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Assessment of Market Practice and Regulatory Policy

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ICMA

International Capital Market Association

ICMA is the long-established trade association for the international debt capital market. It has almost 500 member firms from 57 countries, including banks, borrowers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market. www.icmagroup.org

It was never going to be easy

Foreword by Jens Peter Leschly Neergaard

The financial crisis is over. But just as confidence should bring stability and falling volatility to the market, the pressure on central banks is accelerating, as the risk to global growth is rising. The inevitable slowdown in the Chinese economy and the sharp declines in commodity prices are adding stress to commodity exporters like Brazil and Russia.

Geopolitical tensions surrounding Russia's annexation of Ukraine, immigration problems in Europe and an inconvenient downward pressure on inflation from declining commodity prices are all adding to an autumn wariness. Consequently, some central banks are more or less openly participating in an old-fashioned currency war attempting to strengthen the outlook for activity and inflation by weakening their currencies. Increased regulation is seriously challenging the effectiveness of monetary policy as it weakens the traditional mechanism through which the policy would have an economic impact. In here probably lies the biggest systemic threat to financial stability as well as growth.

Aimed at preventing future financial crises, increased regulation with significantly higher capital requirements comes at a cost. It reduces banks' abilities and incentives to increase lending as well as their support for secondary market activity. This might not be all bad. Lack of bank lending appetite could incentivise borrowers to obtain alternative financing, such as stock and bond issuance, peer-to-peer lending or crowd-funding. Less lending through banks reduces leverage and the vicious circle between banks and sovereigns, implying that the economy will be financed at less risk to the taxpayer. The problem is, however, that most alternative financing sources – eg shadow banking – are not regulated and cannot be monitored or indeed controlled for the purpose of investor and consumer protection.

Bank lending started to improve while the cost of borrowing slowly declined before the ECB had finalised its comprehensive assessment of banks and concluded that only a limited number of banks had not covered their capital shortfalls. The early progress could reflect banks' anticipation that enough capital had been raised, but should also be seen in light of the ECB stepping up its monetary easing by introducing a negative deposit rate and, later on, also forcing liquidity into the system by initiating a large-scale asset purchase programme. The ECB's aggressive easing seemed necessary in order to defend its inflation mandate. Looking ahead, the effectiveness of monetary policy is dependent on predictable, transparent and consistent regulation. Less uncertainty over how much capital is required is needed in order for banks to make a credible business plan and, in that way, transfer the monetary policy easing to consumers and businesses.

There are many potential explanations behind the recent fall in market liquidity: more algorithmic trading, which drives large mechanical shifts in demand/supply; QE (and QE+), which have strengthened herding behaviour among market participants; and growing ETFs, which are investing in illiquid assets but are promising a high degree of liquidity to end-investors. However, it is clear that increased regulation – relating, for example, to the Liquidity Coverage Ratio, Leverage Ratio and Net Stable Funding Ratio – makes it more costly for banks to warehouse risks, forcing them to cut back on market-making activity.

As such, increased financial regulation is one of the major causes of a massive shift in bond market liquidity from banks to the buy side. This should really concern all of us. You will have read ICMA studies about how banks' ability to hold risk has diminished, and not a week goes by without a firm announcing its withdrawal from market making. Importantly, these trends are taking place just as demand for and dependence on market liquidity is on the rise, where bond markets are expanding and assets under management of investment funds that promise daily liquidity are growing rapidly. At exactly the point in time where the world needs well-functioning fixed income markets, new regulation is sucking the life from them.

Jens Peter Leschly Neergaard is Global Head of International Banking at Danske Bank and Deputy Chairman of ICMA

Message from the Chief Executive

by Martin Scheck

A warm welcome to the members who have joined ICMA since our AGM in June – it is gratifying to see the membership continuing to grow (now 489 in 57 different countries) and also to see more and more of our members working with us on the committees, councils and working groups. This is critical in providing the input needed to design and update best practices, and to provide substantive, balanced and thoughtful input to regulators and other policy makers as we try to enhance the resilience and efficiency of the capital markets – many thanks to all of you.

There are a number of initiatives mentioned in this report which I want to draw attention to here as requiring special focus, given their importance to the operation of the market.

