amic-Consultation-paper-November-2024.pdf

II. Corporates : funding options for EU companies : growth opportunities for businesses

1. Role of the corporate bond market

a) *Promoting economic growth*[11]

The European Union (EU) needs investment – which bond markets can provide: The EU needs investment to fund its economic growth, support its competitiveness globally, and address challenges such as climate change, digital transition, and pensions for an ageing society. Cross-border capital markets development will be critical in achieving this. Bond markets have the capacity and potential to provide the largest source of financing for companies to underpin sustainable economic growth across the EU, as well as provide a relatively safe and attractive option for households to invest their savings. Further developing pan-European bond markets would not only provide a deeper pool of financing for EU economic investment and growth, but it would help to facilitate the flow of capital across EU borders, thereby reducing barriers to funding access, sharing risk more evenly, and reducing the overall cost of capital for EU corporates and institutions.

b) *Diversification for institutional investors*

Traditionally bonds have been an important part of the financing mix for both public entities and private enterprises, providing a relatively low-cost, long-term, stable source of funding, as well as a cheaper and less constraining source of capital compared to equity. Aside from their broad application of financing government budgets, corporate growth and infrastructure development, on a more bespoke basis bond markets have helped to fund renewable energy, social housing, universities, biotechnology, vaccination programmes, and other social projects.

For institutional investors, bonds are a critical asset class and a key source of risk diversification and stable returns. Institutional investors in bonds include sovereign wealth funds, central banks, commercial banks, insurance companies, pension funds, mutual funds, private banks and, increasingly hedge funds and other kinds of leveraged investors, in many cases offering investment options for the savings and pensions of EU citizens. Their appeal comes not only from a predictable, steady stream of income over the life of the bond, along with capital preservation, but also their relatively higher repayment status and so creditworthiness in the capital structure, compared to equities, as well as the ease to invest and disinvest through a well-established, transparent and liquid secondary market. Bonds also encourage high standards of transparency and corporate governance, by virtue of the information demanded by regulation for the benefit of institutional investors, which is typically made available to the public.

In summary, bond markets are a fundamental component of capital markets, providing a deep and diverse source of financing for both public and private sector institutions and corporations, whilst offering investors stable returns alongside risk diversification. Broadening and deepening of a truly cross-border EU bond market will be key to the EU meeting the identified challenges ahead and furthering this role as a global economic leader.

c) *Private Credit*

Private credit has become a key component of capital markets over the past twelve years, helping to finance primarily US SME corporates. As funding conditions tightened over the past three years, private credit has seen a surge, as lower credits (CCC and below) found it harder to tap the Broadly Syndicated Loan (BSL) market or High Yield bond market (ie “public markets”).

In Europe there is a longstanding culture of direct lending, but it is primarily bank-based. In the US, most direct lending is via non-banks. There are some regional banks engaged in direct lending, but these tend to focus on more traditional sectors and better credits. A lot of the private lending funding is coming from private equity funds, with many deals being hybrid.

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[11] ICMA, *Economic importance of the corporate bond markets*, 2013, https://www.icmagroup.org/assets/documents/Media/Brochures/2013/Corporate%20Bond%20Markets%20March%202013.pdf
ICMA Education, *Fixed Income Trading & Strategies*, 2022-2023, https://www.youtube.com/playlist?list=PLSC5EZ95oGKMyvYtCq4ICYXnTcMS-hXqn

While there are concerns about the opaqueness of private markets, compared with public markets, there is a lot of information available with respect to private loans. While there have been concerns about underperformance and defaults, the markets are a long way from the conditions seen post-GFC. Also, in the private credit space, stressed loans tend to get restructured, rather than go into default. Temporary solutions such as transitioning to a PIK (payment in kind) structure are common, which help address cash flow issues. Accordingly, private loans tend to be very much buy-and-hold, with not much exit-ability. This is something that more traditional investors, such as Pension Funds, may not fully be aware of.

Some concern that with improvement in credit conditions and the narrowing of private vs public credit spreads (partly driven by significant uptick in BSL activity in 2024), there may not be enough return for more traditional investors. Separately, we note that anticipated deployment from private equity sponsors and BDCs (Business Development Companies: open-ended retail funds) is healthy and more than capable of filling any gap..

Given the low levels of underperformance, estimated recovery rates, and the flexibility to restructure, systemic risks seem low. Also, the main investors have large capital pools, which suggests little scope for contagion or need for concerns around liquidity. Top tier private credit investors seem well funded. Given the shifting shape of the economy, and the requirement for more SME-focused funding, private credit, along with private equity, is likely to play an ever-increasing role in the capital market ecosystem.

Whilst there does not seem to be any need for specific public policy measures, it is recommended that European policy makers assess the possibility, how this sector could play an important role in providing the investments the EU requires, particularly with respect to SMEs that do not have access to traditional loan or bond markets. The private credit sector has the potential to fund corporates alongside bank funding and to an improved transparency of the sector could be one way to nurture this important liquidity pool.

d) The role of short-term markets

Short-term markets such as commercial paper and MMFs (money market funds) are an important funding tool for corporates and attractive yielding products for investors.[12] In relation to MMFs (mutual funds that invest in cash, cash equivalents and short-term debt securities), ICMA notes the EC's report of July 2023 on the potential MMFR Review. The report highlights "*structural problems that are external to MMFs, and therefore also to the MMF Regulation, including those linked to the underlying short-term markets. These structural problems would merit a further assessment and are also currently the subject of a more in-depth analysis at the level of FSB.*"[13]

