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Assessment of Market Practice and Regulatory Policy

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Change is the only constant

Foreword by Spencer Lake

It is a crucial time for global capital markets and I am honoured to be leading our Association now – following my distinguished predecessor Cyrus Ardalan. In his valedictory address, Cyrus said that his four years had been a period of unprecedented change. I agree with that statement but I think that during my Chairmanship we can expect even more dramatic changes, reflecting fundamental shifts in the global economy. ICMA must reflect these external dynamics and adapt. That means attracting more members from Asia and other emerging markets. It also means ensuring that individuals are drawn from the widest possible talent pool. The successful launch of the ICMA Women's Network to support and encourage the career development of professional women in the debt capital markets is an important step. I also welcome our focus on the younger generation among the ICMA membership through the ICMA Future Leaders Committee. Both initiatives will have my full support as your Chairman.

As policy and regulation continue to drive financial sector restructuring, the industry needs the effective representation that ICMA provides all its members: large and small. New capital rules on lending create an opportunity and a necessity for capital markets-based financing. A good example would be in the area of infrastructure financing: now a priority for countries worldwide. In emerging markets, better infrastructure is a key to development: raising living standards and quality of life. In mature economies, infrastructure investment is seen, rightly, as a route to short-term growth and longer-term competitiveness. Constraints on public finances and long-term lending make the case for procurement to be opened up to market-based financing. The market is already harmonising aspects of current practice by producing a standard disclosure and reporting template; having a common governing standard for infrastructure debt (to help harmonise contract terms across jurisdictions); agreeing an arbitration mechanism for disputes (to help compensate for the lack of a harmonised approach to insolvency); and setting out common standards for third party advisors. While aimed specifically at the EU, these recommendations – by the European Financial Services Roundtable – are of global application – and compatible with the international agenda set out in the recent B20 Infrastructure Investment Report. Most important is that individual countries develop a credible pipeline of projects. That is also why our industry needs to engage actively with the EU Juncker Plan and major initiatives like China's new Silk Road – "One Belt, One Road" – designed to link China with its trading partners in Asia and Europe, and the newly launched Asia Infrastructure Investment Bank that will help close the infrastructure gap. These flagship initiatives – supported by the European Fund for Strategic Investment and the Silk Road Fund – offer the prospect of more EU Asia cooperation. Capital Markets Union in Europe and China's capital markets programme which ICMA members are helping to facilitate via our links with NAFMII should also bring us closer. There are clear synergies through the kick-starting of securitisation to free up bank balance sheets and unlock capital, or increasing private placement activity. We should be ready and able to capture these.

Capital markets can also help China and other emerging economies to "green" the financial system. Market mechanisms can shift the economics away from high levels of pollution and coal-fired power generation and towards a lower-carbon and more sustainable future. Green bonds – in which the Green Bond Principles, for which ICMA runs the Secretariat, have been so instrumental – have a crucial role in raising new sources of finance and mobilising investment towards renewables and cleaner technology. All over the world, major developing and developed economies are beginning to make commitments in preparation for a Universal Climate Agreement at COP21 in Paris later this year. On 7 June, the G7 leading industrial nations agreed to phase out fossil fuels by 2100. In Mexico, the leadership is moving towards energy from renewables and away from reliance on oil. In India, ministers are encouraging major corporates to issue green bonds. Even in Saudi Arabia, relying on fossil fuels is no longer a given: oil minister Ali al–Naimi indicated recently that they could phase out fossil fuel use by 2050.

These commitments are huge and represent an unprecedented financing opportunity for the capital markets. Our challenge in ICMA is to use our global network so that market-based financing helps our political leaders to meet their economic objectives. By mobilising new sources of investment and allocating them efficiently via the international capital markets, ICMA members can demonstrate the contribution we make to society and rebuild trust and belief that efficient and effective capital markets are an important public good.

Spencer Lake is Chairman of ICMA, and Group General Manager, Global Head of Capital Financing, HSBC Bank plc

Message from the Chief Executive

by Martin Scheck

It was a great pleasure to see so many of our members at the recent ICMA AGM and conference in Amsterdam. The feedback has been positive in respect of the AGM itself, the conference and also the evening functions. This is an important event for ICMA, gathering together over 800 market participants and providing a forum for interaction also with high level and relevant speakers, which this year included Jeroen Dijsselbloem, Lord Jonathan Hill, Klaas Knot and Steven Maijoor.

Not surprisingly many of our keynote speakers focused their comments on the important Capital Markets Union initiative. But the conference agenda was much broader and included panels on a number of ICMA's other core areas, for example primary markets, secondary markets, repo, and investor topics. For the first time we were able to field a substantive segment on China, with a number of very senior Chinese speakers from major Chinese institutions. The development of the Chinese capital markets is becoming increasingly relevant to the international capital markets and an area of focus for ICMA assisted by our Hong Kong representative office.

The AGM provides an opportunity for ICMA to report on our finances, governance, activities and outlook, and offers members the opportunity to share views on our performance and strategy. There are a number of points to make.

Financially, ICMA again balanced its books in 2014 – the Association's reserves remain robust and are designed to cover unforeseen eventualities. Our membership continues to grow – we now have some 480 institutions as ICMA members, and there is a strong pipeline of firms who say they would like to join. More importantly, the interaction with our members has risen to new levels. Over 4,500 individuals have attended one of our 54 events over the course of the last year; there have been over 501,000 visits to our website leading to 1.25 million page views; usage of our Legal and Regulatory Helpdesk has increased by 10%; our legal opinions underlying the GMRA have been downloaded some 10,000 times.

We also discussed at the AGM two new initiatives broadening our reach with members: the ICMA Women's Network, which has now been running for around nine months; and the new ICMA Future Leaders Committee, which is designed to engage more with individuals at member firms who are in the early stages of their careers.

In addition, we discussed the work undertaken by our regional committees – we now have 15 separate regions and two regional chapters covering the globe. These are critical in ensuring that we hear the concerns of all of our members wherever they are and are able to adapt our agenda accordingly. Geographically, we continue to develop our reach in a highly targeted fashion – we have expanded our activities and resources in Hong Kong and have also started a new ICMA region in Africa where there is clearly a demand for our expertise and market standards, and we look to the newly formed regional committee for guidance.

An active, senior level and engaged Board is critical to ICMA. At each AGM certain Board members come to the end of their tenure and step down – each can serve a maximum of two consecutive three-year terms – and new Board members are elected by the members. This year saw the departure of Philipp Alena from Vontobel, Lau Veldink from ING and Bob Parker from Credit Suisse – many thanks to them all for their contribution over the last six years. We also said goodbye to our Chairman, Cyrus Ardalan, who stepped down as he is retiring from Barclays. We are immensely grateful for Cyrus' encouragement, support and guidance at a time of intense activity and development of the Association. A warm welcome to Kitty Yoh, from GECC, Nannette Hechler Fayd'Herbe from Credit Suisse and Fabio Lisanti from UBS as new board members. The Board has chosen Spencer Lake from HSBC to take on the mantle of Chairman, Jens-Peter Neergaard from Danske Bank as Deputy Chairman and Martin Egan from BNP as Vice Chairman.

The substantive work of our committees and councils has also been particularly intense this last year and continues apace. All our many market practice committees enjoy great support from our members – for which many thanks. This helps us to keep our standards of market practice and standard documentation up-to-date, allows us to interact proactively and regularly with regulators, and of course to respond on behalf of the industry to all relevant consultations. The number and complexity of the consultations we have been addressing in the last year has increased significantly. We responded to the Fair and Effective Markets Review, which is concerned with setting high standards in FICC markets, the Capital Markets Union Green Paper, Prospectus Directive, MiFID II, Securitisation, CSDR, and Contingent Convertible consultations – and the list just goes on. Many of these go right to the heart of our activities, and they also necessitate review and potential amendment of our guidelines, rules and recommendations to ensure consistency with new regulation. Capital Markets Union remains a priority for ICMA, with ongoing work in many areas including infrastructure, green bonds and pan-European private placements. MiFID II and CSDR are still the sources of great concern as the Level 2 recommendations from ESMA become clearer.

Since the conference, we have seen the report from the Fair and Effective Markets Review, which will have far reaching implications for market participants and also for ICMA. Secondary market liquidity and the related infrastructure issues remain ongoing themes. These along with our other key workstreams are further discussed in this Quarterly Report.

I think we can all agree that the capital markets of the future will be very different to those we know today. In such an environment ICMA cannot simply stand still. If ICMA is to continue to thrive and be relevant to our members in the future, we must be nimble and adaptive, spotting trends early as they emerge and having the confidence to take action – and to change course if necessary. We will need to question the *status quo*, adjust our priorities, adapt our committee structures and review our standards of best practice as we consider how they fit with a fundamentally more regulated environment.

In my opinion, the Association is well placed to do this – ICMA is vibrant, growing and financially viable, and the input from our members and other contacts does help us spot emerging trends at an early stage. Our commitment to setting standards of best market practice, coupled with the experience of our talented and motivated staff, position ICMA well for the future.

Thank you for your support.

Contact: Martin Scheck
martin.scheck@icmagroup.org

Crisis management and capital markets

Quarterly Assessment by Paul Richards

Summary

In response to the international financial crisis, the authorities have been determined to make the financial system sufficiently stable to prevent another crisis in future; and, in the event that another crisis still occurs, to ensure that the costs of failure are borne by investors and bondholders, and not by taxpayers. The problem of resolving the crisis has been complicated in the euro area by the need to bail out some of the governments on the periphery and by the interdependence between these governments and their banks. Among the five governments in receipt of bail-out programmes, the policy record has been mixed. Greece is the most important test of the new crisis management regime to date.

Introduction

1 This Quarterly Assessment considers the new regime for crisis management of the financial system at both global and euro-area level, and the Greek case, which is the most important test of the new crisis management regime to date. The Quarterly Assessment covers the period up to date. The Quarterly Assessment covers the period up to the end of the second quarter.

Global crisis management

2 In response to the international financial crisis in 2007-09, the authorities – at both global and European level – have been determined:

- first of all, to make the financial system sufficiently stable to prevent another crisis in future; and
- second, in the event that another crisis still occurs, to ensure that the costs of any failure by financial institutions are borne by investors and bondholders, and not by taxpayers.

(i) Preventing another crisis

3 In pursuit of the first objective, the authorities have taken a series of *prudential* measures to increase financial stability, which they see as a necessary condition for the resumption of economic growth and a reduction in unemployment on a sustainable basis:

- The authorities have introduced new regulations to repair bank balance sheets by increasing bank capital requirements, including the imposition of leverage limits, and increasing liquidity requirements. In response to these requirements, banks have deleveraged their balance sheets and raised new capital.

> “ The authorities have taken a series of *prudential* measures to increase financial stability.

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The authorities’ focus has shifted increasingly from prudential regulation to regulation of the *conduct of business.*

- To ensure that the regulations on banks are not circumvented, they are in the process of extending regulation from banks to “shadow banks”, while recognising the importance of encouraging market-based finance as a complementary alternative to bank lending and a means of diversifying risks.
- They have imposed more onerous financial requirements on banks and insurance companies classified as “systemically important”, and are considering whether or not to classify some other financial institutions as systemically important as well: eg some asset managers and investment funds.
- They have also subjected banks to stress tests in order to check their resilience under financial pressure; and they have tested banks’ resilience against cyber-attacks. It is important to recognise that, if there is another crisis, it may be different from the last one.
- Finally, they have set up new macroprudential bodies with mandates to identify emerging systemic risks and with some powers to help mitigate them.

4 In recent years, the authorities’ focus has shifted increasingly from prudential regulation to regulation of the *conduct of business* by financial institutions operating in financial markets. A much more intrusive regulatory framework for the conduct of business has been imposed. For example:

- The authorities have proposed measures to separate wholesale trading activities within banks from their traditional retail banking and payment activities, with the result that ownership of a bank does not necessarily mean management control (eg over board appointments in a subsidiary).
- They have banned or limited proprietary trading and short-selling activities and increased the regulatory cost of market making with the result that, despite a large increase in the value of bonds outstanding, dealer inventories and trading volumes have declined, bid-ask spreads and hedging costs have risen, and market liquidity has declined.
- They have promoted transparency by pushing over-the-counter secondary market transactions onto exchanges and platforms, and given transparency a higher priority than secondary market liquidity where there is a conflict between them.
- They have required standard derivatives contracts to be cleared through central counterparties.

5 The authorities have enforced their conduct of business rules with heavy fines for non-compliance or misconduct, though the penalties have largely been borne by bank shareholders instead of falling mainly on the individuals directly responsible. Bank fines have therefore had the unintended consequence of reducing bank capital, when prudential regulation requires that it should be increased.

(ii) Ending “too-big-to-fail”

6 In pursuit of the second objective, in the event that another crisis still occurs, the authorities are determined to avoid a repetition of the last crisis – in which taxpayers had to bail out banks – by ending “too-big-to-fail”:

- The authorities have introduced new regulations, in the event that a financial institution becomes insolvent, to “bail in” certain categories of creditors, particularly bondholders, while continuing to protect retail depositors up to a specified level.
- They have also required systemically important financial institutions to draw up “living wills” to make them less difficult to resolve, if needed, while keeping essential activities running.
- They intend to finalise a new international standard for measuring total loss absorbing capacity (TLAC) later this year.
- They hope to ensure that other financial institutions to which risk has been shifted from the banks, such as central counterparties, are themselves not “too-big-to-fail” by testing their resilience and the interconnections between them and their clearing members.

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The authorities are determined to avoid a repetition of the last crisis by ending “too-big-to-fail”.

> **The problem of resolving the crisis has been complicated by the periphery of the euro area.**

- They recognise that the risk of failure does not just relate to the size of financial institutions, but also to their interconnectedness through financial markets. However, it is not yet clear whether they have adequately addressed the risk of contagion if a global systemically important bank ever becomes insolvent and has to be bailed in.

(iii) Raising standards

7 Despite the need for appropriate financial regulation, it is widely acknowledged that financial regulation alone is not sufficient to create a stable financial system. A great deal depends both on the quality of financial supervision and on the quality of the management of financial institutions themselves, as well as on maintaining high standards among their professional staff:

- New supervisory authorities have been set up in the EU since the crisis in the attempt to ensure that there is a single rulebook for financial regulation implemented in a consistent way across the 28 EU Member States.
- The Fair and Effective Markets Review, which has been conducted by the UK authorities over the past year and whose conclusions were published on 10 June, is designed to encourage high standards in fixed income markets, as does ICMA itself (eg through its standard setting and educational work).

Crisis management in the euro area

8 In the second phase of the international financial crisis (from 2010), the problem of resolving the crisis has been complicated by two additional factors relating specifically to the periphery of the euro area:

- In some countries on the periphery of the euro area, it is not only their banks which have needed to be bailed out, but also a number of the governments themselves.
- The financial interdependence between these governments and their banks has undermined the financial creditworthiness of both of them.

(i) Banks

9 To prevent the need to bail out banks in the euro area in future, the EU Bank Recovery and Resolution Directive (BRRD) has been introduced to determine the process for resolving banks, with bail-in powers by the beginning of next year. The BRRD is backed in the euro area by the Single Supervisory Mechanism, under which the ECB oversees the euro-area banking system, and by the Single Resolution Mechanism, which is to be financed by a levy on banks as a whole. The critical question here is whether a decision to bail in a systemically important bank could be contained or whether it would have a knock-on effect on the rest of the financial system. The new bail-in arrangements have not so far been fully tested in practice. There are also a number of remaining uncertainties in the market about how the bail-in arrangements would work.

(ii) Sovereigns

10 Five sovereigns in the euro area have received bail-out programmes, whether for the sovereigns themselves, or for their banks, or both: Greece (twice so far), Ireland, Portugal, Spain (only for its banks) and Cyprus. The bail-outs have been financed by other euro-area governments (eg through the European Stability Mechanism) and by the IMF; and the provision of finance has been made conditional on agreement by the recipient government debtors to implement “austerity” measures and structural reform programmes intended to restore financial stability and growth in the medium term. The European Commission, the ECB and the IMF have had responsibility for monitoring compliance with the bail-out programmes.

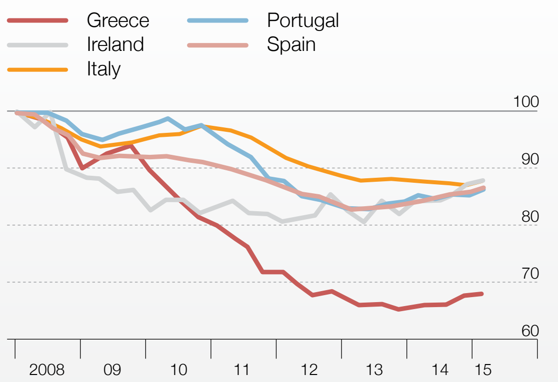
11 In addition, in 2012, to prevent contagion within the euro area, the ECB announced that it would do “whatever it takes” within its mandate to preserve the euro. To back up the announcement, the ECB launched its Outright Monetary Transactions (OMT) Programme for euro-area governments subject to a bail-out programme, which has not so far had to be used, but whose legality has recently been confirmed by the European Court of Justice, following a legal challenge in Germany. The OMT Programme has been supplemented this year by the ECB’s Public Sector Purchase Programme to introduce quantitative easing (QE) across the euro area as a whole, accompanied by very low – and in some cases negative – short-term euro interest rates and bond yields.

12 However, the policy record of the bail-out programmes in the euro area has been mixed. Ireland and Portugal have both already exited their bail-out programmes. Growth has been restored in Ireland, and there is some evidence of an economic recovery in Portugal. Spanish banks have been recapitalised, and a strong economic recovery is under way in Spain. But unemployment – especially youth unemployment – on the periphery of the euro area remains very high. Capital controls imposed in Cyprus in 2013 have only finally been lifted this year. And the most difficult case for both the euro-area authorities and the IMF has been Greece, which was previously bailed out in 2012 following

The expiry of the bail-out agreement leaves outstanding a number of difficult issues to resolve.

a rescheduling of its debt, including to the private sector, and which in 2015 needs new financing from its creditors. (Chart 1.)

Chart 1: Real domestic demand in the euro area



Note: 1Q 2008 = 100

Sources: Haver Analytics; European Commission; World Bank; FT

The Greek case

13 The elections in Greece in January 2015 brought to power a new Greek Government committed to end austerity by reducing the burden of Greek Government debt, which represents over 175% of GDP, and by replacing the Greek bail-out package, including the conditions negotiated by the previous Greek Government with the Troika (ie the European Commission, the ECB and the IMF). The Troika – now renamed the creditor "institutions" and including representatives of the European Stability Mechanism – currently hold over three quarters of Greek Government debt, as a result of previous bail-out packages, with only a comparatively small proportion still held by the private sector after the debt rescheduling of 2012 and subsequent disengagement by capital markets.

(i) Negotiations with creditors

14 An interim agreement was reached in February this year to extend the Greek bail-out package from the end of February until the end of June to give time for negotiations to take place on a longer-term plan. But during the second quarter, Greece's financial position deteriorated sharply:

- The Greek Government and the creditor institutions failed to reach agreement on measures to cover fiscal gaps in Greece in 2015-16 before the bail-out agreement expired at the end of June. As a result, funds due to be paid to the Greek Government by the creditor institutions, subject to agreement being reached on terms, were not disbursed. Overnight on 26 June, the Greek Prime Minister called a referendum in Greece for 5 July on the terms previously offered by the creditor institutions, and said that the Greek Government would campaign against accepting them. Eurogroup Finance Ministers decided on 27 June not to extend the deadline for the bail-out package. On 30 June, Greece fell into arrears by failing to pay the IMF on the due date. And on 5 July, Greece voted decisively to reject the terms previously offered by the creditor institutions.

- The Greek banking system became dependent on continued funding from the Eurosystem, as savers withdrew their deposits from the banks. On behalf of the Eurosystem, the ECB decided in February that it would no longer accept Greek Government debt as collateral, forcing Greek banks to borrow against collateral from the Bank of Greece in the form of Emergency Liquidity Assistance (ELA). However, as a member of the Eurosystem, the Bank of Greece is required to operate ELA within limits set with the permission of the ECB, and permission can be withdrawn if there is a two-thirds majority in the Governing Council. The ECB would not normally provide financial support to a country if it abandoned its bail-out programme and if its banks were no longer considered solvent (eg in the event of a default), as this would be against the ECB's rules. Following the announcement on 26 June of a Greek referendum and the subsequent decision by Eurogroup Finance Ministers on 27 June not to extend the deadline for the bail-out package, the ECB Governing Council decided to freeze the level of ELA provided to the Bank of Greece, and subsequently tightened collateral requirements. In response, the Greek authorities closed the banking system in the week running up to the referendum, and imposed capital controls in Greece (as in Cyprus in 2013) to prevent a run on the banks.

15 The expiry of the bail-out agreement at the end of June leaves outstanding a number of difficult issues to resolve relating both to the amount and the conditions for any new loans from the creditor institutions to Greece and also any debt relief on existing loans:

- first of all, how much financial support will be needed for Greece from the creditor institutions and for how long; what fiscal and structural reform measures should be set as conditions for providing it; and whether any new programme is likely to be more effective in the future than previous programmes for Greece have been in the past;

- second, whether and at what stage agreement can be reached on easing the Greek debt burden, both in terms of any debt relief to be provided to Greece by its creditors, and in terms of the contribution that Greece itself should make towards repaying outstanding Greek debt in future by running a primary budget surplus;
- third, whether any of the Eurosystem's existing holdings of Greek debt – a much higher proportion of Greek GDP than of any other euro-area country – should be included in the debt negotiations, or excluded on the grounds that rescheduling of the ECB's holdings would count as monetary financing, or refinanced in some other way (eg by the European Stability Mechanism); and
- fourth, what the future of the IMF's involvement should be. Some IMF members in emerging markets have criticised the scale of the IMF's involvement in Greece, as well as the apparent failure of the bail-out programmes to date. The missed payment to the IMF by Greece of €1.5 billion on 30 June is the largest missed payment by an IMF member and the first by an advanced economy in the IMF's history. Greece cannot access IMF financing in future until it clears the debt. There is also a question whether the IMF might insist on further debt relief from Greece's other official creditors as a condition for its future involvement.