We have been highlighting the reduction in secondary market liquidity for well over a year – our report in November 2014 was an early *exposé* of the problems and issues. Since then there has been a surge of concern that the secondary markets are functioning at maximum efficiency – central banks and regulators are now alive to the issue and saying that "something must be done". Easy to say but not so easy to do. We continue to talk to issuers and investors about what they can do to mitigate bond illiquidity. Increased electronic trading, making such liquidity as there is more visible, is one positive development, and we have conducted a mapping of electronic platforms over the summer – this is just being released and warrants careful study. This will feed into a paper on electronic trading in the fixed income markets which we expect to publish in the next few months. Our new Electronic Trading Working Group bringing together, as ICMA so often does, interested parties from both buy and sell side of the market, will continue to look in detail at how far the current offerings cater to the needs of the market users. However, we remain concerned that the liquidity situation could actually become worse, particularly in Europe as further planned regulation is implemented. The correct MiFID II calibration of which bonds are and are not liquid is critical, and the final mechanics and timetable for implementing the ill-conceived mandatory buy-in regime under the CSDR are also exceptionally important in terms of the potential scale of their impact on secondary markets. We have been actively reflecting the views of our members to the authorities, and there is more detail on these topics in this Quarterly Report. We would encourage our members to engage actively in this discussion with ICMA, with regulators and national authorities, to try to achieve the optimal outcome.

In the primary market, a key area of focus for ICMA, we were delighted to release an updated and revised version of the ICMA Primary Market Handbook last month. The Handbook comprises ICMA recommendations, guidance, standard language and documentation generally relating to offers of syndicated international bonds in the primary market. The update consolidates the work that has been done over three decades in making primary market processes predictable and fair. Although the update of the Handbook has been completed, it remains very much a living document which will be amended in the future as the issuing and distribution process continues to evolve. There is increasing regulatory scrutiny on new issues processes this year with the UK's Fair and Effective Market Review – to which we responded and which has given rise to the creation of a FICC Markets Standards Board. Given our role in setting standards of best practice in the international debt capital markets, we look forward to providing input and will continue to make sure that the voices of our investor and issuer members are heard in this debate as well as those of the market intermediaries. The FCA competition review also covers primary debt markets. It is important that members are aware of these regulatory initiatives since they are likely to have extra-territorial impact outside the UK, particularly for the many new issues which have a nexus with the UK.

You may remember that Capital Markets Union was a major theme at our AGM in Amsterdam in June. Since then we have hosted regular calls with other European associations with an interest in CMU to share information. We are continuing with the initiatives on the CMU agenda – for example on the product side we released a comprehensive guide to infrastructure finance; we are making progress with European private placements; we remain heavily focused on green bonds; and we expect there to be progress on rationalising the risk-weightings for investors in simple and transparent securitisations. Following a Green Paper, the final CMU Action Plan has just been released. We are pleased to note that all our existing CMU-related workstreams are mentioned in the Action Plan and we look forward to continuing our efforts to create an integrated financial market in the European Union.

For those of our members who use repo, we would draw your attention to the impact of the Bank Recovery and Resolution Directive, which is now being implemented by Member States. The differing approaches adopted by different Member States are causing some concern. Also of interest will be the work we are undertaking on the insertion of "resolution stays" into securities financing transactions undertaken by the 18 systemic banks under GMRA by way of a protocol.

In Asia I am pleased to say that the ICMA-NAFMII Working Group founded in 2014 under the auspices of the UK-China Economic and Financial Dialogue published its first output in September – a comparative review of processes in the Chinese domestic new issue markets and those used in the international cross-border markets. The most recent UK-China Economic and Financial Dialogue meeting took place last month and specified that this Working Group will continue into 2016, and also encouraged ICMA's activities in China on "green bonds".

Before closing, just a word on executive education, where we have now some six months' experience of running the two introductory courses (Financial Market Foundation Course and Securities Operations Foundation Course) and our flagship Fixed Income Certificate in an on-line format. Initial feedback is positive – there has been a high level of registrations and the cost and time efficiency of the on-line format has been greatly appreciated. Do take a look.