ICMA supports carrying out the Financial Stability Board (FSB) analysis of the functioning of the short-term markets first, before any dedicated EU MMFR review is undertaken. ICMA has previously engaged with consultative processes on MMFR review by European Securities and Markets Authority (ESMA), the EC and the UK Financial Conduct Authority (FCA).23 In these responses ICMA highlighted the potentially negative unintended consequences of changes to the composition of certain MMF structures. In addition, ICMA suggested a shift of focus towards strengthening the efficiency and resilience of the underlying market, noting ICMA's *The European Commercial Paper and Certificates of Deposit Market White Paper* of September 2021.[14]

ICMA policy recommendations for short-term markets include

- ICMA would support carrying out the FSB analysis of the functioning of the short-term markets first (focus towards strengthening the efficiency and resilience) before any dedicated EU MMFR review is undertaken.
- As to the potential review of MMFR, ICMA has already highlighted the potentially negative unintended consequences of changes to the composition of certain MMF structures.

[12] EU MMF size by total assets EUR 1.46 trillion, source: ESMA, *ESMA Market Report, EU MMF market 2023*, 8 February 2023, page 7, https://www.esma.europa.eu/sites/default/files/library/ESMA50-165-2391_MMF_market_2023.pdf

[13] EC, *Report on the functioning of the Money Market Funds Regulation (MMF)*, July 2023, https://finance.ec.europa.eu/system/files/2023-07/230720-report-money-marketfunds_en.pdf

[14] ICMA, *The European Commercial Paper & Certificates of Deposit Market, 2021*, https://www.icmagroup.org/assets/documents/Regulatory/CP/ICMA-CPC-white-paper-The-European-Commercial-Paper-and-Certificates-of-Deposit-Market-September-2021-290921.pdf

2. Creating visibility for corporate bond issuers and investors

a) ESAP – European Single Access Point

The development of the European Single Access Point (ESAP) as a centralised source for accessing regulated information should improve investors' visibility of issuers (notably smaller issuers), and thus facilitate bond market access for both. The implementation of ESAP must deliver efficient search and download functionality for investors without imposing significant additional burdens on issuers publishing regulated information via the ESAP (in terms of procedural, content or format requirements).[15]

Further work on the ESAP is important. However, the recent Draghi report suggest, that the completion of ESAP may take until 2030.[16]

b) Creating an EU-wide informational corporate bond market portal

Imminent, non-legislative initiatives are therefore essential to promote alternative sources of financing businesses, by creating visibility of corporate bond issuers for investors.

An **EU-wide corporate bond market portal** – similar to EIOPA's financial education map[17] - as entry point for EU member state, national level information for the purpose of education and awareness on

- local market SME credit rating agencies
- national regulator department in charge of bond market regulation
- local stock exchange information on bond issuance and trading
- local bond market trade associations

The advantage of such EU-wide corporate bond market portal includes

- local market information in the national EU member state language
- access for corporates looking to identify alternative sources of funding other than bank financing or an equity IPO
- access for investors to information on bond market investments and developments

The portal should **include educational materials** for issuers and investors on the mechanics of corporate bond issuance and secondary market trading.

ICMA stands ready to support the EU in the development of the portal through ideas and educational materials.

In addition, it is important to run an EU-wide promotional campaign on corporate bond markets, to raise awareness for issuers and investors. In combination with a voluntary bank referral scheme in case corporate's bank loan application gets rejected, the EU-wide portal would represent an incentive for corporates to identify alternative sources of funding.

In the USA, a federal SME rating system already exists through the Securities Valuation Office (SVO) at the National Association of Insurance Commissioners (NAIC) who have developed an Automated Valuation Services (AVS) providing corporate credit assessments for US SMEs of over 40.000 corporate issuers.[18]

c) Pan-European Corporate Debt Private Placement [ECPP]

Such information portal may also include updated information on the concept of a Pan-European Corporate Debt Private Placement initiative discussed in 2016. [19]

This initiative, although from 2016, still remains pertinent in ICMA's view and constitutes an important reference point ICMA Guide related to the creation of a pan-European corporate debt private placement market from 2016.[20]

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[15] ICMA, *EC proposals for a European single access point:* ICMA feedback, 2022, https://www.icmagroup.org/assets/documents/ICMA-ESAP-comments-March-2022.pdf?vid=2
[16] Page 284, Draghi report, September 2024 ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en
[17] EIOPA financial education map
[18] US NAIC SVO AVS : Securities Valuation Office and NACM
[19] ICMA European Corporate Debt Private Placement Market Guide, October 2016
[20] ICMA European-Corporate-Debt-Private-Placement-Market-Guide-October-2016.pdf

The Original Guide evolved out of the Charter for Euro Private Placements, which was developed by the Euro Private Placement Working Group,[21] and was the result of a collective effort by many different market participants. The Charter for Euro Private Placements was published in March 2014 and is available online.[22]

The objectives of the ECPP market and ICMA's Guide from 2016 included: [23]

- ***Provide financing for medium-sized, rated and unrated, listed and private, companies:***
  A European corporate debt private placement market is expected to primarily benefit medium-sized, unrated, private or listed companies [who may be looking to diversify from the bank loan market] by providing medium- to long term debt finance [or for an introduction or alternative to the established European debt capital markets, and for whom an ECPP could constitute a transition towards those markets].
- ***Contribute to the development of a European CMU [now SIU]:***
  The development of an ECPP market is aligned to the European Union's policy objective, as expressed by the European Commission, of "bringing about a well-regulated and integrated CMU/SIU, encompassing all Member States by 2019 with a view to maximizing the benefits of capital markets and non-bank financial institutions for the real economy".