16 On the question of debt relief, it is worth noting that, while "fiscal stabilisers" taking the form of fiscal transfers from stronger countries to weaker countries in the euro area would not currently be consistent with the EU Treaty, a similar economic result (without an EU Treaty change) could in theory be obtained if the stronger euro-area governments were to lend to the weaker euro-area governments, and were subsequently to agree to write down some or all of the debt.

(i) Wider implications

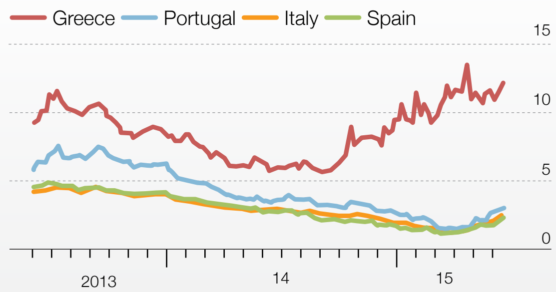
17 There have been substantial risks in the negotiations between Greece and the creditor institutions on both sides. On one side, if the debt burden on Greece – and the conditions for budget cuts and structural economic reforms attached to a bail-out package – were to be reduced in order to ease austerity in Greece, then it would be difficult for other governments which have previously agreed to bail-outs subject to broadly similar conditions (eg Ireland, Portugal and Spain) to explain to their electorates why they had to do so when Greece was being treated as a special case. The outcome of the Greek Government debt negotiations might itself influence the outcome of national elections due in other countries in the period ahead (eg in Spain and Portugal).

18 But on the other side, failure of the negotiations, default by Greece on its debt and the imposition of capital controls in Greece in an attempt to prevent a run on the banks might also lead to a Greek exit from the euro area. The previous rescheduling of Greece's debt in 2012 was achieved without exit from the euro area. But now, the largest creditors with maturities in the short term are the ECB and the IMF, neither of which would normally be subject to rescheduling. While the risk of default and exit are two separate issues, the one increases the risk of the other.

19 Both the Greek Government and its main official creditors have made it clear that they would much prefer to avoid a Greek exit from the euro area. But if a Greek exit was still to occur, either because Greece chose to leave or because it had no alternative, there could be substantial implications:

- The critical question for capital markets is whether a Greek exit would lead to contagion and a loss of economic confidence, as euro membership would no longer be regarded by capital markets as irreversible. Greece represents less than 2% of euro-area GDP, and financial exposure in capital markets to Greece is much lower than it was at the time of the debt rescheduling in 2012. But there are different views about whether the post-crisis regime introduced in the euro area, together with the ECB's QE programme, would be sufficient to contain the market impact of a Greek exit, or whether it would lead to contagion in other countries, particularly those on the periphery of the euro area. While yield spreads between bunds and government bonds in countries on the euro-area periphery (other than Greece) rose slightly during the second quarter, they were not as wide at the end of the second quarter as earlier during the crisis. (Chart 2.)

Chart 2: Selected 10-year euro-area government bond yields



Sources: Thomson Reuters Datastream; FT

- Depending on how the Greek economy adapted to exit, there is also a question whether the reintroduction in Greece of a new national currency (eg the new drachma), which would fall to a substantial discount to the euro in the foreign exchange market, would lead ultimately to economic collapse in Greece or whether it might instead lead eventually to economic recovery as a result of an improvement in Greek competitiveness. If the former, there could be geopolitical consequences for Europe, given Greece's current position as a member of NATO. If the latter, this might encourage other euro-area economies undergoing deflation and very high unemployment to follow suit. (Devaluation has often been prescribed in other countries under IMF programmes in the past.) Whatever the eventual outcome, Greece would continue to need external financial support in the interim.
- In addition, if Greece were to exit the euro area, but remain a member of the EU, there is a question whether it could ever be readmitted in the future to the euro area at a new – and dramatically lower – exchange rate than when it originally joined. If so, the implication would be that the single currency regime in the euro area had become somewhat similar to a fixed (but adjustable) exchange rate regime in which devaluation of the exchange rate could occur, like the Exchange Rate Mechanism which preceded it.
- Finally, there is an underlying question whether Greece ever fully met the Maastricht convergence criteria on a sustainable basis in order to join the euro area in the first place.

Conclusion

20 The Greek case is by no means the only important issue facing the EU in general and the euro area in particular at present. But European leaders have given the Greek case attention out of all proportion to its size. This is because it is the most important test of the new crisis management regime to date. The Greek case has also raised in stark form the question whether economic prosperity and membership of the euro area go hand in hand and, if that is perceived not to be the case, which comes first. The outcome will have important implications for Europe's future. For the first time since the international financial crisis, there has been a substantial political response to low growth and high unemployment in the euro area, as a result of popular support for a political party set against austerity and in favour of debt relief. Whatever the outcome in Greece, a series of national elections in the euro area in the period ahead will put this support to the test.

Contact: Paul Richards
paul.richards@icmagroup.org

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The outcome will have important implications for Europe's future.

Practical initiatives by ICMA

There are a large number of practical initiatives on which ICMA is currently, or has recently been, engaged with, and on behalf of, members. These include:[1]

Capital market initiatives

1 *Capital Markets Union:* ICMA responded to the European Commission Green Paper ahead of the 13 May deadline, and is continuing to engage with the Commission on technical issues arising from Capital Markets Union. ICMA has also hosted, jointly with AFME, regular teleconference calls with other trade associations across Europe to share information on Capital Markets Union.

2 *Fair and Effective Markets Review:* Following publication on 10 June of the Final Report of the Fair and Effective Markets Review undertaken by the UK authorities, ICMA is planning to engage with the proposed new FICC Market Standards Board.

Short-term markets

3 *Triparty Settlement Interoperability:* ICMA is making every effort to ensure that progress is made on the initiative on Triparty Settlement Interoperability in as timely a manner as possible.

4 *Cross-border collateral:* The ICMA European Repo Committee (ERC) has been actively participating in the work of the ECB's Contact Group on Euro Securities Infrastructures (COGESI) on enhancing the understanding of collateral requirements and the effectiveness of the collateral market.

5 *Repo market liquidity:* Following the publication of the ICMA study on *The Current State and Future Evolution of the European Investment Grade Corporate Bond Secondary Market*, a companion study is being undertaken on repo market liquidity.

6 *GMRA legal opinions:* ICMA published the 2015 legal opinions which support the use of the Global Master Repurchase Agreement (GMRA) in over 60 jurisdictions worldwide.

7 *Securitisation:* ICMA responded to the European Commission Consultation Paper on Securitisation by the deadline of 13 May, emphasising the need to give due consideration to the asset-backed commercial paper market.

8 *SFT trade matching and affirmation:* The ERC Operations Group is working on trade matching and affirmation processes for securities financing transactions to agree industry standards for SFT lifecycle reporting.

Primary markets

9 *Prospectus Directive:* ICMA responded to the European Commission's Consultation Paper on the Prospectus Directive ahead of the 13 May deadline.

10 *MiFID II Level 2:* ICMA responded to ESMA's Consultation Paper on draft guidelines on complex debt instruments and structured deposits.

11 *FCA Competition Review:* ICMA is in contact with the UK FCA on its Competition Review of investment and corporate banking. The terms of reference issued by the FCA in May cover both debt and equity markets, and the study is expected to take one year.

12 *ICMA Primary Market Handbook:* The overall review and revision of the ICMA Primary Market Handbook is nearing completion. In addition, revised recommendations have recently been agreed on new issue processes and on the ICMA Explanatory Note on *Pre-sounding, Bookbuilding and Allocations*.

13 *Collective action clauses:* ICMA published collective action, *pari passu* and creditor engagement clauses for sovereign debt securities issued under New York governing law.

Secondary markets

14 *MiFID II Level 2:* Following its response to the latest ESMA Consultation Paper on MiFID II Level 2, ICMA has continued to work on pre- and post-trade transparency with both sell and buy-side members through its Secondary Market Practices Committee.

15 *CSDR Level 2:* Following publication of the ICMA impact study on mandatory buy-ins under the CSDR which shows that, if mandatory buy-in regulation is implemented, liquidity across secondary European bond and securities financing markets will be significantly reduced, while bid-offer spreads will widen dramatically, ICMA has been pressing for a delay in implementation.

16 *Corporate bond market liquidity:* ICMA participated in the European Commission workshop on *Towards a More Liquid EU Corporate Bond Market* at the Commission in Brussels on 20 May.

17 *Electronic trading platforms:* ICMA is engaged in a mapping exercise on electronic trading platforms and their use by the buy side and the sell side.

Asset management

18 *Securitisation:* The ICMA Asset Management and Investors Council (AMIC) responded to the European Commission Consultation Paper on Securitisation by the deadline of 13 May.

19 *Systemic risk:* The AMIC responded, by the deadline of 29 May, to the FSB/IOSCO consultation on non-bank non-insurer global systemically important financial institutions.

Capital market products

20 *Pan-European private placements***:** Following the launch of the *Pan-European Private Placement Guide*, ICMA and other members of the Pan-European Private Placement Joint Committee have been undertaking a roadshow to promote the Guide in European financial centres, involving the national authorities concerned wherever practicable. ICMA has also continued to engage with the European Commission on pan-European private placements, which form an important part of the Capital Markets Union project.

21 *Infrastructure finance:* The Infrastructure Working Group, in which ICMA cooperates with AFME and others, has published a *Guide to Infrastructure Financing*, which was launched in Amsterdam on 3 June with the involvement of the European Commission and the EIB.

22 *Green bonds:* Following a vote, the governance of the Green Bond Principles has been modified so as to increase the size of the Green Bond Executive Committee from 18 to 24 members, keeping the proportions of issuers, intermediaries and investors the same.

Other meetings with central banks and regulators

23 *ICMA AGM and Conference:* The Dutch Finance Minister, the President of the Nederlandsche Bank, the European Commissioner, Lord Hill, and the Chairman of ESMA, Steven Maijoor, all gave keynote speeches at the ICMA conference after its AGM in Amsterdam on 4 and 5 June.

24 *RPC:* ICMA's Regulatory Policy Committee had a discussion with the Executive Director of ESMA, Verena Ross, at its meeting in Paris on 11 June.

25 *PSIF:* The Public Sector Issuer Forum had a discussion with Tracey McDermott, Executive Director of the FCA, on the Fair and Effective Markets Review at its meeting in London on 24 June.

26 *Official groups:* ICMA continues to be represented, through Martin Scheck, on the ECB Bond Market Contact Group; through René Karsenti, on the ESMA Securities and Markets Stakeholder Group; and through Godfried De Vidts, on the ESMA Secondary Markets Standing Committee, the ECB Contact Group on Euro Securities Infrastructures (COGESI) and the ECB Macroprudential Policies and Financial Stability Contact Group.

1. ICMA responses to consultations by regulators are available on the ICMA website.

Regulatory Response to the Crisis

by David Hiscock

Global financial regulatory reforms

A letter dated 9 April 2015 from the FSB Chair to G20 Finance Ministers and Central Bank Governors, ahead of their April 2015 meeting in Washington, provides an update on progress at the 26 March FSB Plenary meeting in Frankfurt. Recalling that, in February in Istanbul, the following priorities for the FSB's G20 financial regulation agenda were agreed upon: full, consistent and prompt implementation of agreed reforms; finalising the design of remaining post-crisis reforms; and addressing new risks and vulnerabilities – the FSB Chair's 9 April letter includes information on ongoing work to finalise post-crisis reforms in two particular areas: measures to help end "too-big-to-fail" for different types of financial institutions, including a coordinated work plan to promote central counterparty (CCP) resilience, recovery planning and resolvability; and initiatives to make derivatives markets safer. It also outlines work programmes to address two specific emerging vulnerabilities: financial stability risks stemming from market-based finance, including those associated with asset management activities; and misconduct risks and withdrawal from correspondent banking.

On the margins of the IMF-WB Spring Meetings, G20 Ministers and Governors gathered in Washington DC for their second meeting under the Turkish G20 Presidency; and upon the conclusion of the 16-17 April 2015 meeting, the agreed communiqué of the meeting was released. Paragraph 6 of this communiqué concerns financial regulatory reform and comprises a series of commitments related to seeing through the process of strengthening the global financial system.

The communiqué of the Thirty-First Meeting of the IMFC, chaired by Agustín Carstens, Governor of the Bank of Mexico, on 18 April 2015 in Washington also includes a paragraph on financial sector policies. This states: "Safeguarding financial stability through well-designed micro- and macroprudential policy measures remains a priority to contain excesses, prevent financial crises, and thereby support sustainable growth. It remains essential that financial institutions resolve legacy problems from the global financial crisis and, together with asset managers, are robust to market liquidity risks. Global financial regulatory reforms should be completed and implemented promptly and consistently, and further developed as necessary. We strongly support the Financial Stability Board's work program and the role of the IMF."

On 27 April 2015, the BIS published its *Eighth Progress Report on Adoption of the Basel Regulatory Framework*, which provides a high-level view of BCBS members' progress in adopting Basel II, Basel 2.5 and Basel III standards as of end-March 2015. The report focuses on the status of domestic rule-making processes to ensure that the Basel standards are transformed into national law or regulation according to the internationally agreed timeframes, and is based on information provided by individual members. The report includes the status of adoption of the risk-based capital standards, the standards for global and domestic systemically important banks (SIBs), the Basel III leverage ratio and the liquidity coverage ratio (LCR). In addition to periodically reporting on the status of adoption, all BCBS members undergo an assessment of the consistency of their domestic rules with the Basel standards. The BCBS believes that disclosure provides an additional incentive for members to fully comply with the international agreements.

On 29 April 2015, IOSCO announced that global emerging capital market regulators met in Cairo and reinforced their commitment to maintain market resilience while focusing on efforts to accelerate the sustainable growth and development of emerging capital markets. At its three-day annual meeting and conference, IOSCO's Growth and Emerging Markets (GEM) Committee held a roundtable dialogue with leading global industry players and international organisations, discussing current risks and vulnerabilities in global capital markets, and how capital market regulators should address these challenges. The GEM Committee also approved in principle the policy report on *SME Financing through Capital Markets* – which describes some of the successful measures implemented in capital markets around the world that supported SME financing requirements; highlights key challenges faced by SMEs in accessing market based financing; and provides recommendations for regulators to assist capital raising for SMEs in emerging markets. The GEM Committee also discussed the priority areas of emerging market regulators and the Committee's future work programme following a review conducted across the membership – this will involve the development of deeper markets and enhancement of regulatory capacity to reinforce market resilience. Other important subjects discussed were corporate governance, crisis management for capital market regulators, cross-border capital market integration initiatives, and digital disruption and cyber-crime.

On 20 May 2015, the CGFS published a paper, *Regulatory Change and Monetary Policy*. Financial regulation is evolving, as policy makers seek to strengthen the financial system in order to make it more robust and resilient; and these changes in the regulatory environment are likely to have an impact on financial system structure and on the behaviour of financial intermediaries that central banks will need to take into account in how they implement monetary policy. Against this background, this report assesses the combined impact of key new regulations on monetary policy. It argues that the likely impact of the new financial regulations on financial institutions and markets should have only limited and manageable effects on monetary policy operations and transmission. Hence, as necessary, central banks should be able to make adjustments within their existing policy frameworks and in ways that preserve policy effectiveness. These adjustments will tend to differ across jurisdictions according to the financial systems and policy frameworks in place. Specific implications, and examples of potential policy responses, are set out and elaborated in more detail in the report.

Following on from a consultation launched in February 2015 (as reported in Issue 37 of the ICMA Quarterly Report), on 2 June 2015, the Joint Forum released its report, *Developments in Credit Risk Management across Sectors: Current Practices and Recommendations*, which provides insight into the current supervisory framework around credit risk, the state of credit risk management at firms and implications for the supervisory and regulatory treatments of credit risk. This report is based on a survey that the Joint Forum conducted with supervisors and firms in the banking, securities and insurance sectors globally in order to understand the current state of credit risk management given the significant market and regulatory changes since the 2008 financial crisis; and it updates previous Joint Forum work on this topic. Based on its analysis of the responses and subsequent discussions with firms, the Joint Forum puts forth four recommendations for consideration by supervisors.

"IOSCO's goal for the rest of this decade will be to reinforce its position as the key global reference point for securities regulation.

On 8 June 2015, the BCBS issued a Consultative Document (for comment by 11 September 2015) on the risk management, capital treatment and supervision of *Interest Rate Risk in the Banking Book* (IRRBB). This Consultative Document expands upon and is intended to ultimately replace the BCBS's 2004 *Principles for the Management and Supervision of Interest Rate Risk*. The BCBS's review of the regulatory treatment of IRRBB is motivated by two objectives: (i) to help ensure that banks have appropriate capital to cover potential losses from exposures to changes in interest rates, which is particularly important in the light of the current exceptionally low interest rate environment in many jurisdictions; and (ii) to limit capital arbitrage between the trading book and the banking book, as well as between banking book portfolios that are subject to different accounting treatments. The proposal presents two options for the capital treatment of IRRBB, one being a Pillar 1 (minimum capital requirements) approach and the other an enhanced Pillar 2 approach.

The G7 Leaders' Declaration of 8 June 2015 includes two paragraphs on financial market regulation, which identify priorities going forward. These include full, consistent and prompt implementation of agreed reforms; continuing to address the "too-big-to-fail" problem, in particular through finalising the proposed common international standard on TLAC for G-SIBs by November; strengthening the regulation and oversight of the shadow banking sector, including timely and comprehensive implementation of the agreed G20 shadow banking roadmap; monitoring and addressing any newly evolving systemic risks from market-based finance; enhancing cross-border cooperation in financial regulatory areas to enable regulations to be more effective, particularly in the areas of resolution and derivatives markets reform, and encouraging jurisdictions to defer to each other, when justified; and continuing to monitor financial market volatility in order to address any emerging systemic risk that could arise.

On 17 June 2015, IOSCO published the report, *Credible Deterrence in the Enforcement of Securities Regulation*, which identifies key enforcement factors that may deter misconduct in international securities and investment markets. The report draws on the collective experience and expertise of IOSCO members and was produced by IOSCO's Committee 4 on Enforcement and the Exchange of Information, which is chaired by Georgina Philippou, Acting Director of Enforcement and Market Oversight at the UK FCA. The report identifies key elements in the prevention of misconduct and financial crime from a range of international regulatory authorities and encourages regulators operating in both emerging and developed markets to consider how they might integrate credible deterrence into new or existing enforcement strategies; and includes real examples of effective approaches to achieve deterrence. The report cautions that credible deterrence cannot be one-size-fits-all and regulators must decide what it means for them in the context of their strategic objectives, powers and responsibilities; whilst also taking into account their own market, economic and financial situation. The seven key elements for credible deterrence identified in the report are: (i) legal certainty; (ii) detecting misconduct; (iii) cooperation and collaboration; (iv) investigation and prosecution of misconduct; (v) sanctions; (vi) public messaging; and (vii) regulatory governance.

As announced in its 17 June 2015 media release, *Meeting the Challenges of a New Financial World*, IOSCO met at its annual conference in London to progress its work across its policy, research, capacity building and cooperation agenda. The IOSCO Board discussed the Strategic Direction for IOSCO to 2020 and the resourcing and funding of Action Plans to implement it. The Strategic Direction was approved on 17 June by the Presidents Committee, which is comprised of all the Chairs of ordinary and associate members and meets once a year at the annual conference. The Strategic Direction envisages that IOSCO's goal for the rest of this decade will be to reinforce its position as the key global reference point for securities regulation, with the strategic direction and goal being implemented through 43 initiatives in Action Plans covering six priority areas: (i) research and risk identification; (ii) standard setting and developing guidance; (iii) implementation monitoring; (iv) capacity building; (v) cooperation and information exchange; and (vi) collaboration and engagement with other international organizations.

IOSCO's GEM Committee met during the week, with members furthering committee work on risk identification and capacity building. They also agreed to conduct policy work in the following priority areas: impact of digitization and innovation on capital markets, strengthening corporate governance, and the development of a toolkit on crisis management and contingency planning for emerging markets; and agreed to publish the GEM Committee's report on *SME Financing through Capital Markets*, which reviews and identifies ways to facilitate capital market financing for SMEs in emerging markets. During the conference, IOSCO's four regional committees and its Affiliate Members Consultative Committee (of which ICMA is a member) also met to discuss their contribution to IOSCO work.

On policy, the Board discussed progress in a number of areas including addressing the challenges of cross-border regulation; improving the governance of international audit standard setting; increasing the resilience of securities markets and market participants to cyber-attacks; enhancing the Multilateral Memorandum of Understanding (MMoU) on cooperation and exchange of information, taking into account recent developments in markets, technology and enforcement practices; promoting the resiliency of CCPs; ensuring investor engagement in policy development; and facilitating capital raising by SMEs, including through crowd funding, while maintaining investor protection. On asset management, the Board concluded that a full review of asset management activities and products in the broader global financial context should be the immediate focus of international efforts to identify potential systemic risks and vulnerabilities, with this review taking precedence over further work on methodologies for the identification of systemically important asset management entities.

Contact: David Hiscock
david.hiscock@icmagroup.org

European financial regulatory reforms

On 8 April 2015, the EBA published a revised version of its Work Programme for 2015. This review was carried out following the receipt of some additional mandates and a reduction to the EBA budget, which took place after the adoption of the EBA's 2015 Work Programme in September 2014.