For more information on these and any other topics please do not hesitate to call the relevant ICMA staff member whose name and contacts accompany the articles in this quarter's edition – they will be pleased to hear from you. Alternatively if more convenient please take advantage of the Legal and Regulatory Helpdesk number and e-mail for any questions.

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"There are a number of initiatives requiring special focus, given their importance to the operation of the market.

International capital market integration

Quarterly Assessment by Paul Richards

Summary

Capital markets can integrate across borders internationally when there are no national barriers to prevent the free flow of capital. Capital market integration in Europe is work in progress in three main respects: first, fiscal and monetary policy in the euro area; second, Banking Union; and third, Capital Markets Union. There are also differences between the "ins", which share the euro as a single currency across the euro area, and the "outs" in the rest of the EU. Capital Markets Union should not be limited to the EU. EU capital markets should be open to the rest of the world. International capital market integration is potentially a global benefit. But there are currently a number of complicating factors.

Introduction

1 International capital market integration involves the development of efficient capital markets across borders by practitioners in market firms from the "bottom up" as well as the removal of cross-border barriers by regulators from the "top down", and can only take place within a framework of sound fiscal and monetary policy by governments. ICMA has been encouraging international capital market integration for almost 50 years. *[See Box 1.]* This Quarterly Assessment explains why international capital market integration matters and takes stock of progress to date: first in Europe, both within the euro area and across the EU as a whole; and second, in the global context.

Why capital market integration matters

2 Capital markets can integrate across borders internationally when there are no national barriers to prevent the free flow of capital. Convergence of short-term interest rates and bond yields across borders provides an indicator of capital market integration, but cross-border convergence and capital market integration are not the same.

Box 1: Bonds Without Borders

"The Eurobond market, the largest international capital market the world has known, has a confusing name. *Eurobond* does not refer exclusively to bonds issued in Europe or indeed bonds denominated in the euro currency. The term *Eurobond* defines the type of security rather than the currency or domicile of the obligation. A Eurobond issue is one denominated in a particular currency, but sold to investors in national capital markets other than the country of issue. It is a bond issue specifically targeted at cross-border distribution. It does not follow the rules of a particular domestic market. In the modern era this cross-border status is protected by documentation which protects the investor's right to receive payment free of any national withholding taxes. Over half a century, the Eurobond market has grown into the world's largest international capital market, with approximately $20 trillion equivalent of bonds outstanding at mid-2013."

From *Bonds Without Borders: A History of the Eurobond Market* by Chris O'Malley: published in 2015 by Wiley Finance Series in association with ICMA.

3 Capital market integration is widely thought to have brought benefits for the global economy: eg

- by increasing efficiency, reducing the cost of capital and thereby promoting economic growth;
- by encouraging international competition and the spread of technological innovation; and
- by broadening the international financial system (eg to include Communist and former-Communist countries and emerging market economies).

4 International capital flows can be volatile (as in the recent case of China). But the appropriate policy response by the authorities to the "ups" and "downs" of the economic cycle should not normally be the imposition of new national barriers or exchange controls. Instead, the authorities should coordinate fiscal, monetary and macroprudential policy internationally in a contracyclical way, while recognising that different geographical regions may be at different stages of the economic cycle. Floating exchanges rates provide some flexibility within the international financial system for economies to adjust, as long as this does not lead to competitive devaluation between trading partners. If necessary, central banks can also provide temporary support through official intervention in the foreign exchange market.

Capital market integration in Europe

5 Capital market integration in Europe is work in progress in three main respects: first, fiscal and monetary policy in the euro area; second, Banking Union; and third, Capital Markets Union. There are also differences between the "ins", which share the euro as a single currency across the euro area, and the "outs" in the rest of the EU. As a result, an integrated capital market in the euro area should resemble the capital market of a single country, whereas an integrated capital market across the EU as a whole should help complete the Single European Market between different countries.