Following the publication of the ICMA Guide in 2016, the European Commission commissioned a comprehensive study published in 2017,[24] referenced in ICMA's article in 2018.[25]

The study referenced **ICMA's Guide from 2016 as 'best practice' that defines private placement as** *a "medium or long-term debt financing transaction between a listed or unlisted company and a limited number of institutional investors, based on deal-specific documentation negotiated between the borrower […] and the investor(s) […] with the participation of one or more bank intermediaries as arranger […] usually acting in an agency capacity"*

The study concluded with regards to the EU private placement market: [26]

"No significant regulatory obstacles that prevent further growth of private placements in the EU have been identified. Market participants and industry experts do not see an immediate need for regulatory or legislative actions. Notwithstanding, the study demonstrates that legislative action at a national level can facilitate the development of private placement markets, as has been the case in France and Italy for example. In addition and most importantly, there are strong incentives for the EU to support the development of private placements markets at an EU level.

In addition to the promotion of best practices from existing markets, the following actions are proposed:

- *First, information campaigns should be launched to increase the awareness of private placements among potential issuers (and also investors) and support further market participation across the EU. Furthermore, the EU should promote the understanding of rules and documentation to overcome possible reservations about entering the market. To address the lack of expertise on the investor side in potential growth markets, the EU should also foster education about the market and instruments.*

- *Second, the EU should facilitate communication between institutions of different member states to ensure the exchange of experience and best practices.*

- *Third, further promotion of standardisation should be encouraged by the EU and member states. In particular, the further use of standardised documentation should be promoted and the development of standardised processes should be supported.*

- *Fourth, the EU should consider the course of action in the US market and evaluate cost and benefits from providing an independent, third-party opinion on the credit quality of private placement issuers.*

[21] A French financial industry initiative bringing together corporate borrowers, investors and intermediaries and endorsed by relevant French financial industry associations, Appendix 7
[22] www.euro-privateplacement.com
[23] ICMA European Corporate Debt Private Placement Market Guide, October 2016 page 5
[24] European Commission*, Study by Linklaters & BCG "Identifying market and regulatory obstacles to the development of private placement of debt in the EU "* December 2017 link
[25] ICMA's article *"Private placement study on market and regulatory obstacles"* April 2018
[26] European Commission, *Study by Linklaters & BCG "Identifying market and regulatory obstacles to the development of private placement of debt in the EU "* December 2017 link , page 2018

- *Fifth, the EU should seek to clarify the application of the EU regulatory framework to European private placements and encourage efforts at a national level to adjust the application of the regulatory framework to private placements by further relaxing overly restrictive laws and creating private placement specific provisions aimed at facilitating the issuance of, and investment in, private placement instruments."*

In September 2022, ICMA published an article in the ICMA Quarterly Report Q3 2022 on *Mid-Cap Bond Markets in Europe*,[27] highlighting the challenges in developing cross-border activities. These included lower proximity between investors and issuers, a competitive and accessible loan market for corporates, familiarity with the loan application but lack of knowledge related to the bond issuance process, small sums required by corporates compared to the credit work required by bond investors. Nevertheless, there are examples of EU local bond markets that have increasing international investor based including the German Schuldschein market, a hybrid bond/loan market, albeit with a primarily German bank investor base.

ICMA's policy recommendations related to corporate bond financing include:

- Create visibility of SME corporates for investors across the EU through building a simple pan-European information portal with local market information; similar to EIOPA's financial education map[28];
- Develop and include a concept of a Pan-European Corporate Debt Private Placement, comprising credit rating information of SMEs;
- In parallel, continue to build the ESAP and accelerate efforts for completion during the next 5 years.

3. Reviving the EU securitisation market

A main building block of the EU CMU / SIU is the plan to revive the EU securitisation market to create deeper capital markets and increase the EU's competitiveness.

Securitisation markets can play a crucial role in the broader financial system by:

- allowing financial institutions to convert illiquid assets, such as mortgages, auto loans or credit card receivables, into tradable securities, freeing up capital for new lending activities;
- providing investors with opportunities to invest in a diverse range of asset-backed securities that offer varying risk profiles and yields;
- enhancing market liquidity by providing investors with alternative investment options and facilitating the trading of securities in secondary markets;
- supporting risk management by enabling financial institutions to transfer credit risk from their balance sheets to investors who are willing to bear such risks in exchange for potential returns, helping to diversify and manage risk more efficiently within the financial system; and
- encouraging financial innovation and the development of new financial products.

Following work undertaken by DG FISMA in the European Commission early in 2024 to review securitisation, in October 2024 the European Commission launched a two-month targeted consultation on *The Functioning of the EU Securitisation Framework 2024*.[29]

ICMA responded to the EC securitisation consultation[30] and is supportive of efforts by the European Commission to revive the European securitisation market. We established a joint taskforce comprising ICMA's sell-side and buy-side members to share views on practical changes necessary to improve the effectiveness of Europe's securitisation framework to provide comments on the consultation.

Investors in securitisation are sophisticated investment entities with extensive internal due diligence processes and criteria and understand the relevant risks of investing in securitisation trades. However, the high barriers to entry and costs of due diligence may act as a deterrent to investment. Furthermore, there is a lack of parity between different asset classes with comparable risk profiles to securitisation transactions, such as covered bonds.