On 6 May 2015, the eighth meeting of the FSB Regional Consultative Group for Europe (RCG Europe) was held in Berlin. At the meeting, members of the RCG Europe began by reviewing vulnerabilities in the global financial system, including the economic and financial impacts of the recent decline in oil prices and financial stability risks for both banks and non-banks arising from the current low interest rate environment. Members were also updated on the FSB's work plan and policy priorities, namely: full, consistent and prompt implementation of the agreed reforms; finalising the design of the remaining post-crisis reforms; and addressing new risks and vulnerabilities, such as the asset management industry. Members then discussed banking sector specific issues. Initially, they discussed the regulatory treatment of sovereign debt, given the large volume of it held by European banks, and its weighting in the Basel capital framework. Members then discussed the EU Banking Union project, with a particular focus on the SSM. With respect to the SSM, members reviewed progress since its inception in November 2014, notably the creation of joint supervisory teams and balance sheet strengthening efforts related to the comprehensive assessment, and next steps. The pros and cons of joining the Banking Union from a non-euro area country perspective were also considered. Moving to the insurance sector, members discussed developments with respect to insurance supervision, including progress to develop a global risk-based insurance capital standard, refinements to the methodology for identifying G-SIIs, and associated higher loss absorption capacity requirements. The meeting was preceded by an informal seminar that considered how the financial reforms have changed bank business models and more specifically, capital strategies and capital structures.

On 19 May 2015, the European Commission adopted its Better Regulation Agenda, a comprehensive package of reforms covering the entire policy cycle. It is intended that this will boost openness and transparency in the EU decision-making process, improve the quality of new laws through better impact assessments of draft legislation and amendments, and promote constant and consistent review of existing EU laws, so

> “Better Regulation is about making sure that there is delivery of ambitious EU policy goals.

that EU policies achieve their objectives in the most effective and efficient way. Better Regulation is not about "more" or "less" EU legislation, nor is it about deregulating or deprioritising certain policy areas or compromising dearly held EU values; rather Better Regulation is about making sure that there is delivery of ambitious EU policy goals. The Better Regulation Package will be directly implemented by the Commission in its own preparation and evaluation of legislation and through cooperation with the European Parliament and Council; and, to this end, the Commission will now enter negotiations with the Parliament and Council over a new Inter-institutional Agreement (IIA) on Better Law Making. Better Regulation guidelines explain what Better Regulation is and how it should be applied in the day to day practices of Commission officials preparing new initiatives and proposals or managing existing policies and legislation; and these are supported by an associated Better Regulation "Toolbox". The Commission's Impact Assessment Board, operating since 2006, will be transformed into an independent Regulatory Scrutiny Board, the members of which will have a more independent status and half of whom will be recruited from outside the Commission, charged with an expanded role in checking the quality of impact assessments of new proposals as well as fitness checks and evaluations of existing legislation.

Over time, even well-designed legislation may become out of date, more burdensome than it needs to be, or cease to achieve its objectives; and since the EU is judged not just on new political initiatives but also on the benefits and the burden of existing EU legislation, actively managing existing EU legislation is just as important politically as preparing new initiatives. The Regulatory Fitness and Performance Programme (REFIT) is the Commission's programme for ensuring that EU legislation remains fit for purpose and delivers the results intended by EU law makers – REFIT is not about deregulation but rather about regulating better. REFIT was launched in 2012, with progress being monitored using the REFIT scoreboard – the latest version of which is published alongside the Better Regulation package. The Commission intends to strengthen REFIT so as to achieve better, more tangible results, with REFIT being more targeted, quantitative, inclusive and embedded in political decision-making. In total, the REFIT scoreboard shows the state of play in implementing 164 initiatives for simplification and regulatory burden reduction identified by the Commission. In the area of Financial Stability, Financial Services and Capital Market Union, the scoreboard reports on legislative initiatives which include ELTIFs, UCITS, IPOs for SMEs, company accounts and IAS; and in the area of Taxation and Customs Union, which include CCCTB and VAT.

Alongside its Annual Report for 2014 which provides an overview of ESMA's achievements against its 2014 objectives, on 15 June 2015, ESMA published its Strategy for 2016-2020. As ESMA is moving from its formative years to the next phase, a strategic review was conducted to set the new direction and priorities of ESMA within this changing environment; and also taking into account various external evaluations. Under its new strategy, ESMA's focus will now shift from rulemaking towards the implementation of rules and ensuring the convergence of supervisory practices. ESMA also expects that new regulatory work may follow from current initiatives such as the CMU. In order to streamline its activities, ESMA's new strategy focuses on three key objectives: (i) investor protection: to have the needs of financial consumers better served and to reinforce their rights while acknowledging their responsibilities; (ii) orderly markets: to promote the integrity, transparency, efficiency, and well-functioning of the EU's financial markets and robust market infrastructures; and (iii) financial stability: to strengthen the financial system in order to withstand shocks. These three objectives will be achieved through four activities, which ESMA will focus on in the coming years: (a) assessing risks to investors and financial stability; (b) promoting supervisory convergence; (c) direct supervision of specific financial entities; and (d) completing a single rulebook for EU financial markets.

On the same day, the EBA published its 2014 Annual Report, which provides a detailed account of the Authority's work in the past year and anticipates the key areas of focus in the coming years. The EBA has an extensive schedule of work for 2015 to further promote and safeguard the integrity and stability of the EU banking sector. Among the areas of focus are risk-weighted assets, regulatory calibration on leverage and stable funding, and regulatory monitoring of own funds instruments. The EBA will finalise a number of regulatory products, including the deposit guarantee scheme and the establishment of resolution authorities. Regulatory developments will include a review of the overall prudential treatment of investment firms. The EBA will issue guidelines regarding shadow banking and develop draft RTS concerning consolidation of prudential regulation. In addition, the EBA will continue to focus on enhancing supervisory convergence, upgrading risk analysis tools and increasing the transparency of the EU banking sector. 2015 marks the first year of the BRRD implementation and will be a busy time for resolution and supervisory authorities and the EBA in its role in supporting the implementation of the new recovery and resolution framework in Europe.

On 22 June 2015, the Presidents of five European institutions (the European Council, the European Commission, the European Parliament, the Eurogroup and the ECB) published a report entitled *Completing Europe's Economic and Monetary Union*. This report, which was commissioned by leaders at the Euro Summit last October, lays out a roadmap for further integration of the euro area for presentation to political leaders in the European Council. The report outlines ways to reinforce the foundation of the euro area in two phases. In the coming months, it suggests a process of "integration by doing" to make euro area economies more resilient and to shore up the euro area as a whole, in particular by completing banking union. Looking further ahead, the report also calls for the start of a new convergence process for all euro-area Member States to achieve higher levels of resilience against shocks. In spring 2017, the European Commission will make specific proposals on how to pool sovereignty further.

Chapter 3 of the report is entitled *Towards Financial Union – Integrated Finance for an Integrated Economy*. This starts by explaining why there is an urgent need for a euro-area Financial Union. It notes that this goal has been largely achieved on bank supervision with the setting up of the SSM and that the SRM has also been agreed, but not yet fully implemented. To complete the Financial Union, however, it is stated that there is a need to launch both a common deposit insurance scheme and the CMU; and that, given their urgency, these measures should all be implemented in Stage 1 (1 July 2015 - 30 June 2017). The report goes on to explain the view that CMU applies to all 28 EU Member States, but is particularly relevant to the euro area. CMU will ensure more diversified sources of finance, strengthen cross-border risk-sharing through deepening integration of bond and equity markets, provide a buffer against systemic shocks in the financial sector and strengthen private sector risk-sharing across countries. However, as the closer integration of capital markets and gradual removal of remaining national barriers could create new risks to financial stability, there will be a need to expand and strengthen the available tools to manage financial players' systemic risks prudently (ie a macroprudential toolkit) and strengthen the supervisory framework to ensure the solidity of all financial actors. The report proposes that this should lead ultimately to a single European capital markets supervisor.

From 1 July 2015, Luxembourg holds the Presidency of the Council of the EU. The priorities of the Luxembourg Presidency for this second semester of 2015 are based on seven pillars: (i) stimulating investment to boost growth and employment; (ii) deepening the EU's social dimension; (iii) managing migration, combining freedom, justice and security; (iv) revitalising the single market by focusing on its digital dimension; (v) placing European competitiveness in a global and transparent framework; (vi) promoting sustainable development; and (vii) strengthening the EU's presence on the global stage. Under the first of these, the Luxembourg Presidency's priorities encompass the establishment of the Capital Markets Union (CMU) – including work on a legislative proposal to ensure transparent, simple and high-quality securitisation; and on the review of the Prospectus Directive requirements. Additionally, the Presidency sets out to complement the regulation of financial services by advancing negotiations on a range of issues, in particular with regard to the banking structural reform; and seeking to launch negotiations on a new legislative proposal regarding the resolution of market infrastructures.

Contact: David Hiscock
david.hiscock@icmagroup.org

Credit Rating Agencies

On 15 April 2015, ESMA published its latest set of semi-annual statistical data on the performance of credit ratings, including transition matrices and default rates: covering the period from 1 July to 31 December 2014, this data is available in the Central Rating Repository (CEREP). CEREP provides information on credit ratings issued by the CRAs which are either registered or certified in the EU; hence allowing investors to assess, on a single platform, the performance and reliability of credit ratings on different types of ratings, asset classes and geographical regions over a given time period. CEREP is updated on a twice-yearly basis with statistics covering the preceding six-month period. On 19 May 2015, ESMA also made available the rating information of HR Ratings de México, S.A. de C.V, in CEREP.

On 7 May 2015, the EBA launched a consultation (for comment by 7 August 2015) on draft ITS on the mapping of External Credit Assessment Institutions' (ECAIs) credit assessments for securitisation positions. These draft ITS specify the correspondence or "mapping" between credit ratings and credit quality steps that will determine the allocation of appropriate risk weights to credit ratings issued by ECAIs on securitisations, where the Standardised Approach or the Internal Ratings Based approach for securitisations are used for the purposes of calculating institutions' capital requirements; and will allow the credit ratings of all EU registered CRAs to be used. In the short-term, these draft ITS propose to maintain the current mapping in place for all ECAIs. Furthermore, these draft ITS include a proposal that the overall approach to the mapping of securitisation ratings be reviewed by 2018 and that the performance of issued securitisation ratings be constantly monitored in order to assess, at any time, the appropriateness of moving to use a specific mapping table.

On 7 May 2015, IOSCO published the Consultation Report (for comment by 8 July 2015) on *Sound Practices at Large Intermediaries: Alternatives to the Use of Credit Ratings to Assess Creditworthiness*, which proposes 13 sound practices for large market intermediary firms to consider in the implementation of their internal credit assessment policies and procedures. IOSCO believes that identifying sound practices regarding the suitable alternatives to credit ratings for assessing credit risk should reduce the potential over-reliance of large intermediaries on CRAs. In turn, this reduction would help increase investor protection, while contributing to market integrity and financial stability. To identify the sound practices, IOSCO conducted a study of large market intermediary firms to gain an understanding of their current practices for assessing credit risk without mechanistically relying on CRA ratings. IOSCO also convened two roundtable discussions with intermediary representatives which are summarized in an Annex to the report. Regulators could consider these sound practices as part of their oversight of market intermediaries.

On 8 June 2015, IOSCO published its Final Report on *Good Practices on Reducing Reliance on CRAs in Asset Management*, which provides a set of good practices for reducing over-reliance on external credit ratings in the asset management industry. The report stresses the importance of asset managers having the appropriate expertise and processes in place to assess and manage the credit risk associated with their investment decisions. To help managers avoid over-reliance on external ratings, the report lists eight good practices that they may consider when resorting to external ratings. The good practices address national regulators, investment managers, and investors, where applicable. To identify these sound practices, IOSCO drew on the feedback received from various stakeholders, including asset managers and their representative trade bodies, institutional investors and their associations, as well as CRAs.

On 23 June 2015, ESMA published the guidelines on periodic information to be submitted to ESMA by CRAs, in all EU languages. These guidelines apply to CRAs registered in the EU, and will become effective two months after their publication.

On 30 June 2015, IOSCO announced the approval of a project specification for its Committee 6 on CRAs, to gain a better understanding of the credit rating industry and in particular of certain other CRA products or services. Following an earlier questionnaire addressed to issuers of other CRA products and services (as reported in this section of Issue 37 of the ICMA Quarterly Report), Committee 6 is now asking users of other CRA products and services to answer a questionnaire. The information collected through this exercise will serve to inform discussions between Committee 6 members, issuers and users of other CRA products and other interested parties.

Contact: David Hiscock
david.hiscock@icmagroup.org

OTC (derivatives) regulatory developments

All trade repositories (TRs) started publishing aggregate data after February 2014. However, the overall aggregation of publicly available data across TRs remained problematic due to different data granularity, level of consistency, presentation structure and formats chosen by TRs. In order to foster market transparency, ESMA, which supervises the six European TRs, asked for the implementation of different measures to improve the quality, harmonisation and access to data aggregates. From April 2015, harmonised public data is available and updated weekly by all TRs. The information

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Suitable alternatives to credit ratings for assessing credit risk should reduce the potential over-reliance of large intermediaries on CRAs.

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CRR provides a transitional period during which higher requirements for non-qualifying CCPs will not be applied.

available includes: open positions, trades volume and values are broken down by derivative class, type, trade type (single-sided EEA, single-sided non EEA, or dual-sided) which enables to aggregate and compare data across TRs. Since February 2014, when derivatives reporting began in Europe, the six European TRs have received more than 16 billion submissions, with average weekly submissions of over 300 million.

On 11 May 2015, ESMA opened a consultation seeking stakeholders' views (by 15 July 2015) on proposed RTS on the clearing obligation under EMIR. This Consultation Paper provides explanations on the draft RTS establishing a clearing obligation on additional classes of OTC interest rate derivatives that were not included in the first RTS on the clearing obligation for interest rate swaps (which was reported on in Issue 37 of the ICMA Quarterly Report). The addition consists of the following classes: fixed-to-floating interest rate swaps denominated in CZK, DKK, HUF, NOK, SEK and PLN as well as forward rate agreements denominated in NOK, SEK and PLN. Following the consultation an applicable draft RTS will be submitted to the European Commission for endorsement in the form of Commission Regulations. In addition ESMA will consult the ESRB and, where relevant, the competent authorities of third-countries when developing the RTS.

Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (known as EMIR) was adopted in July 2012. In accordance with Article 85(1) of EMIR, the European Commission is required to prepare a general report on EMIR which shall be submitted to the European Parliament and the Council, together with any appropriate proposals. Accordingly, on 21 May 2015, the Commission launched a consultation, for comment by 13 August 2015, in order to obtain feedback from stakeholders on their experiences in the implementation of EMIR to date. In preparing its report, the Commission will take into account other identified issues, in particular from consideration of the findings of reports submitted by ESMA in accordance with Article 85(3) of EMIR.

On 21 May 2015, ESMA published an opinion on the composition of the CCP Colleges, to clarify which authorities qualify as a college member following the establishment of the SSM and to resulting voting rights. The opinion clarifies that, where the ECB has taken over the direct prudential supervision of any of the clearing members of the CCP that are established in the three Member States with the largest contributions to the default fund of the CCP, it should join the college pursuant to Article 18(2)(c) of EMIR.

The CRR introduced a capital requirement for the exposures of EU banks and their subsidiaries to a CCP, the size of which depends on whether a CCP is labelled as "qualifying" or not. In order for a CCP to be considered a "qualifying" CCP, it has to be either authorised (for those established in the EU) or recognised (for those established outside the EU) in accordance with EMIR. Since the process of authorisation and recognition takes time, the CRR provides a transitional period during which higher requirements for non-qualifying CCPs will not be applied. As this process remains incomplete and the previously agreed transitional period expired on 15 June 2015, on 4 June the European Commission adopted an Implementing Act which extended the transitional period until 15 December 2015.

On 5 June 2015, the European Commission adopted a Delegated Act in accordance with Article 85(2) of EMIR, extending transitional relief from central clearing requirements for Pension Scheme Arrangements until 16 August 2017.

On 10 June 2015, the ESAs launched a second consultation (for comment by 10 July 2015) on draft RTS outlining the framework of the EMIR. This consultation focuses only on a narrow set of topics as most of the decisions have already been agreed following the first consultation held in April 2014 (as reported in Issue 34 of the ICMA Quarterly Report). For those OTC derivative transactions that will not be subject to central clearing, these draft RTS prescribe the regulatory amount of initial and variation margin that counterparties should exchange as well as the methodologies for their calculations. In addition, these draft RTS outline the criteria for the eligible collateral and establish the criteria to ensure that such collateral is sufficiently diversified and not subject to wrong-way risk. Furthermore, following the amendments of the standards issued by the BCBS and the IOSCO, in March 2015 (as reported in Issue 37 of the ICMA Quarterly Report), these RTS include a revised phase-in for initial margin requirements and a new phase-in for variation margin.

With respect to the first Consultation Paper, the ESAs reviewed or clarified several aspects of the proposed rules, including (i) the exchange of margins with third countries entities and the treatment of non-financial counterparties; (ii) the treatment of covered bonds swaps; (iii) the timing of margin exchanges; (iv) concentration limits for sovereign debt securities; (v) the requirements on trading documentation; (vi) minimum credit quality of collateral; (vii) initial margin models; (viii) haircuts for FX mismatch; (ix) the treatment of cash collateral for initial margin; and (x) reviewed criteria on intragroup exemptions.

On 29 April 2015, ESMA announced its recognition of ten third-country CCPs established in Australia, Hong Kong, Japan and Singapore, allowing these third country CCPs, which are established in jurisdictions which have been assessed as equivalent by the European Commission with regard to their legal and supervisory arrangements for CCPs, to provide clearing services to clearing members or trading venues established in the EU. As a result, ESMA has published a list of the recognised third-country CCPs as well as the classes of financial instruments covered by the recognition. This list will be updated after each new decision on the recognition of third-country CCPs.

ESMA is also maintaining a list of CCPs in the EU that have been authorised to offer services and activities in the EU, in accordance with EMIR; and a related public register of cleared derivative classes. In addition, ESMA is publishing Questions & Answers regarding the implementation of EMIR, an updated version of which was made available on 27 April 2015.

On 3 June 2015, ESMA published an update of its list of authorised TRs which are authorised under the EMIR. This update concerned ICE Trade Vault Europe Ltd. which has extended its services to forex derivatives.

Contact: David Hiscock
david.hiscock@icmagroup.org

When adopted, the proposal will contribute to the accuracy and integrity of benchmarks used in financial instruments and financial contracts.

Financial benchmarks

A benchmark is an index or indicator calculated from a representative set of data or information that is used to price a financial instrument or financial contract, or to measure the performance of an investment fund: eg LIBOR and EURIBOR are both benchmarks for inter-bank interest rates. The European Commission first proposed a Regulation on benchmarks in September 2013 to improve the functioning and governance of benchmarks produced and used in the EU and to ensure they are not subject to manipulation.

The Commission intends that, when adopted, the proposal will contribute to the accuracy and integrity of benchmarks used in financial instruments and financial contracts by (i) ensuring that contributors to benchmark are subject to prior authorisation and on-going supervision depending on the type of benchmark (eg commodity or interest-rate benchmarks); (ii) improving their governance (eg management of conflicts of interest) and requiring greater transparency of how a benchmark is produced; and (iii) ensuring the appropriate supervision of critical benchmarks, such as EURIBOR/LIBOR, the failure of which might create risks for many market participants and even for the functioning and integrity of markets of financial stability.

On 19 May 2015, following debate in plenary, the European Parliament fully endorsed the Benchmarks Report (voted on by ECON on 31 March 2015, as reported in Issue 37 of the ICMA Quarterly Report) with a large majority, thus giving a strong European Parliament mandate to enter into trilogue discussions. With the European Council already having agreed its position in February 2015, the first political trilogue meeting was held on 2 June 2015. This identified a list of well over 30 political issues, with all other issues agreed to be technical. Ongoing working and trilogue meetings are under way to work through these issues in order to formulate an agreed Level 1 text.

Contact: David Hiscock
david.hiscock@icmagroup.org

Capital Market Initiatives

by Paul Richards

Fair and Effective Markets Review: implications for ICMA

Introduction

The Fair and Effective Markets Review (FEMR) was established by the Chancellor of the Exchequer and Governor of the Bank of England in June 2014 to help to restore trust in FICC markets. Its Final Report was published on 10 June 2015. In its Final Report, FEMR makes 21 recommendations to help restore trust in FICC markets, while also boosting their overall effectiveness. This note focuses on those conclusions in the Final Report which are directly relevant to ICMA.

FEMR is centred on four principles:

- First, individuals must be held to account for their own conduct.
- Second, firms must take greater collective responsibility for market practices.
- Third, regulators should close gaps in regulatory coverage and broaden the regime holding senior management to account.
- And fourth, given the global nature of FICC markets, coordinated international action should be taken wherever possible to improve fairness and effectiveness.

The Final Report concludes that it is now time for individuals and firms to step forward and play a central role in improving standards in FICC markets. If firms and their staff fail to take this opportunity, more restrictive regulation is inevitable. To ensure that momentum is maintained, the Review's Chairs – Minouche Shafik (Bank of England), Charles Roxburgh (HM Treasury) and Martin Wheatley (FCA) – will provide a full implementation report to the Chancellor and the Governor by June 2016.

FICC Market Standards Board

In particular, FEMR concludes that FICC markets require stronger collective processes for identifying and agreeing standards of good market practice, consistent with regulatory requirements, that respond more rapidly to new market structures and trading patterns, apply to both traditional and new market players, and are more effectively monitored and adhered to within (and between) firms.