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(i) Fiscal and monetary policy

6 Although the euro area has a single currency, it has 19 different governments which, under the EU Treaty, do not have a large central budget nor stand behind each other's debts. Instead, fiscal policy is subject to the rules of the Stability and Growth Pact, while monetary policy is set independently by the ECB against an inflation target. In response to the international financial crisis, the European Stability Mechanism (ESM) has been established to act as lender of last resort to euro-area governments in financial difficulty, provided that they agree to policy conditions in advance. The ECB has pledged to do "whatever it takes" within its mandate to preserve the euro, and backed up this commitment with an Outright Monetary Transactions (OMT) programme for buying the debt of the governments concerned in the secondary market, provided that they have a bail-out agreement in place. This facility has not so far had to be used. But given that inflation in the euro area is below the ECB's target level and short-term euro interest rates are at the lower bound, the ECB has also this year introduced quantitative easing (QE) across the euro area as a whole (with the exception, so far, of Greece) in order to bring inflation back to the ECB's target level.

7 The difficulty in negotiating the third Greek bail-out this summer has reopened the debate about the future integration of the euro area. There are a number of unresolved questions. One is whether the euro area should move towards greater integration in an attempt to prevent the risk of disintegration. The main unresolved issue is that there is not yet agreement (eg between Germany and France) over what form greater integration should take:

- Should there continue to be a rules-based system where each euro-area government is responsible for its own national debt until there is much greater economic convergence between the participating Member States, in which case how are the rules going to be enforced? Or should national government debt be mutualised at euro-area level to promote greater economic convergence across the euro area as a whole and to establish a euro-area benchmark government yield curve, in which case how is the euro area going to prevent national "free riders"? Or should there be some combination, with one followed by the other?
- At what stage in the process should national budgets in the euro area become centrally controlled: eg through the appointment of a suitably empowered euro-area Finance Minister or Commissioner accountable to the European Parliament, possibly in a configuration relating only to the euro area?
- And should provision be made for fiscal transfers from richer countries to poorer countries within the euro area?

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The resolution of these outstanding issues is likely to require a change in the EU Treaty, which a number of governments of EU Member States have hitherto wished to avoid, in part because a Treaty change would need to be ratified in some Member States through a referendum, with unpredictable results.

8 The second unresolved question is how to make more effective the fiscal policy conditions set by official creditors in the euro area in exchange for bail-outs (eg in the case of Greece). In particular:

- Are the conditions set consistent with restoring growth and reducing unemployment within a reasonable period of time? Or are parts of the euro area (like Greece) condemned in practice to a persistent lack of competitiveness?
- Related to this, should government creditors in the euro area be willing to accept debt relief (eg in the case of Greece); and if so, in the form of extended maturities and concessionary interest rates or alternatively in the form of debt write-downs or write-offs?
- And given that the German Government has so far ruled out debt write-downs but has previously made it a condition for providing bail-out programmes that the IMF should also be involved, what happens if the IMF insists on a debt write-down as a condition for its own future involvement?

9 The third unresolved question is whether euro-area membership is irreversible or whether Member States in the euro area can in practice choose – or effectively be forced – to leave (eg if they do not meet the conditions of a bail-out). For the first time, during the negotiations in July on the principle of the third bail-out programme for Greece, the German Finance Minister openly proposed that "in case no agreement could be reached, Greece should be offered swift negotiations on a time out from the euro area." In the event, agreement was subsequently reached on a third bail-out for Greece. But now that the question of exit has been raised officially, capital markets will be aware of the risk if similar circumstances arise in future. And if a Member State were to leave the euro area, a commitment to join the euro area would no longer be treated in capital markets as irreversible.

10 During the recent Greek crisis, differentials between the bond yields of other governments in the euro area over bunds rose slightly, but remained much lower than during the previous Greek crisis in 2012, and have since fallen, as have corporate bond yield differentials. However, there is still an appreciable differential between yields on both government and

corporate bonds in the core of the euro area, on the one side, and the periphery, on the other. There has also been a significant deterioration in liquidity in the corporate bond market. Beyond the steps that are already being taken, such as QE, this raises the question of what else can be done to reduce yield differentials.