[27] ICMA QR Q3 2022 www.icmagroup.org/assets/documents/Regulatory/Quarterly_Reports/ICMA-Quarterly-Report-Q3-2022v2.pdf
[28] EIOPA financial education map
[29] EC webpage www.finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-functioning-eu-securitisation-framework-2024_en
[30] ICMA response www.icmagroup.org/assets/documents/Regulatory/ICMA-response-to-European-Commission-Consultation-on-Securitisation-4-December-2024-181224.pdf

Due diligence requirements on investors in the EU are extremely burdensome compared with the US, which does not impose any specific due diligence obligations for investors in securitisation beyond their typical fiduciary duties. The UK has also moved towards a principles-based approach. Due diligence requirements can affect the speed and execution of transactions, which can in turn create market stability and price discovery issues that are important from a prudential regulation perspective. In addition, ICMA recommended that diligence should be conducted prior to making an investment decision as compared to fulfilling diligence requirements post-investment. Pre-investment due diligence requirements should be amended *vis-à-vis* proportionality and a principles-based approach. It was noted that investors documenting compliance with verification requirements after an investment within a prescribed window add an unwelcome burden to ensure compliance.

Regarding transparency requirements, and to ensure that investors and supervisors have sufficient access to information under Article 7, ICMA members noted that a suggested option to streamline the current disclosure templates for public securitisations and to introduce a simplified template for private securitisations is the closest to the envisaged reforms that members want to see, subject to several caveats:

- ICMA members disagreed with the proposal for private securitisations to report to a repository.
- The overall effect of having streamlined templates for public securitisations but greater scope for public securitisations would not overall help streamline due diligence obligations.
- Treating third country securitisations as private securitisations would be necessary to enable EU entities to be globally competitive.

In principle, ICMA members supported the simple, transparent and standardised (STS) securitisation framework. However, in its current form, the STS label has failed to scale up the EU securitisation market. While amendments that provide a more favourable regulatory capital treatment of STS labels would be helpful, members questioned whether this in and of itself would scale up the EU securitisation market significantly. Instead, reforms need to be broad-based, rather than focusing exclusively on STS labels to the exclusion of other parts of the securitisation market.

In relation to banks' issuance of and demand for traditional securitisations (ie true sale, where a special purpose vehicle acquires assets and pays a purchase price), ICMA noted that, from an issuance standpoint, a significant proportion of the investor base is comprised of bank treasury investors for whom High Quality Liquid Assets (HQLA) are important. Given that the Liquidity Coverage Requirement (LCR) eligibility has been tied to STS classification, this means that non-STS has a structurally more restricted investor base than STS. Members recommend that both non-STS and STS securitisations should be considered as eligible instruments under the LCR, in line with other instruments such as covered bonds (where both regulated and non-regulated and even unrated covered bonds are eligible).

Some ICMA members also commented that the 10% acquisition limit for debt securities in a single issuing body imposed under Article 56 of the UCITS Directive[31] hinders their ability to make larger allocations when investing in a securitisation. For example, in certain cases this restriction can make it impossible for a large UCITS investor to subscribe for full or a substantial part of a tranche in a securitisation because the issuing body is a stand-alone securitisation special purpose entity (and not a programme ABS issuer). This restriction reduces the ability of some UCITS investors to play a bigger role in growing the securitisation market and drives more UCITS investments towards unsecured corporate credit with higher risk of defaults, less protections and lower rates of return compared to securitisation. ICMA members who raised this comment therefore propose that this restriction should be removed.

ICMA's consultation response and policy recommendations related to securitisation include:

- ***Jurisdictional scope:*** The current jurisdictional scope of the application of the Securitisation Regulation (SECR) is now well understood and any reopening of the scope of the SECR, especially on its expansion to cover new ground and entities, would create uncertainty.

- ***Due diligence requirements**:* ICMA acknowledged that an appropriate due diligence process is key to ensuring that investors are aware of what they are buying while assessing the risks of their investment in a commensurate manner. Members have commented on the need to recalibrate the due diligence requirements of Article 5 of the SECR by taking a more principles-based, proportionate and less complex approach, given the direct and opportunity costs associated with compliance.

- ***Reforms*** need to be broad-based, rather than focusing exclusively on STS labels to the exclusion of other parts of the securitisation market. Both non-STS and STS securitisations should be considered

[31] eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02009L0065-20240109

as eligible instruments under the LCR, in line with other instruments such as covered bonds. The 10% acquisition limit for debt securities in a single issuing body imposed under Article 56 of the UCITS Directive should be removed.

- ***Supervision:*** ICMA members raised the issue of NCAs taking divergent approaches to reporting obligations over and beyond those provided at EU level (ie gold-plating) therefore streamlining supervision and ensuring a consistent implementation of a EU single rulebook across the EU is key.

4. Sustainable Finance

a) The role of ICMA in Sustainable Finance

ICMA hosts the Green, Social, Sustainability and Sustainability-Linked Bond Principles (the "Principles")[32] that underpin sustainable bond issuances globally. In 2024, 97% of the global sustainable bond issuance volume was aligned with the Principles. As globally accepted market standards, the Principles are the fruit of extensive work and input from over 344 organisations including issuers, investors, and various other stakeholders, such as external reviewers.

ICMA has actively engaged with the European Commission (EC), the European Parliament (EP), and the Council and Member States throughout the process to promote the effectiveness and usability of EU sustainable finance legislation. ICMA was represented in all of the Commission's sustainable finance expert groups since 2017, namely the High-Level Expert Group (HLEG), Technical Expert Group (TEG) and Platform on Sustainable Finance (PSF). ICMA is currently also represented in ESMA's Securities Market Stakeholder Group (SMSG).

ICMA has also published numerous responses and research papers on the EU sustainable finance legislation notably on the EU Taxonomy, EU Green Bond Standard (EU GBS), Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosures Regulation (SFDR), as well as ESMA Guidelines on funds' names using ESG or sustainability-related terms.
This note includes a commentary and key recommendations for making the EU sustainable finance legislation fit-for-purpose, through a future omnibus legislation or otherwise, as well as more specific proposals addressing usability and other issues relating to individual legislations.

b) Simplification of legislation to promote sustainable economic growth

In order to promote sustainable economic growth, it is vital to simplify some of the sustainable finance legislation, which over the past years has represented a barrier to the growth in sustainable capital markets.