The Final Report recommends the creation of a new FICC Market Standards Board (FMSB) with participation from a broad cross-section of firms and end-users and, involving regular dialogue with the public authorities, to address areas of uncertainty in trading practices and promote adherence to standards. The purpose of the FMSB is to:

- scan the horizon and report on emerging risks where market standards could be strengthened, ensuring a timely response to new trends and threats;
- address areas of uncertainty in specific trading practices, by producing guidelines, practical case studies and other materials depending on the regulatory status of each market;
- promote adherence to standards, including by sharing and promoting good practices on control and governance structures around FICC business lines; and
- contribute to international convergence of standards.

For the FMSB to be effective, FEMR concludes that a number of tests will need to be met:

- Membership will need to be drawn from across the full range of market participants and end-users, avoiding dominance by any one group.
- Members will need to have sufficient authority

to muster their institutions' endorsement of the FMSB's outputs.

- The FMSB will need to demonstrate high levels of expertise in relevant markets, both in its Board members and in its Secretariat.
- Although the FMSB will not be a regulatory body, it will need to stay in close two-way contact with the authorities, when drawing up its work programme and producing statements of market practice.
- Another important test will be whether effective mechanisms can be found to ensure market participants abide by the new body's market practice statements. FEMR concludes that, if firms and their staff fail to take the opportunity to clarify market practices in an effective way, more restrictive regulation is inevitable.

FEMR also recommends that proper market conduct should be managed in FICC markets through regulators and firms monitoring compliance with all standards, formal and voluntary, under the Senior Managers and Certification Regimes, elements of which will be extended to a wider range of regulated firms active in FICC markets. This is because one of the biggest challenges with securing adherence to market codes of best practice has been their lack of effective "teeth". That will change under the new Senior Managers and Certification Regimes, which will hold traders and other staff in covered institutions personally accountable for observing "proper standards of market conduct", which proposed FCA guidance indicates will tend to include compliance with relevant market codes.

ICMA understands that the FMSB will be a private company limited by guarantee, with senior market practitioners serving in a personal capacity, but not trade associations, on the Board. It will be a market body distinct from the Banking Standards Board, but may share offices.

International dimension

Given the global nature of FICC markets, some of the FEMR recommendations will require international discussion and coordination, including with the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO), which held its AGM in London in June. For example, FEMR encourages IOSCO to consider developing a set of common standards for trading practices that will apply across all FICC markets.

Education and training

FEMR also makes recommendations on raising standards, professionalism and accountability of individuals, through training and qualifications standards for FICC market personnel, with a requirement for continuing professional development. The FMSB will give guidance on expected minimum standards of training and qualifications for FICC market personnel in the UK, including the requirement for continuing professional development.

Implications for ICMA

ICMA welcomes the FEMR Final Report:

- *Engagement with FEMR:* ICMA responded to the FEMR consultation at the beginning of this year, and ICMA has held a series of meetings with members of the FEMR Secretariat, including discussions involving the FEMR Secretariat with a number of ICMA's Market Practice and Regulatory Policy Committees.
- *The FMSB:* ICMA plans to be as fully engaged as possible in the work of the FICC Market Standards Board (FMSB).
- *FCA Competition Review:* The FCA launched a Competition Review of investment and corporate banking in May. The FCA study will take a year to complete, and will require detailed information from market firms. Its terms of reference cover: transparency of the allocation process in debt and equity issues; the impact of syndication; bundling and cross-subsidisation; and barriers to entry. ICMA is in contact with the FCA on the Competition Review.
- *Open Forum:* The Bank of England will be holding an Open Forum on FEMR at the Bank this autumn. The Open Forum will provide an opportunity for a broad range of stakeholders to discuss the recommendations in the FEMR Final Report, and the role they can play as part of building the reform programme. ICMA has asked to be involved in the Open Forum.
- *Education and training:* The FEMR conclusions on education and training represent a significant opportunity for ICMA's educational offering.

Contact: Paul Richards
paul.richards@icmagroup.org

Capital Markets Union: summary of ICMA recommendations

In its response on 30 April 2015 to the European Commission Green Paper on *Building a Capital Markets Union,* ICMA made 25 main recommendations, which are summarised below:

ELTIFs

1 The European Commission should examine the obstacles to loan funds to determine whether they can best be addressed at national level by Member States, or whether the Commission needs to introduce a 29th regime. In addition to ELTIFs, this recommendation also applies to private placements and investment in longer-term projects.

Private placements

2 The Commission should consider revising the final calibrations for insurers of the spread risk capital weightings in the Solvency II Delegated Act to contribute to a level playing field for investment in European private placements by institutional investors.

3 The Commission should promote the availability of credit and scoring information, not only for SMEs, but also for suitably defined and identified medium-sized companies.

4 In order to avoid disincentives for institutional investors to invest in the pan-European private placement market, the European Commission should not exclude the use of suitable existing European guarantee or risk-sharing mechanisms (such as the EIB Group - EC SME initiative, and the European Commission/EIB European Fund for Strategic Investment).

Standardisation in corporate bond markets

5 Some investors support standardisation in the belief that it can help secondary bond market liquidity. However, for corporate borrowers in the bond markets, standardisation is not desirable for a number of reasons. Borrowers need to be able to choose maturities and coupon structures to match their cash-flows. While very frequent large borrowers may in principle be qualified to issue on a standard schedule, applying a broad-brush approach to all borrowers would disadvantage smaller borrowers with their own particular funding habits. Borrowers would seek compensation for any loss of flexibility.

Green bonds

6 The self-regulatory approach represented by the Green Bond Principles is preferable to any regulatory norm or label.

Diversifying the supply of funding

7 In addition to revising the final calibrations for insurers of the spread risk capital weightings in the Solvency II Delegated Act, the Commission should examine and encourage the removal of national barriers which discriminate against capital market investors, such as withholding tax on loans or private placements.

Infrastructure investment

8 There is a strong case for the creation of a sub-asset class for infrastructure investments which should benefit from recalibrated capital requirements to reflect that these assets are held to maturity and their low loss-given default.

9 An up-to-date transparent pipeline of information on infrastructure projects on a national basis would highlight investment potential. Efforts to create an up-to-date credible and transparent pipeline in the form of a European Investment Project Portal, and the potential creation of a comprehensive technical assistance programme to channel investments where they are most needed under the coordination of a European Investment Advisory Hub, are both welcome.

10 Investors' concerns over the regulatory risk associated with project revenues need to be addressed by a transparent and consistent approach by the authorities.

11 A review of national procurement practices – in particular, with respect to value for money and deliverability of funding – could help to establish a level playing field between bank financing and bond financing options. In furtherance of this goal, AFME/ICMA have produced a *Guide to Infrastructure Financing.*

12 An expansion of the EIB Project Bond Credit Enhancement Programme would act as a catalyst for investors, mindful of the balance to be struck between encouraging demand and "crowding out" potential investors who want the additional yield on an un-enhanced product.

13 Public sector usage and demand guarantees would help to ensure fair risk-sharing for investors.

Boosting retail investment

14 The Commission should minimise unnecessary regulatory disincentives to retail investment by focusing on pan-EU securities regulation (eg MiFID, MAD, TD, PD, UCITs and PRIIPs) as a whole, and without disrupting wholesale markets for borrowers and institutional investors. ICMA's response to the Prospectus Directive Consultation Paper addresses this issue in more detail.

Attracting international investment

15 Consistent with the Commission's Better Regulation agenda, the Commission should review existing EU legislation affecting capital markets to ensure that capital market participants are not prevented by inconsistencies in EU legislation, or its unintended consequences, from doing so.

Powers of the ESAs

16 The Commission should ensure consistent supervision within the existing framework. A resolution is needed to the debate about how the ESAs are funded. It makes sense for the ESAs to be able to play a fuller role in the formulation of new Level 1 EU legislation. This would help ensure that the requirements for Level 2 work are fully understood and that there is an adequate amount of time for their orderly adoption; and more can be done to help improve the consistency of supervision.

Improving the cross-border flow of collateral

17 ICMA's reports on the cross-border flow of collateral have demonstrated the importance of collateral fluidity. If collateral fluidity is inhibited, this poses a risk to the overall functioning of capital markets, with serious repercussions throughout the whole economy. As an important building block on which to base Capital Markets Union, some work is needed to identify and address problems, taking particular account of the cumulative effect of EU regulations.

18 The Triparty Settlement Interoperability project remains important and needs to be driven to conclusion, along with essential inter-related work necessary to upgrade the settlement bridge between Clearstream S.A. and Euroclear Bank; and other COGESI-led work is also important to the improvement of the euro-area collateral market.

19 The tracking of collateral in securities financing transactions is not feasible. It is unclear why attempting to track re-use is really necessary and what benefits this would bring.

20 Mandatory buy-ins, as required by CSDR, are a particular concern, as they will have the effect of significantly reducing liquidity across secondary European bond and securities financing markets, while bid-offer spreads will widen dramatically. They should be deferred at least until after T2S is fully implemented, and their application should be recalibrated.

Taxation barriers

21 The two taxation barriers identified by the Giovannini Group – barrier 11 relating to domestic withholding tax regulations and barrier 12 relating to the collection of transaction taxes through a functionality integrated into a local settlement system – still need to be addressed fully.

22 The effect of implementing a Financial Transaction Tax would clearly run directly counter to the objectives of Capital Markets Union.

23 A different tax matter flagged by the Commission is the "tax bias in favour of debt in corporate taxation". This is not a European phenomenon. The IMF has considered the question of what can be done to mitigate any debt bias in the tax code.

24 The authorities should continue to progress the OECD's Base Erosion and Profit Shifting initiative in close coordination with industry to avoid unnecessary adverse consequences, counter to the objectives of Capital Markets Union.

Market development of new technologies and business models

25 New technologies and business models will continue to develop and evolve in the European fixed income space. Some will survive, while others will fall by the wayside. Those that do succeed will be the ones with superior execution and that provide solutions to support connectivity, promoting the sourcing of liquidity between buyers and sellers or enhanced intermediation. However, given the structure of corporate bond markets, this will never be enough to provide true liquidity in the sense of an executable price at any time. If this is the goal of Capital Markets Union, then regulation to support market-making will need to be a key consideration. This will include closer attention to pre- and post-trade transparency requirements, a review of mandatory buy-in regulation, and possibly the provision of capital relief for market-makers.

Contact: Paul Richards
paul.richards@icmagroup.org

Short-Term Markets

by David Hiscock and Andy Hill

European repo market: SFTR

As reported in this section of Issue 37 of the ICMA Quarterly Report, on 21 January 2014, the Commission's original proposal for an EU Regulation of Securities Financing Transactions (SFTR) was published and, following due consideration, the *rapporteur's* EP SFTR report was published on 8 April 2015. An indicative date of 6 October 2015 has now been set for European Parliament plenary debate and approval.

With the European Council's SFTR General Approach already having been agreed in November 2014, a first trilogue meeting was held, on 28 April 2015, between the European Commission, Parliament and Council. As expected these discussions then progressed quite rapidly until, on 17 June 2015, the European Commission issued a press release welcoming political agreement on its SFTR proposal; and each of the Parliament and the Council also issued their own press releases on the agreement. Subsequently, on 29 June, the Permanent Representatives Committee endorsed this agreement on behalf of the Council. Once finalised in all languages, the SFTR will be submitted to the European Parliament for approval at first reading, and to the Council for adoption.

ICMA will continue to work on the details of this file in close cooperation with ISLA. Also, ICMA is already turning its attention to the next phase of the legislative process, which will involve ESMA preparing proposals for associated technical standards.

In summary, the SFTR contains three measures intended to improve the transparency of SFTs. First, all SFTs, except those concluded with central banks, will be reported to central databases (ie trade repositories), similar to the reporting of derivatives introduced under EMIR. Second, information on the use of SFTs by investment funds will be disclosed to investors in the regular reports and pre-investment documents of funds. And finally, transparency requirements, in the form of disclosure of risks, will apply to the permitted reuse of collateral.

Contact: David Hiscock
david.hiscock@icmagroup.org

European repo market: mandatory buy-ins under CSDR

In June, ESMA was expected to submit the revised draft of the regulatory technical standards (RTS) at Level 2 of the CSD Regulation to the European Commission. Of particular concern to many of ICMA's members is the provision in the Regulation introducing a mandatory buy-in regime for transactions that do not settle in a timely manner, and which will bring into scope the near-leg of many term repos. An ICMA impact study, published earlier this year, illustrates the detrimental impact for both bond and repo market liquidity and pricing of a mandatory buy-in regime.

On 18 June 2015, ESMA wrote to the Commission confirming a delay in the submission of the draft RTS due to an early legal review process for the draft RTS.

On 30 June 2015, ESMA published a Consultation Paper on the RTS of the CSDR related to the operation of the buy-in process. This focuses specifically on the buy-in process, and invites respondents to consider three main options put forward by ESMA.

More details on the new Consultation Paper, ICMA's previous response and position on mandatory buy-ins, as well as the delay in submitting the draft RTS, can be found in the Secondary Markets section of this Quarterly Report.

Contact: Andy Hill
andy.hill@icmagroup.org

Bank resolution stays to apply to GMRA transactions

by Lisa Cleary and Leland Goss

The Bank Recovery and Resolution Directive (BRRD) aims to provide a harmonised framework for the orderly resolution of banks and investment firms in EU Member States. Being a Directive, the BRRD requires national implementation and its transposition is under way throughout the EEA. Amongst other things, the BRRD enables resolution authorities to temporarily suspend termination rights, imposing stays which would override certain provisions of relevant financial contracts, including the GMRA (as set out below). This allows the resolution authorities a pause to assess the entity in resolution and apply relevant resolution tools, including the transfer of contracts to a solvent transferee. As implementation progresses across the 28 EU Member States, it is important that the industry be alert to any unintended consequences arising out of transposition – in particular ensuring that the safeguards afforded to netting arrangements are replicated. Ensuring that the accompanying RTS contains the same is equally important. Issues have already arisen in Germany and Austria. (For further information see the ICMA GMRA legal opinions and/or contact the ICMA Legal and Regulatory Helpdesk).

In the last edition of this Quarterly Report, we reported on the regulatory request for contractual recognition of resolution stays with respect to securities financing transactions (SFTs) including repurchase transactions under the GMRA. Earlier this year, the regulators determined that the ISDA Resolution Stay Protocol should be extended to cover repo and stock lending agreements. This will also be supported by regulations in the six home authority jurisdictions – France, Germany, Japan, Switzerland, the UK and the US – requiring that where a regulated entity enters into a qualifying financial contract, under a governing law other than that of the home authority, they should provide for contractual recognition of the home authority's resolution regime, including its resolution stays. These regulations will apply to not only banks but to regulated financial firms – including the buy side.

ICMA has been working alongside ISDA, ISLA and SIFMA in response to the regulators' direction to prepare an Annex to the ISDA Protocol for SFTs by November of 2015 that can be adhered to by both banks and buy-side firms. A joint ICMA/ISLA/SIFMA working group that includes their sell-side and buy-side members is meeting regularly to deliver this work and we will continue to update the ICMA membership on developments.

Contacts: Leland Goss and Lisa Cleary
leland.goss@icmagroup.org
lisa.cleary@icmagroup.org

European repo market study

In May 2015, the ICMA European Repo Committee announced the launch of a new study into the current state and future evolution of the European repo market. This study follows the publication of the 2014 ICMA report, *The Current State and Future Evolution of the European Investment Grade Corporate Bond Secondary Market: Perspectives from the Market.* This report has been instrumental in highlighting issues related to worsening liquidity conditions in the European corporate bond markets and in engaging market providers and users, as well as the regulatory community, in discussing the related impacts and possible solutions. Similarly, this new study is expected to advance the discourse around repo market efficiency and liquidity, particularly as the market landscape is transformed by various regulatory, monetary, and structural forces.

The study will be largely qualitative and based on semi-structured interviews with a broad range of repo market providers and users, as well as infrastructure providers. This will include sell-side repo desks, buy-side firms (leveraged and real money), inter-dealer brokers and electronic trading platforms, triparty agents, CCPs, central banks, and debt management offices. Any members who are engaged in the European repo market, in any capacity, and who wish to participate in the study, should contact Andy Hill at ICMA. The final report of the study is projected to be published in October.

Contact: Andy Hill
andy.hill@icmagroup.org

ECP market

MMFs

On 29 April 2015, the European Parliament agreed on its text for the proposed EU MMF Regulation. This includes the following specific element pertinent to ABCP:

"Article 10
Eligible securitisations

1. A securitisation shall be eligible provided that all of the following conditions are met:

(a) the underlying exposure or pool of exposures consists exclusively of eligible debt and is sufficiently diversified;

(b) the underlying eligible debt is of high credit quality and liquid;

(c) the underlying eligible debt has a legal maturity at issuance of 397 days or less; or has a residual maturity of 397 days or less.

1a. High quality liquid asset backed securities referred to in Article 2 (7) (a) shall be considered to be eligible securitisations.

1b. Asset Backed Commercial Papers shall be considered to be eligible securitsations provided that they are liquid as referred to in Regulation (EU) No 575/2013 and that the underlying exposures are of high credit quality.

2. The Commission shall, by [6 months following publication of this Regulation] adopt delegated acts in accordance with Article 44 concerning the specification of the criteria for identifying simple, transparent and standardised securitisation with regard to each of the following aspects:

(a) the conditions and circumstances under which the underlying exposure or pool of exposures is considered to exclusively consist of eligible debt and whether it is considered to be sufficiently diversified;

(b) conditions and numerical thresholds determining when the underlying debt is of high credit quality and liquid;

(ba) the transparency requirements of the securitisation and its underlying assets.

In doing so, the Commission shall ensure consistency with the delegated acts adopted under Article 460 of Regulation (EU) No 575/2013 and Article 135(2) of Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), and shall take into account the specific characteristics of securitisations with maturities at issuance of less than 397 days.

In addition, the Commission shall by [6 months following publication of this Regulation] adopt delegated acts specifying the criteria for identifying debt of high credit quality and liquid asset backed commercial papers with regard to paragraph 1a. In doing so, the Commission shall ensure consistency with and support the respective work streams of EBA."

There are also two recitals which specifically relate to this, namely recitals (23) and (23a).

For the time being it remains to be seen what proposed language will be agreed within the European Council and once that is done, which may not be until 2016, there will then be some further changes in order to complete a trilogue negotiation between the European Parliament, Council and Commission. The outcome of this trilogue process will then become the actual Level 1 text of the EU MMF Regulation. So for the time being it remains unclear exactly what constraint will be imposed on the power of MMFs to invest in ABCP, yet it can be hoped that this will be somewhat better than the original, 4 September 2013, European Commission proposal.

ABCP

On 12 May 2015, the Joint Committee of the three ESAs published a report detailing its findings and recommendations regarding the disclosure requirements and obligations relating to due diligence, supervisory reporting and retention rules in existing EU law on Structured Finance Instruments (SFIs). In this report, the Joint Committee makes a series of recommendations which should be considered in light of further work on the transparency requirements of SFIs, and the European Commission public consultation on securitisation (which is reported on in the next paragraph). The report states that these recommendations should not be introduced in isolation and should take into account the already existing requirements for disclosure, due diligence and reporting for comparable instruments.

ICMA, expressing its support for detailed views submitted by AFME, responded, on 13 May 2015, to the European Commission's Consultation Document on an *EU Framework for Simple, Transparent and Standardised Securitisation*. As reported in this section of Issue 37 of the ICMA Quarterly Report, Question 2 is the one specific question in this consultation which is important from the perspective of ABCP. AFME also commented on "Short term securitisation instruments" at point 2 amongst the "Over-arching Comments" made in their associated *Executive Summary*.

On 26 June 2015, the EBA presented its recommendations on an EU framework for qualifying securitisations, at a public hearing held in London; and the EBA will deliver its opinion on this matter to the European Commission in early July. (ICMA's response to the EBA's *Discussion Paper on Simple, Standard and Transparent [SST] Securitisations* was discussed in this section of Issue 37 of the ICMA Quarterly Report). The EBA advice on securitisation defines a series of criteria to identify simple standard and transparent term securitisation and ABCP transactions (as had been called for by ICMA). One of the salient points is that capital charges foreseen by the 2014 Basel securitisation framework can be lowered for qualifying securitisations to reflect their relative lower riskiness. The EBA opinion specifies the conditions under which transactions could qualify for a differentiated treatment within this new international framework. The EBA explained that a qualifying securitisation framework in the EU should drive the development of a securitisation market that is sustainable and provides both issuers and investors with a more risk-sensitive regulatory treatment.

Contact: David Hiscock
david.hiscock@icmagroup.org


Primary Markets

by Ruari Ewing and Charlotte Bellamy

Prospectus Directive

As reported in the previous edition of this Quarterly Report, the European Commission launched a consultation on the next review of the Prospectus Directive (PD) in February 2015, to which ICMA responded on 1 May 2015. The ICMA response answered the multiple choice questions on the European Commission consultation website and made some additional suggestions in a separate letter. (ICMA consolidated the answers to the survey and the separate letter into one document, for ease of review). ICMA also supported a Joint Associations Committee on Retail Structured Products (JAC) response questionnaire and response letter, which took the same approach as ICMA on many of the questions in the consultation questionnaire, and also raised some specific points related to the retail structured product market.

Generally, it is hoped that the Commission will take the opportunity that Capital Markets Union (CMU) presents to consider the PD Review in a holistic manner, in order to achieve a coherent and consistent framework that balances investor protection and regulatory burdens on issuers. While the PD has been identified as a priority for early action under CMU, it is unlikely that significant improvements can be made by amending the PD in isolation. Rather, policy makers should identify the measures that will need to be taken to achieve the objectives of CMU using the various regulatory tools at their disposal.