(ii) Banking Union

11 Banking Union is designed to increase the depth of integration in the euro area, though other EU Member States can opt in. But Banking Union is a relatively recent project and it is still incomplete. Banks in the euro area are now under the supervision of the Single Supervisory Mechanism at the ECB, and supported by a Single Resolution Mechanism for bailing in insolvent banks, whose costs are due to be mutualised among banks over a period of time. There is a single euro-area payment system (TARGET2), and progress is being made to integrate securities settlement (TARGET2-Securities). However, there is no common deposit guarantee scheme in the euro area: only separate national schemes. Within existing rules, some national discretions remain. And it is not yet clear how effective the new arrangements for bailing in insolvent banks will be in practice.

12 The Greek case has raised questions about the degree of banking integration across the euro area as a whole. Capital controls have had to be imposed this year in Greece (as in Cyprus in 2013), with the practical effect that a euro in a bank in Greece has not been the same as a euro in a bank in the rest of the euro area. The deposit guarantee scheme is a Greek Government scheme, not a euro-area scheme. The ECB may need to continue to provide liquidity to the Greek banking system through the Bank of Greece, in case Greek depositors continue to withdraw their deposits. And in order to remain solvent, the Greek banking system may need to be recapitalised, and

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Capital Markets Union is designed to encourage capital market financing of the real economy by building on previous Single Market legislation to deepen capital market integration across the EU as a whole.

the number of banks in Greece may need to be consolidated. A decision on these steps is subject to the outcome of an asset quality review and stress test of the Greek banking system by the ECB. It is not yet clear whether the European Stability Mechanism will recapitalise the banks by bailing them out, or whether bondholders and depositors (above the national deposit guarantee threshold) will be bailed in, or a mixture of both.

13 Across the EU as a whole, banking integration is still limited in scope. Banks have reduced their cross-border lending in response to the crisis. They have also reduced their role as market makers in securities. There is not yet much new evidence of banking consolidation across borders in the EU. And where banks do operate in different EU Member States, they often do so through separately capitalised subsidiaries rather than branches. This has sometimes been encouraged by national regulators. While the interdependence between banks and their sovereigns on the periphery of the euro area has been reduced since the crisis, the exposure of banks to their own sovereigns still attracts preferential regulatory treatment. It is not yet clear that the provisions for bank resolution under the Bank Recovery and Resolution Directive will be implemented in the same way in different jurisdictions. There are also further regulatory changes to come in the form of bank structural reforms to separate wholesale from retail banking, and there is a risk that these changes will be implemented in different ways in different countries.

(iii) Capital Markets Union

14 The European Commission’s initiative on Capital Markets Union is designed to encourage capital market financing of the real economy by building on

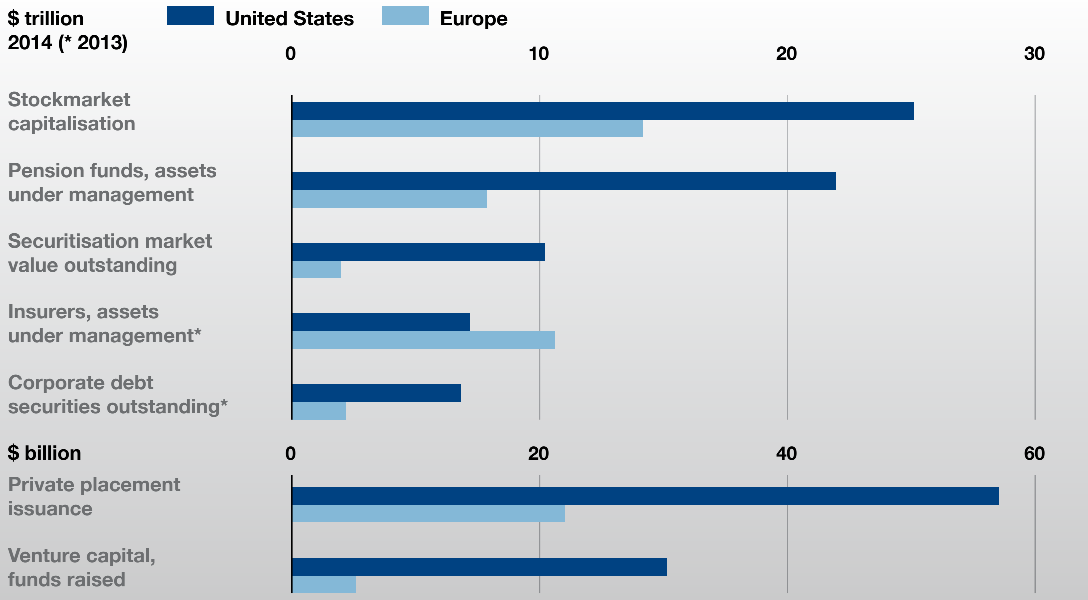
previous Single Market legislation to deepen capital market integration across the EU as a whole. Bank lending has traditionally played – and still plays – a much larger role in financing the real economy in Europe than bank lending in the US, and debt capital markets play a much smaller role in Europe than in the US. There may be lessons for the EU to learn from the US, while recognising that the EU has different traditions and characteristics. *[See Chart.]*