ICMA published its commentary and recommendations on the simplification of the EU Sustainable Finance legislation on 5th of February 2025. With an omnibus legislative proposal as well as the SFDR review on the horizon, we hope our paper will be a useful contribution towards a simplified, proportionate and internationally operable regulatory framework.

ICMA's policy recommendations related to the sustainable finance simplification agenda include:

- **The EU Taxonomy**: Fundamentally address the usability challenges of the EU Taxonomy and its implementation by, among other measures,
  i) limiting the mandatory reporting obligations to large, listed entities (i.e. ex-NFRD) and, for the time being, to climate change objectives (with "best effort" reporting for the remaining four objectives),
  ii) introducing additional alignment approaches for the assessment of DNSH and MS based on an entity-level and risk-based testing, as well as of Substantial Contribution, and
  iii) urgently assessing for equivalency treatment of other official sector and leading market-based taxonomies.

[32] ICMA www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/climate-transition-finance-handbook/

- **CSRD**: Refocus mandatory reporting for all organisations in scope of CSRD to essential data points and disclosures (e.g. on the model of EFRAG's existing LSMEs) without compromising the double materiality perspective and the consistency with the ISSB standards.

- **SFDR**: Streamline the SFDR reporting in line with
  i) the refocused data from CSRD,
  ii) reporting based on ISSB and
  iii) other official sector and leading market-based taxonomies, while avoiding mis-aligned sequencing between CSRD and SFDR obligations.

- **SFDR**: Maintain a flexible definition of sustainable investments, as currently exists under SFDR, that allows for a wider approach to sustainability than under the EU Taxonomy alone.

- **Timelines and process**: Adjust timelines for pending legislation to allow for logical sequencing and implementation feedback while providing certainty on interim requirements or suspended enforcement notably for reporting.

The paper has also more specific and detailed proposals on usability and other issues relating to individual legislations.

ICMA's recommendations reflect extensive engagement with policymakers and industry stakeholders, as well as input from ICMA committees and members. We aimed for a balanced, informed, and practical approach that maintains policy and regulatory integrity while reducing excessive complexity.

On 26 February 2025, the EC adopted[33] the first "Omnibus" simplification packages which cover a far-reaching simplification in the fields of sustainable finance reporting, sustainability due diligence (CSDDD, Corporate Sustainability Due Diligence Directive), EU Taxonomy, carbon border adjustment mechanism, and European investment programmes. Among other things, the proposed changes include:
(i) removal of around 80% of companies from the mandatory scope of CSRD reporting through higher employee thresholds;
(ii) a significant reduction of companies subject to mandatory EU Taxonomy reporting through both higher employee (1000) and turnover (EUR450) thresholds;
(iii) addressing the trickle-down effect of CSRD and CSDDD obligations to provide relief to smaller entities;
(iv) postponement of CSRD and CSDDD obligations for some in-scope entities;
(v) other measures to ease the EU Taxonomy reporting including through:
  a. recognition of "partial alignment" disclosures,
  b. introduction of a financial materiality threshold (10%) for reporting obligations to arise;
  c. targeted simplification of the generic DNSH criteria for pollution prevention and control related to the use and presence of chemicals;
  d. adjustments to the Green Asset Ratio metric for banks' Taxonomy reporting; and,
  e. simplification of reporting templates.

The Omnibus package also proposes several other amendments to the EU's Corporate Sustainability Due Diligence Directive, while maintaining the requirement for entities in scope to adopt climate transition plans as per its Article 22.

Importantly, the EC is also planning to:
- Initiate a more comprehensive review of all Technical Screening Criteria (TSC) of the EU Taxonomy, notably for the application of *Do No Significant Harm* TCS as these suffer from several usability problems.
- Introduce changes to European Sustainability Reporting Standards to substantially reduce the mandatory data points.

[33] ec.europa.eu/commission/presscorner/detail/en/ip_25_614

III. Market : integration and efficiency in capital markets => market depth, scale, liquidity

1. Debt Capital Markets

a) The importance of market liquidity and resilience

The EU needs deep, liquid and resilient bond markets: There is untapped potential for deepening liquidity and improving the functioning of EU capital markets so that they are better aligned to servicing the needs of society. EU primary institutional markets already function well based on the current established market processes and documentation requirements, and it is important to maintain the integrity of this market as well as take steps to encourage further market depth and ease of access where possible. In supporting and boosting the effective functioning of secondary markets, a key consideration for the EU agenda going forward will be the critical role of intermediaries, such as market makers who provide immediacy and fair value for investors needing to buy or sell bonds. In this respect, market liquidity is critical, and it needs to be factored into dealer banks' cost of capital. Related, ICMA would welcome a further review of the current regulatory framework around repo to help identify potential constraints and vulnerabilities. The same perspective on prudential calibration is equally relevant to underpinning and developing short-term markets and securitisation.

The secondary market is essential for investors to be able to execute their investment strategies and manage their risk. Furthermore, the secondary market is a continuous **source of price information** that not only allows investors to value their holdings, but also helps in the pricing process for new bond issuances, thereby underpinning confidence not only for investors but also issuers. Accordingly, primary markets and secondary markets go hand-in-hand, with the health of one directly impacting that of the other.