Some of the main objectives of CMU appear to be the promotion of growth in economies, the creation of employment and adjustment of the balance of funding of the real economy away from bank lending towards capital markets. The means to achieve these purposes include: (i) reducing costs of capital market issuance for issuers, both to make capital markets more competitive with bank lending and to provide issuers with cheaper funds; and (ii) increasing demand, by expanding the investor base in corporate bonds to include (for example) retail investors. This second point aligns with recent statements by Commissioner Hill that EU households are the main source for the long-term funding of the European economy, which is why savers and individual investors should be placed at the heart of the CMU initiative.

Some progress towards the CMU objectives could be made through changes to the PD, as discussed in the full ICMA response and briefly below. However, in terms of expanding the investor base in corporate bonds to include retail investors, regulators should consider how this can be achieved while ensuring a sufficient level of retail investor protection. In this regard, the PD is only one of a number of possible regulatory tools. Other tools such as MiFID intermediation should also be considered.

In light of evidence which suggests that disclosure is ineffective in the hands of retail investors, because they either do not read long-form disclosure or misunderstand short-form disclosure, the retail disclosure regime under the PD is unlikely to be an effective tool for retail investor protection. It therefore introduces cost to issuers without benefit to investors. Removing the retail disclosure regime under the PD

The current review of the PD could focus on a set of smaller, self-contained changes to the PD now, but leave the door open for a more fundamental and coordinated review later in the CMU project.

and the corresponding distinction between bonds with a denomination of more or less than €100,000 for disclosure purposes should have no impact on retail investor protection, which should be addressed instead by ensuring that sales are made through properly supervised MiFID financial intermediaries. Not only will this represent more effective retail investor protection, it will also result in a reduction in costs for issuers and more bonds being issued with low denominations, which will benefit both institutional and retail investors.

Removing the retail disclosure regime would entail an acknowledgement that prospectuses are not documents intended for retail investors to read. Rather prospectuses would become a document to be read and used by financial intermediaries, who would then advise their retail clients under the MiFID suitability and appropriateness regimes.

While such an approach could have a significant beneficial effect in terms of boosting retail markets, it would require careful consideration of the interaction of different pieces of legislation (notably the PD and MIFID) and so may not be viewed as feasible for a short-term review of the PD. However, that should not mean that this proposal (or other more fundamental proposals in relation to the PD) is discarded. Rather, the current review of the PD could focus on a set of smaller, self-contained changes to the PD now, but leave the door open for a more fundamental and coordinated review later in the CMU project.

Another change that could be made in this further, more fundamental review of the PD is to consider whether a provision should be introduced to override existing conflicts of laws arrangements in relation to prospectus liability, in order to ensure that issuers do not face litigation in multiple jurisdictions and under different laws.

Examples of smaller, "self-contained" changes that could be made in this review of the PD are:

- a re-interpretation of the test for what a prospectus needs to include to focus only on information that may affect the issuer's ability to fulfil its obligations under the bond, with the aim of allowing issuers to prepare more streamlined and focused prospectuses;
- a liberalisation of the incorporation by reference rules to allow incorporation by reference of specified future information (eg future financial information), which would reduce the need for a supplement to be prepared when such future information is published;
- removing the need for a prospectus for secondary market non-exempt offers, on the basis that the ongoing disclosure regimes under the MAD and the TD provide the necessary information to secondary market purchasers; and
- reviewing the prescribed format summary requirements, which have resulted in summaries that are difficult to understand, particularly in a base prospectus context.

It is also hoped that certain of the proposals put forward in the European Commission's Consultation Document which appear to be contrary to the aims of CMU will not be taken forward. These include the extension of the scope of the PD to admission to trading on MTFs (which would remove a valuable source of flexibility for issuers) and the imposition of an arbitrary maximum length cap on prospectuses (which could result in significant liability concerns for issuers).

Finally, an overriding point to bear in mind in any consideration of changes to the PD is the importance of protecting the existing, efficient wholesale debt market in Europe. Applying changes to the PD to encourage SME and/or retail access to capital markets should be done in a way which avoids any adverse effect on the functioning of the wholesale market.

Contact: Charlotte Bellamy
charlotte.bellamy@icmagroup.org

UK FCA investment and corporate banking market study

The Terms of Reference (ToR) for a UK FCA investment and corporate banking market study were published on 22 May 2015. This follows the FCA's Wholesale Competition Review call for inputs in July 2014 (to which ICMA filed a response in October 2014) and consequent feedback statement in February 2015 (see further coverage in the Fourth Quarter 2014 edition and Second Quarter 2015 edition of this Quarterly Report) and related feedback from roundtables. The UK Fair and Effective Markets Review's Final Report (see further in the Capital Market Initiatives section of this Quarterly Report) has also since concluded that bundling and cross-subsidisation and the transparency of the corporate bond allocation process will be assessed as part of the FCA's market study.

In terms of process, the FCA intends to engage stakeholders (notably including issuers as well as investors) during its study and, though not formally consulting on the ToR, welcomed any inputs by 22 June. Hopefully Eurobond issuers (who have been less vocal historically on new issue processes than investors) will continue to engage with the FCA in this respect, with ICMA's support. An FCA interim report is expected around year-end 2015 and a final report is expected in spring 2016.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

Other primary market developments

FCA CoCo rules: The FCA has published its Policy Statement containing the final permanent marketing restriction (PMR) relating to CoCos. ICMA is working with the ICMA Legal & Documentation Committee and ICMA PDCM Compliance Working Group to discuss the practical implications of the final PMR.

Omnibus II Directive RTS: ESMA has submitted a Final Report containing draft RTS on prospectus-related issues under the Omnibus II Directive to the Commission. The draft RTS relate to the Prospectus Directive approval, publication and advertisement regimes, and follow an ESMA consultation to which ICMA responded in December 2014 (as reported in the First Quarter 2015 edition of the ICMA Quarterly Report). Helpfully, the concerning proposals relating to incorporation by reference that were included in the Consultation Paper have been removed from the final draft RTS. The Commission has three months to decide whether to endorse ESMA's draft RTS.

MiFID II complex / non-complex instruments: On 15 June 2015, ICMA filed a response to an ESMA Consultation Paper on draft guidelines on complex debt instruments and structured deposits. The response highlighted notably that complexity for MiFID's narrow purpose (availability of execution-only) should not be taken to equate either to toxicity or to a universal definition of complexity.

ICMA also supported a Joint Associations Committee (JAC) 15 June response on retail structured products (RSP) in further depth from the RSP angle. Distinctly, ICMA also supported a 1 June JAC response to JAC response to the UK FCA's consultation TR15/2 (*Structured Products: Thematic Review of Product Development and Governance*). The response focused on the recognition of the requirement for tailored solutions, coordination with global regulators, identifying the target market, proportionality and the read-across to other products.

PRIIPs: The Joint Committee of the ESAs (EBA, EIOPA and ESMA) published a Technical Discussion Paper on risk, performance scenarios and cost disclosures for KIDs for PRIIPs on 23 June 2015, with a deadline for comment of 17 August. ICMA will be considering carefully what feedback would be relevant, bearing in mind historic ICMA concerns (outlined in various prior editions of this Quarterly Report) around the residual ambiguity of the purpose (and related liability) of the PRIIPs key information document (KID) and around the mandatory use of simplistic and potentially confusing synthetic risk indicators.

Contacts: Ruari Ewing and Charlotte Bellamy
ruari.ewing@icmagroup.org
charlotte.bellamy@icmagroup.org

Secondary Markets


by Andy Hill and
Elizabeth Callaghan

Secondary markets: MiFID II Level 2

Background

MiFID II plans to extend much of the equity transparency requirement in MiFID I to fixed income instruments. Often, this is referred to as the "equitisation" of the fixed income markets. This means potentially pre-trade transparency with firm executable prices advertised to the whole market and post-trade disclosure transparency of details such as price, volume and time of trade. However, fixed income and equities are not the same. In fixed income markets, transparency does not equal liquidity.

One of the major aims of ICMA is to facilitate rules governing market practice for the "orderly functioning of the markets". In December 2014 and with orderly functioning of the markets in mind, ICMA put together a technical working group (made up of heads of fixed income dealing desks on the buy side (ie asset managers) and heads of fixed income trading desks on the sell side (ie investment banks and brokers) to respond to the second MiFID II Consultation Paper (CP). The working group members included GAM, Goldman Sachs International, HSBC Bank, Nomura International, Nordea Investment Management, Société Générale and Tradition (UK). ICMA's CP response was submitted on 2 March 2015 and focused on transparency, as it relates to liquidity in fixed income markets.

Bonds are quite complex, made up of moving parts such as maturity dates, coupons, multiple currencies and cyclicality. Much of ESMA's CP proposal needs considerable refinement in order to become "fit for purpose" in serving the needs of all market participants in the international bond markets. ICMA considers that the only way to truly calibrate liquidity is daily (trading) behaviour. Any other methodology will generate a high proportion of "false positives" (bonds advertised as liquid when in fact they are illiquid), also referred to as "false liquidity". This is why ICMA concentrated on liquidity-related matters in responding to the ESMA CP.

Our understanding of the position on liquidity is as follows:

Liquidity determination: pre-trade transparency

The ICMA CP response was two pronged. First, in order to make the bond classification sensitive enough, ICMA's preferred "hybrid" liquidity determination mechanism combined an instrument by instrument (IBIA) approach along with a granular class of financial instrument (COFIA) approach. This allowed detailed calculation that took into account daily average spreads along with: Issuance size, credit rating, currency, time since issuance, time to maturity and bond coupon characteristics.

The reserve solution ICMA presented was based on a pure COFIA methodology but with a tiered size specific to the instrument (SSTI) and large-in-scale (LIS) thresholds, significantly reduced from ESMA's proposed thresholds. This reserve solution was based on the knowledge that ESMA was ideally looking for COFIA methodology and a liquidity determination model that was easy to monitor.

Market participants are very concerned that the liquidity calibration may not be calibrated correctly. If ESMA has chosen a COFIA-only liquidity determination model over IBIA but with an increased issuance size (ie no hybrid solution), the increased issuance size, if true, may reduce false liquidity but it will not eliminate it. ICMA still believes that the best approach would be the hybrid approach set out in its response to the ESMA CP. This represents a compromise between ease of monitoring under COFIA and more accurate market methodology under IBIA. ICMA awaits formal notification from ESMA as to the way forward for cash bond liquidity.

Liquidity determination: post-trade transparency

Deferral regime: ICMA suggested the proposed ESMA deferral period of 48 hours in fixed income should be shorter than the maximum deferral period available under MiFID I for equities. It seems to be restrictive for very large or illiquid bond trades, though this restriction may be compensated by effective and consistent operation of the extended deferral regime. ICMA proposed two days instead of "up to 48 hours", as stated in the ESMA CP.

Supplementary deferral regime: ESMA proposed four weeks. ICMA argued strongly that this was too short a time frame. In order to hedge a tricky large illiquid trade, banks often need longer than four weeks. 12 weeks or longer is recommended by ICMA. Otherwise, the resulting market impact on pricing is a disincentive to market makers.

ICMA awaits formal notification from ESMA as to the way forward for post-trade transparency obligations.

Package transactions

Package transactions were not included in the MiFID II CP. ICMA considered this to be an oversight by ESMA. In its reponse to the CP, ICMA therefore proposed that package transactions should be inserted, as "packages" assist end-users to reduce transaction costs and mitigate execution risk. ICMA further went on to suggest:

- Packages should be considered illiquid if liquid and illiquid components are both included in the same package.
- Packages should also be considered illiquid if any components in the package transaction are above LIS/SSTI thresholds.
- MiFID II pre- and post-trade transparency waivers and deferrals should be applied in equal measure to package transactions.

It is possible that package transactions are now instruments with transparency obligations, and that packages are not being treated in equal measure as far as pre- and post-trade transparency waivers and deferrals are concerned. ICMA awaits formal notification from ESMA as to the way forward for package transaction transparency obligations.

Temporary suspension of transparency obligations

ICMA proposed that there is a need for a mechanism that allows a suspension of transparency obligations to come into effect immediately when an instrument or a group of instruments is inaccurately classified as liquid when in fact it is illiquid. Under the COFIA classification, it would be necessary for the whole EU market in a class to collapse before a temporary suspension came into effect. This mechanism was deemed inappropriate by ICMA, as it is not dynamic and market responsive.

At the Conference after the ICMA AGM in Amsterdam in early June, Steven Majoor, Chairman of ESMA stated: "We have already said many times to the public that we need to have more flexible instruments to react to market developments... Indeed, when liquidity dries up, you would like to intervene quickly. We have been very vocal with the co-legislators to try to find a solution where we can react more quickly."

Next steps for MiFID II

September 2015: Final ESMA regulatory technical standards (RTS) to be submitted to the Commission.

December 2015: Final implementing technical standards (ITS) and Guidelines to be submitted to the European Commission.

January 2017: MiFID II applies in practice.

Contact: Elizabeth Callaghan
elizabeth.callaghan@icmagroup.org

Mapping fixed income electronic trading

One of the by-products of regulation is an increase in the use of electronic trading platforms (ETPs). This is due to the regulatory obligation to evidence best execution and meet transparency obligations, but more importantly the need to source and optimise liquidity. The fixed income landscape is currently very fragmented. The reduction in balance sheet due to Basel III combined with investors' reluctance to trade has led to a diffusion of liquidity across platforms. It is too expensive for individual trading venues to absorb large trades. This is particularly the case in corporate bonds where it is often heard that liquidity is "a mile wide and an inch deep". Sourcing and aggregating liquidity is paramount for sell-side traders and buy-side dealers. Technology is the only way to enable these participants to uncover the little liquidity that is available.

However, the question often asked is: will electronic trading "create" liquidity in the immediate future? The answer is: no, it cannot. Technology will increase the capabilities of market participants but it will not "create" liquidity. It will, however, create a platform for innovation and this could in the coming years create alternative sources of liquidity.

Understanding the capabilities of electronic trading platforms is the first step to understanding the direction of travel of the evolving market structure in fixed income secondary markets. ICMA is undertaking a capabilities mapping initiative to better understand and document the unique selling points of the ETPs. Once documented, ICMA's website will offer a centralised point to research the electronic trading skills available in the market. From this starting point, ICMA plans to work with members to create bond trading best practices and chart a way forward and through the emerging electronic landscape.

Contact: Elizabeth Callaghan
elizabeth.callaghan@icmagroup.org

Secondary markets: mandatory buy-ins under CSDR

A new ESMA Consultation Paper on mandatory buy-ins

On 30 June 2015, ESMA published a Consultation Paper on the regulatory technical standards (RTS) of the CSD Regulation related to the operation of the buy-in process. This follows the broader CSDR Level 2 Consultation Paper published in December 2014, responses for which were submitted by February 2015. In the subsequent months it became clear that ESMA was struggling with much of the RTS relating to mandatory buy-ins, which is not only the most contentious piece of the overall Regulation, but which also presents a number of challenges from an implementation perspective, largely due to inherent flaws in the wording of the Level 1 text.

> The principal outcome of mandatory buy-ins will be a significant widening of bond market spreads and a marked retrenchment in offer-side liquidity.

Background

In June, ESMA was expected to submit the revised draft of the RTS (at Level 2) of the CSDR to the European Commission. Of particular concern to many of ICMA's members is the provision in the Regulation introducing a mandatory buy-in regime for transactions that do not settle in a timely manner. An ICMA impact study, published earlier this year, illustrates that the principal outcome of mandatory buy-ins will be a significant widening of bond market spreads, across all asset classes, and a marked retrenchment in offer-side liquidity, particularly for corporate bonds. Further concerns have been raised with regards to the ability for capital markets to cope with the sheer volume of buy-ins that a mandatory regime would engender.

During the original consultation stage, ICMA and others had advocated a number of changes to the original draft RTS in an attempt to mitigate some of the more negative impacts for fixed income markets. These included: (i) ensuring that buy-ins can be initiated and managed at the trading counterparty level, and are not limited to the CSD level; (ii) ensuring that all fixed income instruments are afforded the maximum allowable time under Level 1 (being seven days) to settle before the buy-in process is initiated (the "extension period"), and that this is not contingent on MiFID II/R pre- and post-trade transparency liquidity calibrations; and (iii) in line with the maximum extension period for bond markets, the start-leg of termed securities financing transactions should also be out of scope as far as possible (up to one calendar month, while still consistent with the Level 1). Furthermore, ICMA supported a recommendation in the original draft that the Commission should delay the implementation of settlement discipline measures (including mandatory buy-ins) for 18 months, and has suggested that such a delay should be aligned with the full implementation and testing of TARGET2-Securities.

Buy-in options

The June ESMA Consultation Paper puts forwards three options for the buy-in process for respondents to consider:

(i) Trading level execution.

(ii) Trading level with fall-back option execution.

(iii) CSD participant level execution.

Trading level execution

The trading party at the origin of the transaction is responsible for the buy-in. In the previous consultation this was the overwhelming recommendation of respondents, and is consistent with current OTC buy-in rules. It is also highly efficient from the perspective of unravelling interconnected fails-chains. However, ESMA is clearly concerned about enforceability issues related to contractual frameworks between counterparties, particularly in relation to third-country counterparties or CSDs. ESMA suggests that this could be inconsistent with the objectives of Level 1, giving rise to legal uncertainty in the Level 2.

Trading level with fall-back option execution

This is similar to the trading level option. However, where the counterparty does not perform the buy-in, the failing CSD participant is responsible for paying the "cash compensation" (defined as "*the difference between the price of the transaction and the current price of the securities*"). This is intended to incentivize CSD participants to ensure "strong" contracts with their clients and counterparties that reflect the buy-in rules and responsibilities. ESMA seems to suggest that this may be better aligned with the Level 1 text since it provides that the failing CSD participant is responsible for the buy-in costs due to any price difference, and would be easier to enforce. However, in the case of agent banks, this could lead to margin requirements from clients to cover the associated increased settlement risk, although ESMA seems keen to play down this risk.

CSD participant level execution

Both the buy-in process and payment of cash compensation are the responsibility of the CSD participant, as a direct requirement of the CSD rules, which would further be under direct supervision of the relevant NCA. The primary weakness of this option, which has been well documented in previous consultations, is that the parties managing the buy-in are not necessarily the trading entities, and so do not have the necessary information to optimize the process, in particular ensuring efficient pass-ons to avoid multiple buy-ins. In the case of agent banks, this would likely require significant margin to cover settlement risks, transforming settlement activity into a fully collateralized system, which could be contrary to the objective of the Level 1 text, whilst also increasing transaction costs for investors.

The wording of the paper very clearly suggests that ESMA's preferred process is the second option.

Updated RTS

The June ESMA Consultation Paper also puts forward new draft RTS on the operation of the buy-in process under the different options. These will be more closely scrutinised in the coming weeks, but potential areas of contention include the following:

- The outline of the buy-in process still does not specify the buy-in execution as a discrete event. Furthermore, it provides that, following the end of the extension period, where relevant, the buy-in agent should be appointed "without delay". This does not provide that the counterparty being bought in should know when the buy-in is intended to take place, nor does it recognize the fact that appointing buy-in agents can be a difficult process in itself.
- For non-cleared transactions executed on trading venues, where the buy-in has not been initiated by two days after the end of the extension period, the trading venue shall appoint the buy-in agent. It is not clear how the trading venues are expected to know that a trade has even failed, let alone when a corresponding buy-in has not been initiated.
- Failing counterparties can only continue to deliver securities up until the point where the buy-in notice is served. This rules out the possibility of the failing counterparty being able to deliver securities in the time between the end of the extension period and the execution of the buy-in.

Also, there is no indication as to whether ESMA has revised the original draft provisions for using MiFID II/R liquidity calibrations to determine the appropriate extension periods (four or seven days), or the timeframe for the completion (ie settlement) of the buy-in. There are also no new details on the treatment of securities financing transactions.

The ICMA response

ICMA intends to provide a detailed and thorough response to the ESMA Consultation Paper. ICMA has consistently advocated that mandatory buy-ins should never have been passed into law, on the grounds that it will adversely impact market efficiency and liquidity without providing the intended improvements in settlement efficiency. However, in terms of impact mitigation, ICMA, along with the majority of market stakeholders, has advocated trading level execution as the most workable option.

As with previous advocacy work and consultations related to CSDR mandatory buy-ins, ICMA intends to work closely with other industry associations, and once again welcomes the input of its members, including buy-side constituents who stand to bear the bulk of the cost of this Regulation. As with the previous consultation, ESMA has requested quantitative analysis to support the responses, which, once again, may require a request for data from members.

The deadline for responses is 6 August 2015.

Timing for implementation

On 18 June 2015, ESMA wrote to the European Commission confirming a delay in the submission of the draft RTS due to an early legal review process for the draft RTS. Accordingly, the draft RTS will not be submitted to the Commission until September 2015, and following the new consultation stage. However, this should not delay the overall process of the European Commission, Parliament, and Council finalising the RTS and passing them into law, which is likely to be by the end of 2015. Unless the Commission accepts any recommended delay in implementation, mandatory buy-ins could still come into force as soon as January 2016.

Contact: Andy Hill
andy.hill@icmagroup.org

Review of the ICMA buy-in rules

The ICMA Secondary Market Practices Committee is currently reviewing the ICMA Secondary Market Rules and Recommendations in light of market and regulatory initiatives which are changing the landscape of the international cross-border bond markets. In particular, the ICMA buy-in rules have been highlighted by a number of members as a potential key area for review and revision, particularly to improve efficiency and transparency. This has become more pertinent with the prospect of a mandatory buy-in regime under the CSDR.

ICMA proposes to consult with its members on revised buy-in rules which are intended to make the process more

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efficient and transparent, as well as remaining flexible enough to be potentially compliant with CSDR mandatory buy-ins. In the event that the rules cannot be compliant with the CSDR buy-in regime (for instance, if the regulation specifies that buy-ins must be initiated and managed by CSDs), then at the very least they should be supportive of settlement efficiency until the eventual implementation of the mandatory buy-in regime.