15 Capital Markets Union is not intended to replace bank financing, but to complement it. Bank lending is constrained as a result of prudential regulation on capital, liquidity and leverage, introduced in response to the international financial crisis, which has led to bank recapitalisation and deleveraging of bank balance sheets. Capital markets are an alternative source of finance to bank lending, and a means of diversifying risks away from the banks, so that the EU economy is not in future so heavily dependent as it was during the crisis on a single source of finance.

16 Capital Markets Union is also part of the European Commission's "better regulation" agenda. In other words, the Commission intends to concentrate on improving the quality of regulation rather than increasing its quantity. It has also been asked to assess its cumulative impact, by the ECON Committee of the European Parliament, by the end of 2016. The Commission recognises that there are some intractable cross-border regulatory issues – eg relating to insolvency reform, securities law and withholding tax – which would require new EU legislation and which cannot be solved in a hurry. (Tax issues also depend on unanimity among the 28 EU Member States, rather than qualified majority voting). However, progress can be made towards Capital Markets Union in the short term in other ways, either by encouraging market-based solutions without the need for new EU legislation, or – where EU legislation is necessary – in the expectation that a consensus will swiftly be reached.

17 On 30 September, the Commission published an Action Plan on Building a Capital Markets Union. The Action Plan sets out steps which the Commission proposes to implement over the next four years, taking account of responses to its Green Paper earlier this year. The Commission's aim is to strike the right balance between managing risk and enabling growth in the EU by: deepening financial integration, strengthening the resilience of the financial system, supporting job creation and improving competitiveness, through: the diversification of sources of funding to the EU economy; cross-border risk sharing; and the creation of deeper and more liquid markets. *[See Box 2.]*

Chart: European and US capital market comparison



Source: The Economist.

Box 2: The European Commission Action Plan on Building a Capital Markets Union

The main conclusions in the Commission's Action Plan relevant to ICMA include the following:

Private placements: The Commission is fully supportive of the work by ICMA and the German Schuldscheine regime on [private placement] issues and will seek to draw on best practices and promote them across the EU through appropriate initiatives.

Prospectus Directive: The Commission will modernise the Prospectus Directive. This will update when a prospectus is needed, streamline the information required and the approval process, and create a genuinely proportionate regime for SMEs to draw up a prospectus and access capital markets.

Corporate bond markets: The Commission will review the functioning of EU corporate bond markets, focusing on how market liquidity can be improved, the potential impact of regulatory reforms, market developments and voluntary standardisation of offer documentation.

Debt-equity bias: As part of the broader work being taken forward on the Common Consolidated Corporate Tax Base, where a new proposal will be prepared in 2016, the Commission will examine ways to address debt-equity bias.

Finance for infrastructure: To facilitate the funding of infrastructure and sustainable long-term investment in Europe, the Commission is presenting revised calibrations in Solvency II to ensure that insurance companies are subject to a regulatory treatment which better reflects the risk of infrastructure and ELTIF investments. The Commission will complete the review of the CRR and make changes on infrastructure calibrations, if appropriate.

Cumulative impact of financial reform: The Commission has launched a call for evidence to evaluate the interactions between rules and the cumulative impact of the financial reform on the investment environment.

Retail financial services: By the end of 2015, the Commission will publish a Green Paper on retail financial services and insurance that will seek views on how to increase competition and cross-border supply of and access to retail financial products, as well as the impact of digitalisation on retail financial services.