The health of the secondary market is usually described in terms of its **"liquidity".** Most definitions and measures of market liquidity try to reflect the ability of investors to execute a standard-sized trade, relatively quickly, without significantly moving the market price (capturing the three liquidity dimensions of depth, time, and cost). A further consideration is **"resilience",** which is generally taken to be the ability of the market to remain liquid in times of heightened volatility or market stress. Liquidity and resilience could also be viewed as a measure of market efficiency.[34]

In the same way that **bonds are intrinsically quite different** to other financial instruments, such as equities, so is the underlying structure of bond markets. Unlike equities, where there are usually one or possibly two classes of share per issuer, issuers will tend to issue multiple bonds over a period of time (this could range from tens to hundreds of issues).[35] All these bonds will have different characteristics depending on the issuer's funding needs (including different maturities, currencies, early redemption features, and different ranking in the capital structure). Furthermore, due to their largely buy-to-hold nature, individual bonds rarely trade as frequently in the secondary market as equities.

b) The role of market makers

Whereas equity markets see consistent flows of buyers and sellers, making it easy to execute transactions at any point in time and usually close to the last printed price (so meeting the definition of "liquid"), this is not the same for bond markets. Here, with the exception of the most actively traded ("on-the-run") government bonds, the probability of finding a matched seller and buyer, for the same size, at the same time, and particularly close to fair market value, is very low.

Therefore, for secondary bond markets to work requires the active involvement of intermediaries, such as market makers. For certain bonds, market makers stand ready to show both bids and offers, even for bonds that they do not hold in inventory, so providing investors with the **three dimensions of liquidity they require: fair value, depth and immediacy**.

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[34] ICMA, *Liquidity and resilience in the core European sovereign bond markets*, March 2024, https://www.icmagroup.org/assets/ICMA_BMLT_Liquidity-and-resilience-in-the-core-European-sovereign-bond-markets_March-2024.pdf

[35] In support of this observation, we note ESMA's quarterly liquidity assessment, which is conducted by using trading data for equities and bonds. The number of available bonds is typically five times the number of available equities. 'The [ESMA] data covers the total number of trades and total volume over the period 1 July 2023 to 31 December 2023 and includes: 25,261 equity and equity-like instruments; 31,505 bonds […]' https://www.esma.europa.eu/press-news/esma-news/esma-publishes-data-quarterly-bondliquidity-assessment-systematic-0

A market maker will then take the other side of the trade (either buying or selling the bonds, depending on the client's request), manage their risk as best they can, and look to trade out of the position over a period of time. Essentially, market makers bridge the gap between the needs of sellers and buyers, providing immediacy and liquidity to both; and are generally the main source of liquidity in secondary bond markets.

The ICMA policy recommendations for secondary markets include

- The MiFIR and MiFID II reviews that have been undertaken should help to deliver the much-supported consolidated tape for bonds.
- In preparation for implementing rules from the review of MiFIR, a vital consideration in the context of liquidity provision is the calibration of deferrals with respect to when certain transaction details are made publicly available.
- There is also a need to consider the role of market makers, and the value they bring in the form of bond market liquidity and resilience, when calibrating prudential regulation. CRR III and CRD VI, along with the introduction of the FRTB, may result in even smaller dealer capacity, at a time when authorities are considering how to grow the EU's capital markets.

c) The role of repo and collateral markets

The market for repurchase agreements, better known as the repo market, is where securities, in particular bonds, are loaned and borrowed, usually against cash. Often referred to as "the oil that greases the machine", the repo market is integral to the overall function of bond markets, as well as to financial market ecosystem more broadly. The repo market is used by both banks and non-banks, and for relatively short terms, which are entirely flexible, and can range from one day to a year, or even longer.[36]

The repo market serves a number of vital economic functions that can be summarised as follows:

- it offers an efficient and secure form of short-term wholesale funding providing a safer and more reliable alternative to unsecured deposits;
- it provides a flexible and low risk home for short-term investment;
- it enables market makers to perform their intermediary role, by allowing them to finance any long or short positions;
- it is a vehicle for collateral management, enabling firms to meet their margin requirements (by transforming securities into cash);
- it provides an additional source of returns for investors from lending their holdings;
- it helps to price underlying securities as well as related derivatives;
- it allows banks to manage their reserves and liquidity requirements; and
- it is the main tool used by central banks for monetary policy transmission.

ICMA would welcome the review of policies related to repo and collateral in the following areas:

- a fuller review of the current regulatory framework around repo, in particular CRR III and CRD VI;
- a review of existing constraints for the buy-side in relation to repo under MMFR and the UCITS Directive. Removing barriers to facilitate non-bank access to central clearing for repo should be part of this consideration;
- the anticipated review of the SFTR, in order to address outstanding issues with the reporting rules, enhance data quality and consequently enhance the overall market transparency.

d) Post-trading aspects

The EU needs a more efficient and integrated post-trade landscape: ICMA recommends a revived focus on removing the remaining barriers in the EU to a more integrated post-trade process, so that market infrastructure can support deeper market liquidity and boost confidence in settlement and clearing mechanics. The upcoming move to a T+1 settlement cycle will be a major transformation for the market that will require a substantial collaborative effort between the industry and the public sector in order to ensure a smooth transition, considering the very ambitious timeline for the move by October 2027. ICMA is closely involved in the ongoing work of the EU's T+1 governance framework and we would urge the EU institutions (working closely with the industry) to fully engage in this process and provide the necessary flexibility to ensure that the

[36] *The June 2023 ICMA European Repo market Survey*, published in December 2023, puts the size of the European repo market at €10.8tn. In terms of outstandings, the vast majority of repos (69.3%) are less than 3 months in term, with the most popular tenure being between 2 days and 1 week (24.7%). https://www.icmagroup.org/assets/ICMARepo-Survey-December-2023.pdf

transition to T+1 is a success and does not undermine the efficiency and the competitiveness of EU capital markets.