Key aspects of the buy-in process that may need to be revised include:

- the time between intended settlement date and the execution of the buy-in (including greater flexibility);
- whether a buy-in agent needs to be nominated before the buy-in notice is issued;
- greater transparency in the buy-in process;
- the possibility for organised buy-in auctions held on trading venues; and
- the possibility of a "cash settlement" resolution where buy-ins cannot be successfully executed.

ICMA intends to complete the consultation and revise the rules by the end of 2015.

Contact: Andy Hill
andy.hill@icmagroup.org

Aged-fails auction mechanism

There is general agreement that a buy-in auction process would improve the efficiency and transparency of the buy-in process, as well as potentially exclude the need for a buy-in agent or, at the very least, reduce their responsibility. Furthermore, CSDR Level 1 provides for the possibility of buy-in auctions.

ICMA is supportive of a buy-in auction mechanism, and is currently exploring the potential for such a mechanism by facilitating the development of an "aged-fails auction" mechanism. The auction would allow banks and investment firms (at their own discretion) to bid for illiquid or difficult-to-find bonds for guaranteed delivery through an auction process provided by electronic trading platforms. Holders, and so potential sellers, of these securities would be notified of the upcoming auction by means of ICSD corporate action mechanisms. The bidder would have the option to lift the best offer(s), or to counter-bid. The final transaction price should represent best execution with full transparency.

Non-members of the relevant platform could nominate agents to bid or offer on their behalf, but again with full disclosure of the eventual price(s), as well as any related agency fee or spread.

While the aged-fails auction is very much optional on the part of the bidding counterparty, it is intended that, once a mechanism has been established and tested, this could form the basis of a buy-in auction mechanism, with an accompanying change in the ICMA buy-in rules to support this.

There is currently ongoing discussion with Tradeweb, Clearstream, Euroclear, and a number of market participants to develop and pilot an aged-fails auction. Other platform providers and market participants are encouraged to participate in the various discussions, particularly around establishing the appropriate processes, including the price discovery mechanism. ICMA would very much like to launch and test the mechanism no later than the fall of 2015.

Concurrently, ICMA will seek to consult its members on possible revisions to the Secondary Market Rules and Recommendations related to buy-ins to improve efficiency and transparency, as well as to support the possibility for buy-in auctions. During the latter part of 2015, there should also be more clarity on the technical standards and implementation timing of the CSDR mandatory buy-in regime.

Contact: Andy Hill
andy.hill@icmagroup.org

Asset Management

by Patrik Karlsson

Systemic risk and asset management

The global debate on systemic risk in the non-bank, non-insurance world picked up speed in the second quarter of 2015. FSB and IOSCO's second consultation on methodologies to identify globally systemic non-bank non-insurers ran until 29 May 2015. In recognition that their first consultation (from 2014) had focused too much on size alone as a systemic risk indicator, the new consultation's methodology to identify systemically important investment funds also took into account leverage and use of derivatives and securities financing transactions.

In revising the proposed methodologies, the FSB and IOSCO intend to capture different types of systemic impact posed by a wider range of risks, while also maintaining broad consistency with the existing assessment methodologies for global systemically important banks (G-SIBs) and insurers (G-SIIs).

The ICMA Asset Management and Investors Council (AMIC) Market Finance Working Group has submitted a response to the FSB and IOSCO consultation. The AMIC welcomed the progress made by FSB and IOSCO and expressed appreciation for the continued consultation by the organisations into this important issue. Having said that, the AMIC found several issues with which it disagreed in the consultation.

The response found the FSB's decision to add asset managers to potentially systemically risky institutions problematic, as asset management companies' balance sheets are not large enough to pose systemic risk. The AMIC requested a focus on investment funds only, not also on asset management companies.

The AMIC also rejected two of the three risk transmission channels that FSB and IOSCO suggested for investment funds. AMIC members failed to see the systemic contagion from critical functions provided by investment funds where other funds were not able to substitute. The AMIC also rejected the transmission risk of asset liquidation from an individual investment fund.

The AMIC disagreed with the FSB and IOSCO materiality thresholds for systemically risky institutions. The AMIC recommended using a leverage threshold of three times net asset value (NAV), combined with a secondary size filter expressed in assets under management (AUM). However, the AMIC declined to recommend a set figure for the secondary size filter and called on the FSB and IOSCO to undertake more analysis to justify an appropriate figure.

The AMIC also examined the detailed criteria for designating G-SIFIs after materiality thresholds have been crossed. The AMIC considered the revised FSB/IOSCO criteria overly complicated. Many are redundant or too vague to be of use. The AMIC argued that there should be a focus on leverage and complexity as risk indicators, while rejecting particularly the use of cross-jurisdictional activities as an indicator.

Contact: Patrik Karlsson
patrik.karlsson@icmagroup.org

Securitisation and the buy side

Securitisation continues to be viewed by authorities across the world as a key funding tool for the real economy. The European Commission issued a new securitisation consultation (*An EU Framework for Simple, Transparent and Standardised Securitisation*) in parallel to the Green Paper on Capital Markets Union (CMU). The deadline for responses was 13 May 2015.

The European Commission's consultation asked for views on criteria to identify simple, transparent and standardised securitisations and on how to treat such securitisations prudentially. The Commission's consultation follows previous consultations on securitisation from various international regulatory bodies, including:

- a joint Bank of England and ECB Discussion Paper on *The Case for a Better Functioning Securitisation Market in the European Union*, launched in May 2014;
- an EBA Discussion Paper in October 2014 on criteria to identify standard, simple and transparent (SST) securitisation; and
- a BCBS and IOSCO Consultative Document in December 2014 on criteria for identifying simple, transparent and comparable (STC) securitisations.

The AMIC Working Group on Securitisation considered the European Commission's consultation and submitted a response before the deadline.

In its response, the AMIC welcomed the Commission's consultation and supported the direction of travel of the Commission and other institutions: to create a "qualifying" framework for securitisation and to improve its prudential treatment.

Like many others, the AMIC argued that the qualifying framework should apply at the deal level, not at the individual tranche level. The AMIC also argued for consistent regulatory and prudential treatment across all relevant EU legislation, most notable CRD IV and Solvency II.

The AMIC agreed that the responsibility for enforcing the "skin in the game" provision – ie 5% risk retention requirement – should be shifted from the investor to the issuer. The AMIC also recommended that separate rules for qualifying instruments be developed for asset-backed commercial paper (ABCP) and for synthetic securitisations.

The AMIC considered risk features to be an unnecessary part of the framework, as the investor should remain responsible for understanding the underlying risk of the assets in the securitised vehicle.

The AMIC also called for more disclosure to investors, starting with the information that the issuer gives to rating agencies. The AMIC agreed that the publication of "uncapped" ratings for issuers with country caps would be helpful for investors, who must nevertheless trust their own judgement of credit risk.

Finally, with regard to prudential treatment, the AMIC called for significant further revision of Solvency II to bring capital levels more in line with the underlying assets and for capital requirements to rise more slowly with duration as the biggest risk for buy-and-hold investors is default risk, not volatility risk.

Contact: Patrik Karlsson
patrik.karlsson@icmagroup.org

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Securitisation continues to be viewed by authorities across the world as a key funding tool for the real economy.

ELTIFs

The European Commission launched the proposal for a Regulation on European Long-Term Investment Funds (ELTIFs) in June 2013 to create a new brand of fund available for both retail and professional investors to invest in long-term illiquid assets.

The Council and European Parliament agreed on the legal text in December 2014. The ELTIF Regulation was published in the *Official Journal* on 19 May 2015, entering into force on 9 June 2015 and will apply six months later, ie from 9 December 2015. As with most legislative texts, ESMA has been given a role in developing implementing technical standards (ITS) to underpin the regulation. ESMA must submit its draft regulatory technical standards (RTS) to the European Commission by 9 September 2015.

The Commission justified the need for a European framework for these kinds of funds on the grounds that different existing fund structures already exist at national level, which lead to diverging investors protection levels, different legal certainty and differing redemption and holding period rules. So by creating a harmonised fund the Commission hopes to ensure that ELTIFs display a coherent and stable product profile for investors to invest in.

The ELTIF rules are designed to be closely linked to the Alternative Investment Fund Managers' Directive (AIFMD) 2011/61/EU. ELTIFs are AIFs that are managed by AIFMs, authorised according to the AIFMD framework.

The final ELTIF text notes that, while individual investors may be interested in investing in an ELTIF, the illiquid nature of most investments in long-term projects precludes an ELTIF from offering redemptions to its investors. For this reason, the default structure of these funds should be not to offer any redemption before the end of the life of the ELTIF. However, given the importance of redemptions for retail investors, the ELTIF manager is given discretion in the legislation to decide whether to grant early redemptions to investors under certain conditions.

There are also minimum ticket restrictions on retail investors. A retail investor whose portfolio composed of cash deposits and financial instruments is smaller than €500,000 is not allowed to invest an aggregate amount exceeding 10% of his portfolio in ELTIFs, provided that the initial amount invested in one or more ELTIF are no less than €10,000 (although if investing in more than one ELTIF the minimum in any one ELTIF out of the €10,000 is €2,000).

While ELTIFs are not by default designed to offer redemptions, there is nothing preventing an ELTIF from seeking admission of its shares or units to a regulated market or a multilateral trading facility. In other words, there will still be the possibility of secondary market liquidity if investors want to sell their units.

The portfolio rules for ELTIFs state that at least 70% of the ELTIF's capital should be invested in "eligible investment assets" – ie long-term assets. These long-term assets are generally illiquid assets, which are not transferable and therefore do not have access to liquidity in secondary markets. These eligible investments must be in equity, debt or loan instruments issued by what are known as "qualifying portfolio undertakings", which include listed companies up to a capitalisation of €500 million.

Eligible assets also include direct holdings of "real assets", so long as they provide a predictable stream of cash flows and have a value of more than €10 million, eg infrastructure or property.

Investment in other ELTIFs, or in European Venture Capital Funds (EuVECAs) or European Social Entrepreneurship Funds (EuSEFs), is allowed up to 20% of the capital of the fund or up to 25% of the total units in this other fund. This has been criticised by the fund industry, as it restricts effective fund of funds solutions in these illiquid assets.

The AMIC will monitor developments in ELTIFs, including the imminent ESMA consultation on its technical standards.

Contact: Patrik Karlsson
patrik.karlsson@icmagroup.org

Capital Market Products

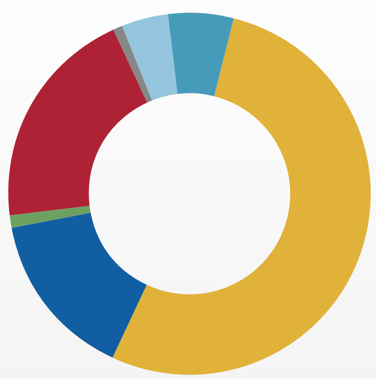
by Nicholas Pfaff and Katie Kelly

Pan-European private placements

As planned, a number of events have taken place in Europe to promote the *Pan-European Corporate Private Placement Market Guide* after its release on 11 February 2015. The first such events took place successfully in Paris on 13 April, hosted by the Banque de France, and in London on 14 April hosted by the City of London Corporation. Both were very well attended and brought together a wide spectrum of market participants, including investors and intermediaries, as well as existing and potential issuers. Further events have taken place in Milan and in Amsterdam. Plans are also under way for events in Frankfurt, Brussels and Madrid.

One of the recurring questions concerning the pan-European private placement market has been the lack of reliable data on its size and characteristics. With the support of the Pan-European Private Placement Joint Committee (PEPP JC), Standard & Poor's Ratings Services and Private Placement Monitor (PPM) have produced league tables and numbers for 2014 which show that transactions in this market raised nearly €7 billion in private capital for companies in Europe through 94 deals (including direct transactions, but excluding the German Schuldschein market and the US private placement market). And although private placements in the French Euro PP market continue to dominate, at 53% of deal flow, the private placement market is becoming truly pan-European, with 20% of deals coming from Italy, 15% from Germany, 6% from Belgium, 4% from the UK, and 1% each from the Netherlands and Sweden.

2014 European Private Placement Volume By Country



Source:PPM DataField. © Standard & Poor's 2015.

Underlining the focus of this market on medium-sized deals and companies, the average transaction size was €63 million in 2014, with an average maturity of 6.6 years. 38% of the deals were below €50 million, while an additional 32% were between €50 million and €99 million. The data also reveals a market providing medium to long-term finance with maturities spread between less than five years and 15 years, concentrated however in the six- to seven-year range.

Separately, Dealogic, working with the French Euro PP Working Group and with the support of the PEPP JC, has also published a complementary evaluation of the market and league tables.

A key priority of the PEPP JC is to support the further expansion of the market. Work is under way to promote the use of standardized documentation in the Italian market with the support of the Bank of Italy. Contacts are also progressing to identify and build on commonality with the international Schuldschein market with a focus on market practice and documentation.

The PEPP market is perceived as potentially a significant contribution to the goals of the European Commission's Capital Markets Union (CMU), and received official support during the Economic and Financial Affairs Council held in Brussels on 9 December 2014, as well as directly from Lord Hill in recent speeches (for example on 8 June 2015) . The PEPP Joint Committee has also made specific recommendations, incorporated in ICMA's response to the CMU Green Paper, on how to "support the development of private placement markets", including a proposed targeted revision of the Solvency II Delegated Act to contribute to a level playing field for investment in European private placements by institutional investors.

Contact: Nicholas Pfaff
nicholas.pfaff@icmagroup.org

Green bonds


by Nicholas Pfaff and Valérie Guillaumin

A key priority following the successful Green Bond Principles (GBP) AGM in April 2015 has been to submit to a vote of GBP members the proposed revised Governance that was outlined and discussed during the meeting. The vote took place from 26 May to 16 June. The outcome was the approval of the revised Governance by a very large majority of GBP members (in excess of 80%) – well above the required 2/3rd (67%) majority required.

The main changes relate to the GBP Executive Committee (Excom). The current Initial Executive Committee (Initial Excom) of 18 organisations is grandfathered into the 2015 Excom on the basis of a one year mandate for 12 of these organisations and a two year mandate for six of them (as determined by lot). The Excom is also expanded to 24 organisations in total, with six new organisations being voted in by GBP members over this summer (for a two year mandate). From 2016, 50% of the Excom members will be renewed annually through a vote of the GBP AGM starting that year with the 12 organisations grandfathered for one year only from the Initial Excom. Going forward, new Excom members will have a mandate of approximately two years. Finally, any possible future changes to Governance will be made by a 60% majority of the number of GBP members present at a General Meeting.

As a next step and in line with the above, a call for candidacy for the six additional Excom members has been communicated to GBP members with a deadline by end-July. Elections will then take place over the rest of the summer, closing by the first week of September, with the objective of having the new Excom fully constituted in that manner and by that time.

Concerning market developments, important discussions are under way in China concerning the potential of green bonds (GBs) to help address the environmental sustainability challenge in that country. A Green Finance Task Force, co-sponsored by the Research Bureau of the People's Bank of China (PBC) and the United Nations Environment Programme Inquiry into the Design of a Sustainable Financial System (UNEP Inquiry), has published a report, *Establishing China's Green Financial System*. ICMA is directly involved with the support of its Hong Kong office in these discussions, which have great potential for the international development of the GB market. It is important, however, to underline that the Chinese authorities are reviewing the international self-regulatory and voluntary model as represented by the GBP, as well as the potential for a national regulatory approach to the market involving, for example, both possible issuer and investor incentives.

Following on discussions at the April AGM, the GBP welcomed the publication of a *Proposal for a Harmonized Framework for Impact Reporting on Renewable Energy/Energy Efficiency Projects* by an informal working group of four of the multilateral development banks active in the green bond market – the African Development Bank (AfDB), the European Investment Bank (EIB), the International Finance Corporation (IFC), and the World Bank (IBRD). The GBP also welcomed the release of *GB Guidelines for the Real Estate Sector* by the Global Real Estate Sustainability Benchmark (GRESB), which include "reporting concepts, timing and metrics for Green Bonds from origination to maturity in accordance with established real estate industry protocols, and are applicable to each bond type outlined in the 2015 Green Bond Principles".

Contact: Nicholas Pfaff and Valérie Guillaumin
nicholas.pfaff@icmagroup.org
valerie.guillaumin@icmagroup.org

Infrastructure financing

by Katie Kelly

The financing landscape for infrastructure projects is changing, with considerable investment from the private sector expected to play a pivotal role; a trend borne out by the strategic partnership between the European Commission and the European Investment Bank, culminating in the Investment Plan for Europe, which is designed to unlock public and private investment in the real economy. Complementary to, and in support of, the Investment Plan for Europe, ICMA and AFME have together produced a *Guide to Infrastructure Financing* (the Guide), which is a practical overview of the various debt financing components of infrastructure financing.

ICMA and AFME have assembled a group of industry experts to form an Infrastructure Working Group comprising, among others, the European Financial Services Roundtable (EFR), the International Regulatory Strategy Group of the City of London (IRSG), the International Project Finance Association (IPFA), a number of arranger banks, representatives from major institutional investors, law firms and rating agencies, many of whom have been instrumental in compiling the Guide.

The Guide is a "hands-on", "how-to" document, which aims to inform public sector authorities, first time sponsors and project companies interested in raising debt for infrastructure projects. It also acts as a bridge between procurement agencies and the private sector, demystifying the debt capital markets and creating confidence in the financing process.

In general terms, the Guide highlights and explores the following four key considerations, which should be taken into account early in the infrastructure financing and planning process:

- Financing must be tailored to the project – no one particular market is necessarily optimal for financing infrastructure projects while fulfilling all the project's requirements. In this regard, the Guide sets out key features, fundamental differences and practical guidance for various debt financing components and explores the suitability of these key features when applied to infrastructure project models, including in the context of procurement rules.
- A balance needs to be struck between providing credit enhancement to those projects that actually require it, and not crowding out those investors seeking the yield of an unenhanced project. The Guide considers the different types of credit enhancement structures, including the European Investment Bank's Project Bond Credit Enhancement Initiative.
- However, some transactions may not be financeable without some level of public sector guarantee – maybe usage guarantees, or floors on certain types of risk – because, while investors are prepared to take some risk, they are unlikely to be prepared to take it all.
- Transparency and consistency with regards to tariff-setting, controls on regulation and change of laws post-financial close of a transaction – and consideration of appropriate compensation mechanisms – could help to assuage investors' concerns over certain risks associated with the underlying revenues of a project. As well as profiling the typical infrastructure investor, the Guide explores these and other key considerations for investors.

The Guide also sets out practical details of the mechanics of debt issuance, the parties involved and their roles, marketing, pricing and issuance, indicative timelines and illustrative all-in cost templates, sample credit review considerations and proposals to standardise disclosure and reporting requirements.

In terms of next steps, the release of the Guide is timely *vis-à-vis* the Investment Plan for Europe, which comprises three strands: the European Fund for Strategic Investment (EFSI); the Investment Advisory Hub; and the Investment Project Portal. The EFSI will, by leveraging funds dedicated by the Commission and the EIB, provide risk support to long-term investments. The Investment Advisory Hub will be a single point of practical advisory support for various aspects of infrastructure guidance – including private sector financing options, while the Investment Project Portal is a comprehensive database of infrastructure projects, details of which are submitted and captured on-line either by procurement agencies or sponsors, at pre- and post-bid stage. The Portal will give investors visibility on projects that match their requirements.

ICMA and AFME are fully supportive of all strands of the Investment Plan for Europe, and the composition of our respective associations means that we are particularly well placed to leverage our joint resources – including the Infrastructure Working Group – to support the Hub and the Portal at both their development stage and once they are operational, as to which, both the European Commission and the European Investment Bank have been receptive.

Finally, the Infrastructure Working Group has responded to the European Insurance and Occupational Pensions Authority (EIOPA) Discussion Paper on *Infrastructure Investments by Insurers*, in which contributions were made in respect of the elements of the Solvency II framework which might prevent insurers from investing in infrastructure, criteria and definitions for identifying infrastructure, quantification of risk profiles and data collection of infrastructure data for debt and equity calibration purposes. The Discussion Paper represents an opportunity to create a more standardised infrastructure asset investment class, which could impact the future liquidity of the asset class and result in a more granular capital treatment under Solvency II, in line with the European Commission's objective of establishing a well-regulated and integrated Capital Markets Union. The Infrastructure Working Group will continue to contribute to this debate.

Contact: Katie Kelly
katie.kelly@icmagroup.org

Market Infrastructure

by Alexander Westphal

ECB: CCP oversight

On 29 March 2015, the European Central Bank (ECB) and the Bank of England (BoE) announced a set of measures to strengthen existing information exchange and cooperation agreements in relation to the supervision of CCPs. In this context, both central banks also agreed to extend the scope of their standing swap lines for the provision of multi-currency liquidity support to CCPs established in the UK and the euro-area. The decisions follow a judgement by the EU's General Court in Luxembourg on 4 March which had partly annulled the Eurosystem's Oversight Policy Framework. The latter was released by the ECB in 2011 and included a debatable rule requiring CCPs with significant euro-denominated business to be located within the euro-area. The UK had challenged this location requirement, arguing that it would go beyond the regulatory competence of the ECB to impose such a restriction on CCPs. In its March ruling, the General Court confirmed this interpretation. Following the agreement reached with the Eurosystem, the UK decided to drop two further legal challenges against the ECB that were still pending a decision.

ECB: Contact Group on Euro Securities Infrastructures (COGESI)

The latest regular COGESI meeting took place, on 23 March 2015, in Frankfurt; and the summary of the meeting is available on the ECB's website. The main agenda item was an exchange of views on how to improve collateral management services in the EU, in particular in light of the recent Commission initiative of *Building a Capital Markets Union*. In a number of individual presentations, COGESI members identified remaining barriers to efficient cross-border collateral management and outlined ways to remove them. Measures that were discussed can broadly be grouped into (i) legal and regulatory improvements, including potential impediments from ongoing regulatory initiatives (eg taxation, account segregation, CSDR mandatory buy-ins), (ii) other harmonisation needs (eg terms/definitions, messaging standards, the need for multilateral financial agreements and common Eurosystem collateral management procedures) and (iii) market infrastructure efficiency needs. It was decided to create a small sub-group tasked to prepare a draft COGESI response to the CMU consultation based on the discussion at the meeting. The final response approved by all members was submitted to the Commission on 13 May and is available on the COGESI website. The next semi-annual COGESI meeting has been provisionally scheduled for 18 November 2015, in Frankfurt.

ECB: Money Market Contact Group (MMCG)

The agenda and summary of the MMCG meeting, on 18 March 2015, in Frankfurt have now been published and are available on the MMCG meetings page. In addition, a number of relevant documents and presentations from the meeting were published: Item 1: An update on the Money Market Statistical Reporting Regulation; Item 3(i): Review of the latest market developments; Item 3(ii): Recent developments and main drivers of the cross-currency swap market; Item 3(iii): The impact of the Eurosystem Public Sector Purchase Programme on the money market and banks' liquidity management; Item 4: Update on STEP market developments;

and Item 5: Update on regulatory developments for Money Market Funds. The latest regular quarterly meeting of the group took place on 17 June, hosted by HSBC in Paris. A summary of the meeting and other relevant documents should be available shortly. In addition, a short *ad hoc* MMCG teleconference was held on 29 June in order to discuss the impact of the recent developments in Greece on the euro area money market. The summary of the call is available on the MMCG page. The next regular meeting of the group is scheduled for 9 September 2015.

ECB: Bond Market Contact Group (BMCG)

The agenda and summary of the BMCG meeting on 21 April 2015, as well as five presentations given at the meeting, have been published on the BMCG page. The latest regular quarterly meeting of the BMCG took place on 30 June 2015. Four discussion items were on the agenda: (i) Bond market outlook and other topics of relevance, with a particular focus on the sell-off in late April - mid May; (ii) Implications of the end of tapering by the Federal Reserve and the shift into "normal mode", including a consideration of the overall effectiveness of the programme, the impact on the European bond market and the lessons learned; (iii) Impact of the ECB's different Asset Purchase Programmes on euro-area and global financial markets; and (iv) Any other items of interest. The next regular meeting of the group is currently scheduled for 20 October 2015.

ECB: TARGET2-Securities (T2S)

Seven years after the official decision by the ECB's Governing Council, in July 2008, to launch the T2S project, the platform went live as planned on 22 June 2015. Four "Wave 1" CSDs and their users are now connected to the T2S platform for settlement of their euro-denominated instructions: Bank of Greece's depository for government bonds (BOGS), the depository of the Malta Stock Exchange, Romania's Depozitarul Central, and SIX SIS from Switzerland. The Italian market, initially scheduled to migrate to T2S in June as well, will only follow on 31 August 2015. The ECB's Governing Council decided on 17 June to support a formal request by Monte Titoli, the Italian CSD, to postpone migration to T2S and to allow for an extended period of user testing in order to ensure a smooth migration process. All remaining T2S markets will migrate to the common platform in three further waves with the final wave of CSDs scheduled to migrate in February 2017. At that time, all 21 markets that have signed up to the project are expected to be connected to the common T2S platform. The next migration wave is scheduled for March 2016 and will connect four further markets to T2S: Belgium (both Euroclear Belgium and NBB-SSS, the depository of the Belgian Central Bank), France (Euroclear), the Netherlands (Euroclear) and Portugal (Interbolsa).

An official launch event to celebrate the recent go-live of T2S took place on 2 July in Milan, directly after the T2S Advisory Group (AG) meeting on that day. In addition, on the occasion of the T2S launch, Yves Mersch, Member of the ECB's Executive Board, was invited, on 16 June 2015, to speak in the European Parliament. In his speech to members of the Parliament's ECON Committee he went through some of the landmark achievements on the way to the successful launch of T2S and reflected on the wider impact of T2S on market integration in Europe.

The T2S AG which encompasses all relevant T2S stakeholders (CSDs, users and NCBs) had its latest regular meeting on 23-24 March 2015. The summary as well as other relevant meeting documents and presentations are available on the AG's meeting page. AG members discussed the latest T2S programme status ahead of the go-live date in June and received updates from the different technical sub-groups which reported on their work.

At the meeting, AG members also approved the *Fifth Harmonisation Progress Report* prepared by the Harmonisation Steering Group (HSG), a sub-group composed of T2S Board and senior AG members and focused on the T2S post-trade harmonisation agenda. The report was published on 13 April and assesses progress of all T2S markets in the 24 harmonisation areas that have been agreed by T2S stakeholders. These areas are further broken down into 16 activities which have been assigned highest priority (priority 1) and eight priority 2 activities. The report shows generally good progress of all T2S markets over the reporting cycle since July 2014. In particular, it finds that in 17 of the total 24 areas common standards/rules have already been defined, out of which 15 are related to priority 1 areas. No major obstacles to achieve full compliance with these rules on time have been identified, except for the standards on corporate actions. In this area corrective actions will be necessary in some markets in order to achieve full compliance.

Furthermore, there is one high priority area that still lacks defined harmonised rules, namely settlement discipline. In this area, harmonised rules will be defined by the recently adopted CSD Regulation, so T2S is therefore closely following the CSDR adoption and implementation process. In particular, in February the AG submitted two detailed responses to ESMA's public consultation on CSDR draft technical standards and technical advice accompanied by a letter summarising the AG's main concerns. In particular, although defined as one of the high priority harmonisation areas in T2S, the AG stresses the need for an appropriate extension period for the new CSDR rules on settlement discipline and calls for a delay of implementation until well after the last T2S migration wave in order to avoid any negative repercussions on the project resulting from a parallel implementation.

The *Fifth Harmonisation Progress Report* was also one the main topics of discussion at the latest T2S info session which was held on 16 April 2015 in Paris, hosted by Euroclear France. In addition to a presentation of the Report, two panel discussions were on the agenda of the info session. Based on the findings of the report, a first panel addressed achievements and prospects of post-trade harmonisation. Subsequently, a second panel reflected on the T2S preparations by CSDs and directly connected parties (DCPs). The next regular T2S info session will take place on 24 September in Luxembourg.

Another interesting source of information on T2S which is worth referencing, in addition to the info sessions, is the online T2S knowledge based repository maintained by the T2S team. The T2S online platform includes a wealth of up-to-date information and relevant documents on all aspects of the T2S project.

The annual review, *T2S in 2014*, was published in April 2015 and provides a good overview of the most important developments in relation to the T2S project in 2014.

Finally, on 12 May the release of the bi-annual *T2S OnLine* project review was announced. In his first editorial, Marc Bayle, new chairman of the T2S Board since February, tells the story of how the idea of creating a pan-European securities settlement platform was born and puts the project in perspective of other recent initiatives to achieve deeper integration of capital markets in Europe. In addition, the publication includes the latest news from the T2S project in the run-up to the go-live date in June, including a detailed timeline, as well as a summary of the *Fifth Harmonisation Progress Report* and a brief introduction of each of the new members of the T2S Board.

ESMA: Data centralisation

On 1 April 2015, ESMA launched two centralised data projects in relation to its mandates under EMIR and MiFIR. The Instrument Reference Data Project aims to develop a central facility for financial instrument and trading data and the calculation of the transparency and liquidity thresholds under MiFIR. The objective of the second initiative, the Trade Repositories Project, is to provide a single and central access point to trade repositories data under EMIR, providing ESMA and the national regulators participating in the project with immediate access to around 300 million weekly reports on derivatives contracts. Although the primary responsibility under EMIR and MiFIR for these issues lies with national competent authorities (NCAs), these have the possibility to delegate the related tasks to ESMA in order to achieve a centralised approach. So far, 16 NCAs participate in ESMA's Instrument Reference Data Project while the Trade Repositories Project is supported by 27 NCAs. The projects are expected to go live in the course of 2016 (Trade Repositories Project) and early 2017 (Instrument Reference Data Project).

Global Legal Entity Identifier System (GLEIS)

The global initiative to encourage the use of LEI codes to uniquely identify legal entities engaged in financial transactions continues to gradually progress. On 10 June 2015, the Global LEI Foundation (GLEIF), the operational arm of the GLEIS, appointed Karla McKenna as Head of Standards. Karla McKenna will help facilitating the development and implementation of GLEIF standards, leveraging existing international standards from organizations such as the International Organization for Standardization (ISO) with the objective to maximize data quality and operational integrity of the GLEIS.

In order to engage local stakeholders in the LEI initiative and inform them about its progress, the GLEIF organises regular "Meet the market" events across the globe. Five such events have taken place to date, the latest one on 10 June 2015 in New York.

Responsible for the oversight of the GLEIF is the LEI Regulatory Oversight Committee (LEI ROC) made up of over 60 public authorities from 40 countries. Until the GLEIF assumes this role later this year, the LEI ROC is also responsible for endorsing Local Operating Units (LOUs), the entities responsible for the allocation of LEI codes on a local level. The LEI ROC maintains a list of all provisionally approved "pre-LOUs". With the recently endorsed Zagreb Stock Exchange (ZSE) and Clearing Corporation of India Limited (CCIL), the number of approved pre-LOUs has now reached 25. By end 2014, these had already allocated LEI codes for 330,000 entities from 189 countries.

In May 2015, the LEI ROC launched a consultation on the collection of data on direct and ultimate parents of legal entities in the Global LEI System. For the time being, feedback is expected only from the LEI ROC's Private Sector Preparatory Group (PSPG), the GLEIF and pre-LOUs, as well as from involved public authorities. The intention is, however, to prepare a wider market consultation on this issue, which is due to be released this summer.

BIS: Committee on Payments and Market Infrastructures (CPMI)

Following the publication of the final Principles for Financial Market Infrastructures (PFMI) in April 2012, CPMI and IOSCO are currently monitoring the implementation of the 24 Principles in the various jurisdictions. The first stage or Level 1 monitoring is based on self-assessments by individual countries. A detailed Level 1 assessment report was published in August 2013, followed by a first update in May 2014. On 11 June 2015, CPMI-IOSCO released a second update to the report which shows good progress as compared to the previous year. In particular, this recent update report notes that the gap in the progress on implementation measures applicable to CSDs and securities settlement systems vis-a-vis other types of FMI has now been closed. While the Level 1 implementation monitoring is continuing, CPMI-IOSCO have also launched the Level 2 and Level 3 monitoring process which will be based on peer reviews among regulators. A first set of Level 2 reports was published in February 2015 covering CCPs and trade repositories from the EU, US and Japan.

As part of the PFMI implementation monitoring process, on 11 March 2015, CPMI-IOSCO also launched a review on CCP stress testing. In this context, CPMI-IOSCO will assess how CCPs have implemented the relevant requirements included in the PFMI and whether more detailed guidance is needed on this issue.

A detailed glossary of the most relevant terms used in the world of payments and FMIs is available on the CPMI website and is regularly updated. With the latest update in June 2015 a significant number of new terms were added to the list.

Finally, it is also useful to note that the BIS, ECB and IMF have jointly prepared and released a Handbook on Securities Statistics, a conceptual framework for statistics on debt and equity securities. The Handbook was published on 12 May 2015 accompanied by a Communication by the joint BIS-ECB-IMF Working Group on Securities Databases which was responsible for preparing the document. The Handbook aims to harmonise data collection across the different institutions and is an important step towards internationally comparable securities statistics.

IOSCO: Market contingency planning

On 7 April 2015, IOSCO released two consultative reports in relation to business continuity planning for trading venues and intermediaries. A first report on *Mechanisms for Trading Venues to Effectively Manage Electronic Trading Risks and Plans for Business Continuity* includes recommendations for regulators to ensure that trading venues are able to manage effectively a broad range of evolving risks associated with electronic trading, as well as sound practices for trading venues when developing risk mitigation mechanisms and business continuity plans. A second consultation on *Market Intermediary Business Continuity and Recovery Planning* sets out standards and sound practices for regulators to consider as part of their oversight of the business continuity and recovery planning by market intermediaries; and which should also serve as helpful guidance for intermediaries. Both reports incorporate feedback from two surveys that IOSCO had circulated earlier this year to trading venues, their participants, and market intermediaries, as well as regulators. The deadline to submit comments to these two consultative reports was 6 June 2015. Based on the feedback received, IOSCO will prepare and publish the two final reports.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org

Macroprudential Risk

by David Hiscock

On 14 April 2015, the ESRB published its March 2015 report providing an assessment of the implementation of its *Recommendation on US dollar denominated Funding of Credit Institutions* (ESRB/2011/2), by the national supervisory authority (NSA) of each EU Member State. The deadline for the NSAs to provide information on the level of implementation was 30 June 2012; but, in order to take into account the intensity of the implementation activity in some countries, additional information on the implementation process was collected from the addressees on a voluntary basis during the assessment process via the Advisory Technical Committee (ATC) consultation in October 2014. The most noteworthy outcome of the assessment is that most addressees have fully implemented this ESRB Recommendation. However, the assessment has also shown that the US dollar is not a material currency for some Member States, and these countries have not implemented this Recommendation, referring to the principle of proportionality.

Launched on 15 April 2015, the IMF's latest *Global Financial Stability Report* (GFSR) finds that, despite an improvement in economic prospects in some key advanced economies, new challenges to global financial stability have arisen. The global financial system is being buffeted by a series of changes, including lower oil prices and, in some cases, diverging growth patterns and monetary policies. Expectations for rising US policy rates sparked a significant appreciation of the US dollar, while long-term bond yields in many advanced economies have decreased — and have turned negative for almost a third of euro-area sovereign bonds — on disinflation concerns and the prospect of continued monetary accommodation. Emerging markets are caught in these global cross-currents, with some oil exporters and other facing new stability challenges, while others have gained more policy space as a result of lower fuel prices and reduced inflationary pressures. The report also examines changes in international banking since the global financial crisis and finds that these changes are likely to promote more stable bank lending in host countries. Finally, the report finds that the asset management industry needs to strengthen its oversight framework to address financial stability risks from incentive problems between end-investors and portfolio managers and the risk of runs due to liquidity mismatches.

This GFSR finds that global financial stability risks have risen since October 2014, and have rotated to parts of the financial system where they are harder to assess and harder to address. In light of these developments, it is proposed that countries must meet five key challenges to safeguard global financial stability: (i) a need for "QE plus policies"; (ii) limit the financial excesses resulting from interest rates being "low for long"; (iii) preserve stability in emerging markets amid global crosscurrents; (iv) cope with unpredictable geopolitical risks; and (v) manage the illusion of market liquidity. Elaborating on this final point, it is considered that managing any of these challenges could become more difficult when markets are illiquid. Markets may have sufficient liquidity in good times, but this can dry up rapidly when markets are strained, amplifying the impact of shocks on prices. During periods of illiquidity since the crisis, correlation across markets has risen, increasing the potential for contagion.

Markets may have sufficient liquidity in good times, but this can dry up rapidly when markets are strained.

The underlying causes include a shift towards high-frequency electronic trading, reduced market making, and greater use of benchmarks. Hence, policy makers need to strengthen market liquidity and complete financial regulatory reforms.

Made available by the ECB, on 27 April 2015, *Policy Mandates for Macroprudential and Monetary Policies in a New Keynesian Framework* considers the fact that, in the aftermath of the financial crisis, the role of monetary policy and macroprudential regulation in promoting financial stability is under discussion. The old debate concerning whether monetary policy should respond to credit and asset price bubbles has been revived, whereas macroprudential regulation is being assessed as an alternative macroeconomic tool to deal with financial imbalances. This paper explores both sides of the debate in a New Keynesian framework with financial frictions by comparing the welfare and stabilisation impacts of distinct policy regimes. First, the authors investigate whether there is a welfare benefit from monetary policy leaning against financial instability; and they show that monetary policy rules of this type perform better than conventional monetary rules. Second, by introducing macroprudential regulation in the model, results from optimal policy analysis suggest also that there are welfare gains, even in the case in which monetary and macro-prudential authorities are independent and react to their own policy goal.

The annual joint conference of the European Commission and the European Central Bank on financial integration and stability took place, on 27 April 2015, in Brussels. Alongside this the Commission published its annual review on the evolution of the financial system and the ECB published its report on financial integration in Europe. The Commission's document has two main parts: the first part is more descriptive and data driven (chapters 1, Market Developments – covering macroeconomic background, banking intermediation, debt markets and equity markets; and 2, An Overview of the European Financial System – dealing with questions such as who is providing credit, who is using this credit, in which form the credit is formalised or through which channels financial resources flow), whilst the second part has a special focus on particular policy areas that impact European financial stability and integration developments including those expected to have a significant impact on economic growth (chapters 3, Private Debt Overhang ; 4, Longevity Risk; 5, Competition and Regulation; 6, Cyber Security Risks; and 7, SME Credit Information in the EU).

On 5 May 2015, the Joint Committee of the ESAs published its *Fifth Report on Risks and Vulnerabilities in the EU Financial System*. Overall, the report found that in the past six months, risks affecting the EU financial system have not changed in substance, but have further intensified. The identified risks in the Report can be divided into A) macro risks to the EU financial system and economy; and B) operational risks. The key macro risks identified relate to (i) risks from weak economic growth and low inflation environment, which include; (ii) low profitability, which is motivating financial institutions and other investors to search for yield; and (iii) some continued doubts on the comparability and consistency of banks' calculations of risk weighted assets.

On 2 June 2015, the ESRB published a table which displays the national competent and designated authorities for the CRD IV/CRR instruments as well as the macroprudential instruments planned or implemented under the CRD IV/CRR in each EU Member State. This table was first drawn up in April 2014 and subsequently updated in May 2015. It is based on the information reported to the ESRB by the Member States. It should be noted that competencies for the supervision of credit institutions for the Member States taking part in the SSM are shared between the ECB and national authorities. Therefore, both the ECB, in accordance with Article 9 of the SSM regulation, and the authority indicated in this table can be considered competent or designated authorities under the CRD IV/CRR in the SSM Member States.

On 3 June 2015, the EBA published the latest periodical update of its *Risk Dashboard*, which summarises the main risks and vulnerabilities in the banking sector on the basis of the evolution of a set of key risk indicators across the EU for the fourth quarter of 2014. The overview of the main risks and vulnerabilities in the EU banking sector shows that market risk, as also in the previous quarter, is assessed as being medium level with an increasing trend. Contributing factors are stated to be that geopolitical risks remain high, including risks from elections this year; a potential interest rate increase in the US cannot be excluded; and FX, commodity and other asset markets remain vulnerable to price volatilities due to negative changes in market sentiment and market liquidity. Risk regarding access to funding and maturity distribution, driven by primary and secondary market liquidity, is assessed as being medium level with a stable trend. Contributing factors are stated to be that even though banks in general have access to the primary markets, issuance volumes remain volatile; investor demand remained strong, but might be materially impacted in case of a rate increase in the US, for example; and primary as well as secondary markets remain highly vulnerable to liquidity shocks in general.

On 5 June 2015, ESMA published its *Risk Dashboard for the First Quarter of 2015*, which assesses the risks associated to European financial markets looking into liquidity, market, contagion and credit risks. The Risk Dashboard finds that, in 1Q 2015, EU systemic stress remained around the levels of the end of the previous quarter. Contagion, liquidity, and credit risk remained high but stable while market risk increased after having partially materialised already in the previous quarter. The weak economic prospects, together with an intensified geopolitical uncertainty both inside and outside the EU led to an increase in volatility for most markets, signalling increasing market concerns. Going forward, key risk concerns in the EU include high asset valuations driven by search-for-yield, weak economic prospects, resurgence of public debt policy issues in a number of members states, although to various degrees, and economic and geopolitical uncertainty in the EU's vicinity.

Published on 11 June 2015, *Comparative Assessment of Macroprudential Policies* is a BIS working paper, which provides a comparative assessment of the effectiveness of macroprudential policies in 12 Asia-Pacific economies – using comprehensive databases of domestic macroprudential policies and capital flow management (CFM) policies. The authors find that banking sector CFM polices and bond market CFM policies are effective in slowing down banking inflows and bond inflows, respectively; and they also find some evidence of spillover effects of these policies. Finally, regarding the interaction of monetary policy and macroprudential policies, their empirical findings suggest that macroprudential policies are more successful when they complement monetary policy by reinforcing monetary tightening, than when they act in opposite directions.

Published on 19 June 2015, *Experiences with Macroprudential Policy—Five Case Studies* is an IMF staff working paper. The case studies, which are drawn from five jurisdictions (Hong Kong SAR, the Netherlands, New Zealand, Singapore, and Sweden), describe the institutional framework, its evolution, the use of macroprudential tools, and the circumstances under which the tools have been used. The paper shows how macroprudential policy is conducted under a heterogeneous set of institutional frameworks. In all cases macroprudential tools have been used to address risks in the housing market. In addition, some of the jurisdictions have moved to enhance the resilience of their banks to more general cyclical and structural risks.

As reported in a 25 June 2015 press release, the General Board of the ESRB held its 18th regular meeting on 18 June 2015. The General Board identified a global repricing of risk premia and a weakening of financial institutions' balance sheets as the key EU financial stability risks. Given the current low market pricing of risk, a number of factors could trigger or intensify repricing spirals, possibly also exacerbated by low market liquidity. Furthermore, the General Board highlighted medium-term risks related to public and private debt sustainability and the concerns that the development of market-based finance in the EU may be accompanied by growing complexity, opaqueness and interconnectedness in the shadow banking sector. In the light of these risks, the General Board focused on the vulnerabilities in the EU life insurance and asset management industries, related to the low interest rate environment, and potential systemic risks.