Bonds, particularly higher rated sub-classes such as sovereign bonds, also play a vital role in the plumbing of financial markets more generally through their use as high quality collateral, with central banks borrowing or lending bonds (as well as purchasing or selling bonds) to help transmit monetary policy into the wider economy, and banks and corporates pledging bonds to raise financing in a low-cost and low-risk manner through the repo market, as well as securing transactions in derivatives and, in doing so, helping to mitigate systemic risk.

ICMA policy recommendations in the post-trading area include

- ICMA welcomes a renewed focus on the remaining barriers in the post-trade space (recent ECB President comments and the work undertaken by the ECB's AMI-SeCO on this topic), following Giovannini reports and the EPTF in the past.
- In relation to CSDR Refit implementation, ICMA urges caution in relation to MBIs and welcomes ESMA's decision to step away from a major re-calibration of the penalty regime. However, ESMA's mandate under CSDR Refit to explore solutions such as partial settlement and other settlement efficiency tools is a great opportunity to achieve some tangible improvements, especially in view of the transition to T+1.
- The move to a T+1 settlement cycle in the EU will be a major undertaking for the industry and could cause large-scale disruption if not prepared for thoroughly. As such the work conducted under the newly set up EU governance structure will be critical, to ensure that such move can have a positive impact on EU competitiveness. Special attention needs to be given to less liquid asset classes such as corporate bonds as well as the impact on SFT markets.
- ICMA supports improved efficiency initiatives in central clearing for repo and cash bond markets. Acknowledging some of the important benefits which central clearing can bring while at the same time identifying issues around cost, market access and potential concentration risk, ICMA highlights the need for proportionately and well-calibrated clearing frameworks to support maximum market efficiency and is keen to play an active role in the debate.

2. Digital Bonds and a Wholesale Digital Euro

The EU should strengthen its support for digital ie DLT-based bonds and a wholesale digital euro: New technologies have far-reaching potential to modernise capital markets, reduce the cost of funding for firms and increase the EU's competitiveness. ICMA members have consistently highlighted the critical importance of a central bank money settlement solution for DLT transactions to realise the benefits of tokenization, notably next level automation, more efficient post-trade-processing, and ultimately, funding for the real economy.

The European Investment Bank, the World Bank and numerous other organisations have raised debt through digital bonds, i.e. DLT-based bonds.[37] Key benefits are that counterparty and other risks are mitigated, issuers obtain funding more quickly (same or next day, also referred to as "T+0" or "T+1" in industry jargon), and that investors receive interest payments faster. Additionally, DLT can help to trace how funds are used (e.g. for Green Bonds or Sustainability-linked Bonds) and measure the impact of sustainable projects.

a) DLT and blockchain regulation

It is important to acknowledge that DLT and blockchain in capital markets are fundamentally different to crypto assets such as Bitcoin. Regulation on a global level, notably the Basel Committee for Banking Supervision's (BCBS) standard for the prudential treatment of banks' exposure to crypto-assets, does not distinguish these characteristics sufficiently. This will hamper the development of digital bond markets as a source of funding, if underwriting and market making for such digital securities is penalised by regulation compared to traditional securities.[38]

[37] For an overview of transactions see: ICMA, *Tracker of New FinTech Applications in Bond Markets*, 2023, https://www.icmagroup.org/market-practice-and-regulatory-policy/fintech-and-digitalisation/fintech-resources/tracker-of-new-fintech-applications-in-bond-markets/

[38] ICMA, *ICMA co-signs joint trade association response to BCBS consultation on banks' disclosure of crypto-asset exposures*, 2024, February, https://www.icmagroup.org/News/news-in-brief/icma-co-signs-joint-trade-association-response-to-bcbs-consultation-on-banks-disclosure-of-crypto-asset-exposures/

The **EU DLT Pilot Regime Regulation** established a framework for a secondary market for digital securities i.e. to enable investors to buy or sell securities on exchanges. While this is a welcome initiative, industry uptake since the EU's DLT Pilot Regime took effect in March 2023 has been slow. This may be due to the limitations of the EU DLT Pilot Regime: a limited lifespan of three years (which can be extended), temporary exemptions, rather than permanent changes in laws (notably of CSDR) and narrow limits for transactions in digital securities (e.g. in size of transactions).

There is a risk that the regime might be too costly and uncertain for issuers and investors to invest resources, which would be a missed opportunity. More flexible limits, especially on the duration of the regime, and permanent changes in law would provide greater certainty for firms and strengthen the EU's competitiveness.

At the same time, legal frameworks for digital bonds in EU Member States remain fragmented. In recent years, a number of Member States have adopted new laws or changed existing legislation to accommodate digital securities (e.g. the Electronic Securities Act in Germany, passed in 2021). While it provides legal certainty in one jurisdiction, it has also led to greater divergence between EU Member States. In addition, what constitutes a security is not defined in EU legislation, but in national laws.

b) Wholesale Digital Euro – the CBDC

To unlock the benefits of digital bonds at scale, a wholesale digital euro (Central Bank Digital Currency (CBDC) is required. ICMA welcomed the ECB's announcement to expand its Eurosystem initiative to settle DLT-based transactions in central bank money.[39] This will help unlock the benefits of tokenisation in capital markets, facilitate access to funding for the real economy and support the EU's Savings and Investment Union.

c) Standardisation and Interoperability

Promoting market efficiency and avoiding market fragmentation are key priorities for ICMA and its members both from the public sector as well as the private sectors. For instance, ICMA has published technical standards to underpin the automation and digitisation of the industry such as **ICMA's Bond Data Taxonomy (BDT**) both for traditional and digital ie DLT-based debt securities, and launched the **FINOS Common Domain Model (CDM**) in collaboration with ISDA and ISLA, to increase market efficiency of repo, securities lending and derivative transactions.

These standards promote interoperability between the world of digital bonds and traditional securities and support efficient market functioning more broadly, e.g. by facilitating automation of debt issuance, trading and reporting. This will also help firms comply with EU regulations more efficiently and underpin the liquidity of bond markets.[40]

ICMA policy recommendations related to digital bonds and the digital wholesale euro include

- At an international level, it is important to acknowledge that DLT and blockchain in capital markets are fundamentally different to crypto assets such as Bitcoin. Regulation on a global level, notably the BCBS's standard for the prudential treatment of banks' exposure to crypto-assets, does not distinguish these characteristics sufficiently.
- On the EU DLT Pilot Regime Regulation, more flexible limits, especially on duration of the regime, and permanent changes in law (e.g. CSDR) would provide greater certainty for firms.
- Greater harmonisation of legal frameworks for digital ie DTL-based bonds across EU members states, where possible, would be beneficial to mitigate market fragmentation.
- To unlock the benefits of digital bonds at scale, a wholesale digital euro or CBDC is required. ICMA welcomes the ECB's announcement in February and looks forward to continue collaborating with the Eurosystem and market stakeholders.[41]
- Promote market efficiency through the implementation of initiatives such as the CDM and ICMA's BDT.

[39] ICMA www.icmagroup.org/News/news-in-brief/icma-welcomes-expansion-of-eurosystem-initiative-to-settle-dlt-based-transactions-in-central-bank-money/
[40] For background materials see: *ICMA, FinTech and Digitalisation*, 2024, https://www.icmagroup.org/market-practice-and-regulatory-policy/fintech-and-digitalisation/
[41] ECB www.ecb.europa.eu/press/pr/date/2025/html/ecb.pr250220_1~ce3286f97b.en.html

IV. Supervision : effective EU single rulebook => EU member state level implementation

ICMA is very supportive of enhancing the efficiency of the current supervisory framework, particularly through greater facilitation of supervisory coordination.

As highlighted in our ICMA response[42] to the EC consultation on *assessing adequacy of macroprudential policies for NBFI*, **we consider that there should be greater focus on facilitating data sharing between the NCA and the ESAs and how this could also lead to streamlining of existing requirements by NCAs.** This could be achieved **via the creation of a single regulatory reporting data hub**, where NCAs and ESAs have access to relevant data sets, and on an aggregated basis where required, on the data which is already being collected via the different reporting requirements. Especially given recently enhanced reporting requirements (particularly in AIFM and UCITS Directives, as well as the requirement for ESMA to develop new reporting templates), it is a timely opportunity to upgrade Europe's data collection infrastructure and sharing mechanisms. This single data hub mechanism has also been proposed by several key EU NCAs[43]. This should also allow to remove existing differences between requirements by NCAs, leading to duplication of obligations that are currently enforced in different ways at national level while referring to the same EU rules.

It is also important that the existing supervisory centres of excellence are preserved. Asset managers, investment funds, and ultimately the end investors, greatly benefit from the deep, specialised expertise that local NCAs have fostered thanks to their experience in authorizing and regulating a diversity of funds. This expertise, and the relationships that have been built between the supervisor and the regulated firms, enables greater oversight of complex financial products and risk management practices. These supervisory centres of excellence are ultimately best-positioned to identify and address any risks related to market stability and investor protection.

Member states have a key role to play in implementing EU-level initiatives in a consistent way across the EU and apply a single EU rulebook. An improved coordination in capital markets may also be achieved through a greater use of NCA delegation agreements enshrined in Article 28 of the ESMA Regulation[44] which allows NCAs to delegate tasks and responsibilities within ESMA's remit to another NCA or to ESMA under certain circumstances.

ICMA policy recommendations related to supervision include

- Facilitate greater data sharing among between the NCAs and ESAs through the creation of a single regulatory reporting data hub.
- Preserve the supervisory centres of excellence to oversee market, especially where they are more sophisticated.
- Explore greater use of ESMA Article 28 Regulation as a legal base for supervisory coordination among NCAs and with ESMA.

[42] ICMA-Amic-Consultation-paper-November-2024.pdf
[43] AMF-CNMV-CONSOB-April-2024-Position-paper-a-macro-prudential-approach-to-asset-management_0.pdf
[44] ESMA webpage www.esma.europa.eu/supervisory-convergence-tools/delegation-agreements

About ICMA

ICMA was founded over 50 years ago and promotes well-functioning cross-border capital markets, which are essential to fund sustainable economic growth. It is a not-for-profit membership association with offices in Zurich, London, Paris, Brussels, and Hong Kong, serving over 620 members in 70 jurisdictions globally. Its members include private and public sector issuers, banks and securities dealers, asset and fund managers, insurance companies, law firms, capital market infrastructure providers and central banks. ICMA provides industry-driven standards and recommendations, prioritising three core fixed income market areas: primary, secondary and repo and collateral, with cross-cutting themes of sustainable finance and FinTech and digitalisation. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets. www.icmagroup.org

ICMA recognises and supports the important role of regulation in bond market development: creating a level playing field for issuers, investors, intermediaries, and infrastructures; ensuring protection and fairness for investors; maintaining the highest standards of participant behaviour; providing market integrity; creating a nurturing environment for capital formation and investment flows; securing market stability; fostering innovation; and adhering to international standards, while remaining globally competitive.

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7 March 2025