Attention was also given to the impact of the exposures of the financial system to specific sectoral risks, since the build-up of vulnerabilities in some sectors of the economy can become a source of systemic risk, especially if bank exposures to these vulnerabilities are large and concentrated. The ESRB is also providing its contribution to the review of EMIR; and the General Board expressed the view that

Development of market-based finance in the EU may be accompanied by growing complexity, opaqueness and interconnectedness.

there is room for some adjustment and clarification of the current microprudential rules on margining requirements in EMIR. Moreover, it has called for a possible macroprudential use of margins and haircuts, allowing authorities to apply measures on margins and haircuts with macroprudential objectives in the future. The General Board also discussed indirect channels of financial contagion, in particular how illiquidity spirals and information spillovers can transform relatively small initial shocks into systemic crises. Potential policy options for mitigating indirect channels of financial contagion are related to macroprudential liquidity regulation, restrictions on both margins and haircut requirements across all segments of the financial system, and information disclosure.

The ESRB also released a number of reports:

- A *Review of Macroprudential Policy in the EU One Year After the Introduction of the CRD/CRR*. The ESRB intends to publish this report on an annual basis;
- A *Report on Misconduct Risk in the Banking Sector*, which has also been sent to the FSB, the BCBS and the LEI ROC. Misconduct is considered to be a serious criminal activity, which damages society and the financial sector and may have an overall systemic impact on the economy;
- A report on the *Macroprudential Use of the Leverage Ratio* (as a new chapter of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector); and
- The 12th issue of the *Risk Dashboard*.

Designing Effective Macroprudential Stress Tests : Progress So Far and the Way Forward is an IMF staff working paper, published on 30 June 2015. It explores the view that giving stress tests a macroprudential perspective requires (i) incorporating general equilibrium dimensions, so that the outcome of the test depends not only on the size of the shock and the buffers of individual institutions but also on their behavioural responses and their interactions with each other and with other economic agents; and (ii) focusing on the resilience of the system as a whole. Progress has been made toward the first goal, but building models that measure correctly systemic risk and the contribution of individual institutions to it while, at the same time, relating the results to the established regulatory framework has proved more difficult. Looking forward, making macroprudential stress tests more effective would entail using a variety of analytical approaches and scenarios, integrating non-bank financial entities, and exploring the use of agent-based models.

In its latest *Financial Stability Report*, published on 1 July 2015, the Bank of England's Financial Policy Committee (FPC) has identified the main risks facing the financial system in the UK as: the global environment; the reduction in market liquidity in some markets; the United Kingdom's current account deficit; the housing market in the UK; consequences of misconduct in the financial system; and cyber attack. Regarding market liquidity, the report notes that some fixed income markets have become less liquid, with average trade sizes and market depth having fallen and prices evidencing more volatility. However, the pricing of a range of securities seems at present to inappropriately presume that they could be sold in an environment of continuous market liquidity. This leads to concern that a repricing of risk would threaten financial stability if it were to generate sustained illiquidity in, and dislocation of, important financing markets for financial intermediaries and the real economy. Recognising the risks, the FPC set out in March 2015 a programme of work to clarify the extent of any macroprudential risks associated with market liquidity; and the final report from that work will be presented to the FPC in September. The Bank is also actively participating in a programme of international work through the FSB to assess these risks globally.

Contact: David Hiscock
david.hiscock@icmagroup.org

ICMA in Asia

by Mushtaq Kapasi and Ricco Zhang

Introduction

While ICMA's members are active in capital markets across Asia-Pacific, the Chinese market is of particular interest to many members based outside the region. ICMA has had extensive dialogue with Chinese banks, regulators, and market infrastructure providers to aid in the development of standards in the onshore bond market as this market continues to grow in volume, attract new entrants, and diversify its products. In particular, as part of the UK-China Economic and Financial Dialogue, ICMA and National Association of Financial Market Institutional Investors (NAFMII) have established a private sector working group bringing together experts from financial institutions in London and China to share expertise on primary market practices, procedures, and related regulations.

Perspectives on China at the ICMA Annual Conference

A major part of the 2015 ICMA Annual Conference, held in Amsterdam in June, was devoted to the capital markets and financial system of China.

Spencer Lake, the new Chairman of ICMA, introduced the topic with an overview of priorities for China's continued market development from a global perspective. In particular, the onshore corporate bond market holds considerable promise as regulators continue to relax restrictions and simply approvals to make it easier for corporates to issue debt, thus diversifying credit risk currently concentrated in the banking system. However, the fact that corporate bonds still cannot be traded in the interbank market, by far China's largest bond market, remains a barrier to further development. Also, infrastructure and sustainable finance have emerged as an important policy objective for Chinese policy makers, with the establishment of the Asian Infrastructure Investment Bank and the establishment of a special green finance task force by the People's Bank of China.

A number of other areas of the capital markets show great potential to enrich the overall onshore and cross-border financial system in China: municipal bonds, to ease the burdens on the traditional banking system related to local government debt; asset-backed securities, which give lenders additional tools to dynamically manage their balance sheet; and equity, through expansion of existing foreign investment quotas and connections between onshore and offshore exchanges.

However, Spencer Lake noted that it is important to resolve some of the structural challenges that could inhibit further opening and liberalization of the financial markets in China. In particular, better credit rating information will attract new investors and greater trust within the capital markets; a comprehensive default mechanism, without an implicit state guarantee, would allow more accurate pricing of bonds and reduce government-related risk for investors; and expanding the range of onshore investment choices for offshore investors would help to integrate the onshore markets into the global economy.

Jianhong Liu, deputy secretary of NAFMII, then delivered a keynote address to introduce certain developments in China's financial market dynamics. She noted that China's bond market outstanding balance has reached RMB 35 trillion, or about US$ 5.7 trillion. Corporate bonds account for almost one-third of this total, making the Chinese corporate bond market the second largest in the world after that of the United States.

Liu described the efforts of NAFMII to promote continued development of the interbank market, with a number of new products including short-term bills, convertible notes, structured credit, interest rate options, and currency products, to complement more traditional debt instruments.

She also emphasised that China's economic development will continue to include improvements in market-determined interest rate pricing, increased capital account convertibility, and controlled innovation in derivative products.

The chairman of Shanghai Clearing House, Zhen Xu, followed with a presentation focused on the dynamics and rapid growth of the corporate bond market, noting in particular the fact that the corporate bond market has grown almost 100-fold in the past ten years.

Xu cited several factors that would encourage continued growth of the corporate bond market. China's GDP growth, though slower than in previous years, remains faster than that of the overall global economy. The government has promoted administrative reforms, including streamlining approval procedures, and more market-based allocation of resources. And the internationalisation of the renminbi and cooperation among exchanges in China and the rest of the world bring significant opportunities for corporate issuers in China to find investors in other markets.

Shanghai Clearing House, which itself is China's central securities depository for corporate bonds and the central counterparty for bonds and other over-the-counter products, plans to improve collateral management infrastructure, develop products to increase liquidity and manage risk in corporate bond markets, and take full advantage of opportunities, such as the Shanghai free trade zone, to further open up markets to more investor classes.

The China portion of the conference agenda concluded with a conversation between Spencer Lake and Mingyou Bao, chief representative for Europe of the People's Bank of China.

Mingyou Bao described the unique "new normal" in China, which is a shift to sustainable economic growth driven by interest rate reform, capital account convertibility, and exchange rate flexibility. Internationalisation of the currency is also expected to continue with expansion of international trade denominated in renminbi, the potential for expanded quotas for Chinese investors to tap the offshore capital markets, and the possibility of the renminbi being included in the International Monetary Fund's currency basket for Special Drawing Rights.

Contacts: Mushtaq Kapasi and Ricco Zhang
mushtaq.kapasi@icmagroup.org
ricco.zhang@icmagroup.org

Practical initiatives by ICMA in Asia

There are a number of practical initiatives on which ICMA is currently, or has recently been, engaged with, and on behalf of, members in Asia-Pacific. These include:

- *Regional governance:* A formal regional committee drawn from ICMA members has been established in Asia-Pacific to ensure that it meets the needs of its members.
- *Primary markets:* ICMA has recently convened meetings of two committees focused on the Asian debt primary markets. The Asia Bond Syndicate Forum brings together leading global and regional underwriters in the cross-border markets. Complementing the syndicate forum, ICMA's group of Asia legal and transaction managers puts a greater emphasis on regulation, compliance, contracts and disclosure.
- *Asia-Pacific Legal and Regulatory Helpdesk:* ICMA has established a regional Legal and Regulatory Helpdesk to offer guidance to its members in Asia-Pacific time zones, which can be reached at +852 2531 6590 (for all queries); legalhelpdesk@icmagroup.org (for legal queries); regulatoryhelpdesk@icmagroup.org (for market practice and regulatory policy queries).
- *Malaysia:* ICMA works closely with a number of national associations and most recently signed a Memorandum of Understanding with the Malaysian Investment Banking Association (MIBA) to exchange expert views and experience on best market practice and regulatory matters in debt capital markets.
- *GMRA:* To address a number of enquiries from our Asia-Pacific members on GMRA 2000 and 2011 versions, ICMA held a conference call with regional members to discuss the evolution of the GMRA, new features of the 2011 version, and protocols to allow market participants to more easily adopt the latest version. ICMA has advised policy makers in Indonesia and Malaysia on repo documentation and facilitated local GMRA annexes. Also, following comprehensive repo workshops in Manila, Jakarta, and Kuala Lumpur. ICMA has held two in-depth reviews of the GMRA, jointly with Clifford Chance in Singapore, in April and June 2015.
- *Education:* ICMA Executive Education conducted two of its courses at the end of May. The first was a three day Collateral Management course for the benefit of three Singaporean banks: DBS, OCBC and UOB. This was followed by a one day Securities Lending and Borrowing, Repo and OTC Derivatives course conducted for staff at DBS.

ICMA has more than 30 members in Asia-Pacific based in Hong Kong and mainland China, Japan, Singapore, Australia, New Zealand, Indonesia, Malaysia and the Philippines and is very pleased to welcome the most recent additions to membership from the region.

Contacts: Mushtaq Kapasi and Ricco Zhang
mushtaq.kapasi@icmagroup.org
ricco.zhang@icmagroup.org

diary

ICMA organises over 100 market-related events each year attended by members and non-members. For full details see www.icmagroup.org

02&10 SEP

ICMA & Clifford Chance seminar: an in-depth review of the Global Master Repurchase Agreement (GMRA), Hong Kong, 2 September, Kuala Lumpur, 10 September 2015

This seminar will provide attendees with an in-depth review of the fundamental provisions of the GMRA 2000, the key differences with the GMRA 2011 version with a paragraph by paragraph analysis, the GMRA 2011 Protocol and recent case law relating to GMRA and repo documentation. The course will be targeted towards those with up to five years experience at financial institutions, investment banks, asset managers, hedge funds, corporations and regulators from the legal or documentation teams, treasury, risk management, middle and back office or collateral management. Speakers will include Paul Landless and Daniel Cookson.

Register

09-11 SEP

ICMA Workshop: Repo and securities lending under the GMRA and GMSLA, London, 9-11 September 2015

This workshop, organised by ICMA and the International Securities Lending Association (ISLA), analyses how repo and securities lending transactions operate within the framework provided by the Global Master Repurchase Agreement (GMRA) and the Global Master Securities Lending Agreement (GMSLA), highlights the issues that need to be addressed by users. These two separate but increasingly overlapping master agreements are the essential underpinnings of the cross-border repo and securities lending markets.

Register

21 SEP

Regulation, Liquidity and Electronic Platforms, Zurich, 21 September 2015

This half-day event will look at current MiFID II and related regulatory requirements and the effect on trading, transparency and liquidity in the secondary market.

Register

22 SEP

ICMA Workshop: Bond syndication practices for compliance professionals and other non-bankers, London, 22 September

This workshop aims to give compliance professionals an in-depth and thorough understanding of the current practices that are involved in launching a deal in the international debt capital market. It explains precisely how the deal is done, starting with first steps in the pre-launch process - looking at the pitch book, the mandate, the roadshow and the prospectus - through syndication, including book building and allocation, up to and including the final public launch of the issue.

Register

14 OCT

ICMA European Repo Council General Meeting, London, 14 October 2015

The General Meeting will cover many aspects of the operation of the European repo markets, including recent regulatory and legal developments. This event is free of charge and open to all ICMA members and financial market participants.

Register

15 OCT

European Regulation: An Introduction for Capital Market Practitioners, London, 15 October

Against a background of far-reaching regulatory change ICMA's one-day, fast-track course on European regulation for capital market practitioners gives a overview of the new regulatory landscape for financial institutions in Europe. It puts the major European regulatory initiatives into the context of the global reforms agreed by the G20 and explains the European legislative process, while taking a look at specific regulations affecting the capital framework of banks, investor protection and disclosure.

Register

27 OCT

The impact of MiFID II and related regulations on the Nordic secondary bonds and derivatives market , 27 October 2015

This half day event will look at current MiFID II and related regulatory requirements and the effect on trading, transparency and liquidity in the secondary market, with a session devoted to perspectives on the effect of the new regulation on the Nordic markets.

Register

03 NOV

ICMA Capital Market Lecture Series: Frank Czichowski, Frankfurt, 3 November 2015

The first ICMA Capital Market Lecture of autumn 2015 will feature Frank Czichowski, Senior Vice President, Treasurer of KfW.

Register

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ICMA Annual General Meeting and Conference 2015

Amsterdam, 3-5 June 2015

SAVE THE DATE

ICMA Annual General Meeting and Conference 2016

Dublin, 18-20 May 2016

ICMA Women's Network Summer Event

Tuesday 23 June saw the Summer Event for the ICMA Women's Network (IWN) on the theme of developing a personal brand to support career progression.

Hosted by Allen & Overy, members of the IWN were treated to a roof terrace location against the backdrop of the City of London with not a drop of rain in sight! Amanda Thomas, a partner at A&O, set the tone of the evening by sharing some of A&O's equality initiatives.

The keynote speaker Kathleen Hughes, Head of Global Liquidity Sales and European Institutional Sales at Goldman Sachs Asset Management (GSAM), who along with her global and regional roles is also co-head of the Investment Management Division's Women's Network at Goldman Sachs, spoke of her support for the IWN, and how she has developed and communicated a personal brand throughout her successful career. Describing one's career path as a "marathon and not a sprint" Kathleen divided her own journey into six life phases, each one distinct with its own useful lesson.

After graduating from the University of Richmond with a BA in Economics, by her own admission, Kathleen did not have a plan for how she wanted her career to pan out, but she does now advocate the importance of having a plan and a direction.

In Kathleen's early career she moved into private banking at the firm that we know today as JP Morgan. A move in 2000 to London saw her transition into asset management, where having had a few different bosses over a relatively short timeframe, she was given the opportunity to run the team. Kathleen was quick to grasp available opportunities and saw her career follow an upward trajectory. She stressed the importance of sponsors and mentors as an integral part of both career and personal brand development during this phase.

Kathleen spoke about common frustrations that we will all potentially face and gave advice on coping with them and more importantly on how to move forwards positively. She identified setbacks, for example disappointment in not getting an expected promotion earlier in her career, as opportunities to demonstrate that you are already operating at the next level.

She weathered the recent economic crisis by remaining calm and supporting her clients during a protracted period of instability and difficulty. The importance of staying calm under pressure and how you handle those situations forms a part of your personal brand. This approach was also a success for Kathleen as in 2010 she was approached by GSAM to run a global business.

Having spent 20 years at JP Morgan, a move was a daunting concept, but Kathleen took the risk, and in doing so she has seen more opportunities in her career than she could have ever anticipated. The message here was not to be afraid to take risks and that being open to new opportunities can lead to career rewards.

To complete the story, Kathleen shared a final piece of wisdom – which is to dream big! Kathleen also recommended being open to taking on more responsibility and showing ambition, as these are the things that can make you stand out. Questions to our guest speaker were answered in an open and honest way, in most cases with an anecdote that gave further insight into the person that she is today.

The evening concluded with speed networking at tables hosted by members of the IWN Steering Committee and other senior industry figures. We were very fortunate to have Kathleen, Gary Admans of BP, Lynne Chambers of the London Stock Exchange and Delphine Mourot of Morgan Stanley, among others, as hosts for these tables.

Camille McKelvey, Commercial Manager, Matching and Post Trade for Trax

ICMA Future Leaders

ICMA recently launched its Future Leaders initiative with the intention of bringing the younger generation of finance professionals into closer contact with the Association and the range of services and networking opportunities that it provides. The Future Leaders Committee, composed of 20 representatives from leading ICMA member firms around Europe, will be organising a series of events in the autumn of 2015 aimed at building an ICMA community among the younger generation to help build careers. Join the ICMA Future Leaders Linked in group to find out more, or get involved in the Future Leaders initiative by contacting Allan Malvar directly.

Contact: Allan Malvar
allan.malvar@icmagroup.org

ICMA Executive Education Courses in 2015

Level I: Introductory Programmes

Financial Markets Foundation Course (FMFC)
Luxembourg: **21-23 September 2015**
London: **4-6 November 2015**

Financial Markets Foundation Course (FMFC) Online Programme
Next start date: **1 October 2015 (register by 30 September)**

Securities Operations Foundation Course (SOFC)
London: **28-30 September 2015**
Brussels: **11-13 November 2015**

Securities Operations Foundation Course (SOFC) Online Programme
Next start date: **1 October 2015 (register by 30 September)**

Level II: Intermediate Programmes

Fixed Income Certificate (FIC)
Barcelona: **25-31 October 2015**

Fixed Income Certificate (FIC) Online Programme
Next start date: **1 October 2015 (register by 30 September)**

Operations Certificate Programme (OCP)
Brussels: **15-21 November 2015**

Primary Market Certificate (PMC)
Frankfurt: **5-8 October 2015**
London: **23-27 November 2015**

Level III: Specialist Programmes

Corporate Actions - An Introduction
London: **13-14 October 2015**
Corporate Actions - Operational Challenges
London: **15-16 October 2015**

Trading & Hedging Short-Term Investment Rate Risk
London: **20-21 October 2015**

Trading the Yield Curve with Interest Rate Derivatives
London: **22-23 October 2015**

Collateral Management
London: **27-28 October 2015**
Singapore: **10-11 December 2015**

Commodities – An Introduction
London: **2 November 2015**

Commodities - Trading and Investment Strategies
London: **3 November 2015**

Inflation-linked Bonds and Structures
London: **4-5 November 2015**

The ICMA Guide to Best Practice in the European Repo Market
London: **16 November 2015**

Fixed Income Portfolio Management
London: **23-24 November 2015**

Securities Lending & Borrowing - Operational Challenges
London: **30 November - 1 December 2015**

Inflation-linked Bonds & Structures
London: **4-5 November 2015**

ICMA Executive Education Skills Courses

Successful Sales
London: **12-13 October**

Contact: education@icmagroup.org

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
ASEAN	Association of Southeast Asian Nations
BBA	British Bankers' Association
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBIC	ICMA Covered Bond Investor Council
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDS	Credit default swap
CFTC	US Commodity Futures Trading Commission
CGFS	Committee on the Global Financial System
CICF	Collateral Initiatives Coordination Forum
CIF	ICMA Corporate Issuer Forum
CMU	Capital Markets Union
CNAV	Constant net asset value
CoCo	Contingent convertible
COGESI	Contact Group on Euro Securities Infrastructures
COREPER	Committee of Permanent Representatives (in the EU)
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
DMO	Debt Management Office
D-SIBs	Domestic systemically important banks
DVP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
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
ECPC	ICMA Euro Commercial Paper Committee
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)
EFSF	European Financial Stability Facility
EFSI	European Fund for Strategic Investment
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERC	ICMA European Repo Council
ESA	European Supervisory Authority
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
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
FATCA	US Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
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 Market Standards Board
FPC	UK Financial Policy Committee
FRN	Floating-rate note
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
GDP	Gross Domestic Product
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
HMRC	HM Revenue and Customs
HMT	HM Treasury
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositaries
IFRS	International Financial Reporting Standards
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
ITS	Implementing technical standards
KfW	Kreditanstalt fűr Wiederaufbau
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
MAD	Market Abuse Directive
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
MMCG	ECB Money Market Contact Group
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
NSFR	Net Stable Funding Ratio (or Requirement)
OAM	Officially Appointed Mechanism
OJ	*Official Journal of the European Union*
OMTs	Outright Monetary Transactions
ORB	London Stock Exchange Order book for Retail Bonds
OTC	Over-the-counter
OTF	Organised Trading Facility
PD	Prospectus Directive
PD II	Amended Prospectus Directive
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSI	Private Sector Involvement
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RM	Regulated Market
RMB	Chinese renminbi
ROC	Regulatory Oversight Committee of the Global Legal Entity Identifier System
RPC	ICMA Regulatory Policy Committee
RSP	Retail structured products
RTS	Regulatory technical standards
SEC	US Securities and Exchange Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SLL	Securities Law Legislation
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SPV	Special purpose vehicle
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	Short Selling Regulation
T+2	Trade date plus two business days
T2S	TARGET2-Securities
TD	Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TRs	Trade repositories
UKLA	UK Listing Authority
VNAV	Variable net asset value

ICMA welcomes feedback and comments on the issues raised in the Quarterly Report. Please e-mail: regulatorypolicynews@icmagroup.org or alternatively the ICMA contact whose e-mail address is given at the end of the relevant article.

 Published by: Corporate Communications, International Capital Market Association Limited, 23 College Hill, London EC4R 2RP
Phone: + 44 207 213 0310 info@icmagroup.org

ICMA
International Capital Market Association

International Capital Market Association (ICMA)
Talacker 29, 8001 Zurich, Switzerland
Telephone +41 44 363 4222 Fax +41 44 363 7772
www.icmagroup.org