Retail investment products: The Commission will undertake a comprehensive assessment of European markets for retail investment products, including distribution channels and investment advice, drawing on expert input.

Solvency II: The Commission will assess whether changes are warranted and, if so, prepare amendments which could be brought forward in the context of the Solvency II review.

Investment funds: The Commission will gather evidence on the main barriers to the cross-border distribution of investment funds.

STS securitisation: The Commission has published a proposal for an EU framework for simple, transparent and standardised (STS) securitisation, together with new prudential calibrations for banks in CRR. Equivalent calibrations for insurers through an amendment to the Solvency II Delegated Act to incorporate the STS criteria will follow as soon as the STS framework has been adopted.

Covered bonds: The Commission has published a consultation on the development of a pan-European framework for covered bonds, building on national regimes that work well without disrupting them and based on high-quality standards and best market practices. The consultation also seeks views on the use of similar structures to support SME loans.

Securities ownership: The Commission will take forward early targeted work on uncertainty surrounding securities ownership.

Post-trade and collateral: To support more efficient and resilient post-trading systems and collateral markets, the Commission will undertake a broader review on progress in removing Giovannini barriers to cross-border clearing and settlement, following the implementation of recent legislation and market infrastructure developments.

National barriers: The Commission, working with Member States, will map and work to resolve unjustified national barriers to the free movement of capital, stemming, amongst other things, from insufficient implementation or lack of convergence in interpretation of the single rulebook and from national law, that are preventing a well-functioning Capital Markets Union and publish a report by the end of 2016.

Insolvency: The Commission will propose a legislative initiative on business insolvency, including early restructuring.

Withholding tax: To encourage Member States to adopt systems of relief-at-source from withholding taxes and to establish quick and standardised refund procedures, the Commission will promote best practice and develop a code of conduct with Member States on withholding tax relief principles.

Risks to financial stability: The Commission will work with the FSB and ESAs alongside the ESRB to assess possible risks to financial stability arising from market-based finance. The Commission will make any changes necessary to the macroprudential framework in the context of the forthcoming ESRB review.

Supervisory convergence: The Commission will work with ESMA to develop and implement a strategy to strengthen supervisory convergence and to identify areas where a more integrated approach can improve the functioning of the single market for capital. The Commission will publish a White Paper in 2016 on the governance and the financing of the ESAs.

> Both "ins" and "outs" participate in the Single European Market, and a level playing field is needed between them.

(iv) "Ins" and "outs"

18 The major difference between the "ins" in the euro area and the "outs" in the rest of the EU is that, as the "outs" issue their own national currencies, they are each responsible for their own monetary and fiscal policy. However, both "ins" and "outs" participate in the Single European Market, and a level playing field is needed between them. If the euro area becomes increasingly integrated in future in an attempt to prevent a repetition of the Greek crisis, a settlement will be needed between the "ins" and the "outs" to maintain a level playing field within the Single Market across the EU as a whole.

19 Single Market measures are in general subject to qualified majority voting (QMV). If the euro area acts as a bloc, it can consistently outvote the "outs" under QMV. Double majority voting, which was introduced under the 2007 Lisbon Treaty with effect from 2014, takes account not just of the number of Member States but also their population sizes, but the mechanism is itself subject to QMV. By contrast, EBA decisions are subject to a double majority of both euro-area and non euro-area Member States. Could a system of this kind be introduced more widely than it is at present, without a QMV override? Or could a more general provision be made to prevent discrimination by the "ins" against the "outs"?

> In a global context, capital market integration is currently complicated by a number of factors.

The global context

20 Capital Markets Union should not be limited to the EU. EU capital markets should be open to the rest of the world. International capital market integration is potentially a global benefit. But, in a global context, capital market integration is currently complicated by a number of factors:

- Global capital market integration has suffered since the onset of the international financial crisis, as global banks have retrenched, and international trade has not recovered to pre-crisis levels of growth.
- The G20 has taken the lead in agreeing on financial regulatory reform in response to the crisis, with the support of the Financial Stability Board (FSB). But it is up to national governments (operating together in the case of the EU) to introduce legislation to implement new measures which the G20 has agreed.
- This has given rise to different approaches to regulatory reform in different geographical regions: in particular between the US and the EU, which were at the heart of the international financial crisis, on the one side, and Asia, which was significantly less affected and which does not see the need for new measures in the same way, on the other side.
- In addition, there are differences of regulatory interpretation and timing of implementation between the EU and the US: eg between EMIR in the EU and Dodd-Frank in the US.
- A separate concern in the EU is whether EU banks are being put at a competitive disadvantage to US banks as a result of the way in which new regulations are being implemented, coupled with fines for non-compliance.
- There is also a question about how effective some new legislation (eg on "too-big-to-fail"), introduced in response to the crisis, will be in practice. And there are still some regulatory issues on the G20 agenda which have not yet been resolved. For example, while it has been agreed that asset managers will not be classified as G-SIFIs, it has not yet been agreed whether, and if so how, some of their activities (eg investment funds) will become more heavily regulated.

21 In the case of global capital markets, the global standard setter is IOSCO. But IOSCO has no legal or binding authority over its members, and there is no agreement as yet to use IOSCO for resolving disputes between different national jurisdictions. However, the IOSCO Task Force on Cross-Border Regulation has identified a number of ways in which IOSCO can help to promote consistent approaches to cross-border regulation. *[See Box 3.]*

Box 3: The IOSCO Task Force Report on Cross-Border Regulation

IOSCO is seeking to promote consistent – but not necessarily identical – regulatory approaches to securities market activities across borders, on the basis that the removal of regulatory impediments across borders should contribute to global economic growth. Achieving this is a challenge, because IOSCO needs to take account of: different philosophies and approaches to regulation; different financial market characteristics and stages of development; and reservations on the part of regulators to outsource regulation to a foreign jurisdiction.

The IOSCO Task Force Report on *Cross-Border Regulation*, published in September 2015, outlines a "tool kit" of three regulatory approaches – national treatment, recognition and passporting – for cross-border market regulation. The Task Force Report builds on the experience of IOSCO members in implementing OTC derivatives reforms, among other areas, and input from the industry. It outlines how IOSCO will support its members in using more recognition tools in particular. It recommends that IOSCO Policy Committees should explicitly identify cross-border issues in their policy work, and that IOSCO should use workshops and information repositories – for MOUs on supervisory cooperation and for recognition decisions – to allow IOSCO members to share their experience in using recognition tools. It also recommends that IOSCO should engage more with the G20 and the FSB to raise awareness of issues relating to cross-border regulation.

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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]

Short-term markets

1 *Repo trading guidelines:* A revised version of the ICMA European Repo Council (ERC) *Guide to Best Practice in the European Repo Market* was published on 27 July. Jointly with ASIFMA, ICMA has also published a new ASIFMA-ICMA *Guide on Repo in Asia.*

2 *SFT trade matching and affirmation:* The ERC Operations Group is working towards harmonised industry standards on trade matching and affirmation processes for securities financing transactions.

3 *SFT Regulation:* On 18 September, ICMA and ISLA held an educational seminar for ESMA on SFTs, in anticipation of detailed work on the SFT Regulation; and ICMA has participated in SFT reporting meetings with relevant FSB and ESCB Working Groups.

4 *Triparty Settlement Interoperability:* ICMA is seeking to ensure that progress is made on the initiative on Triparty Settlement Interoperability in as timely a manner as possible. Phase one of bridge improvements between the ICSDs, a necessary preliminary step, went live on 28 September.

5 *Cross-border collateral:* The ERC Committee continues to support the ongoing 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.

6 *ERC/ECB:* The ERC Committee met the ECB in Frankfurt on 16 September to discuss technical issues relating to the repo market and collateral; and some members of the ERC Committee have similarly met the Bank of England.

7 *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 ICMA study on repo market liquidity is due to be published in November.

8 *Repo market data:* The 29th semi-annual survey of the European repo market was published on 29 September.

Primary markets

9 *FCA market study:* The FCA is now engaging stakeholders, including ICMA and its members on its market study of investment and corporate banking, covering both debt and equity markets.

10 *ICMA Primary Market Handbook:* The overall review of the ICMA Primary Market Handbook has been completed and the revised Handbook was launched in London on 10 September.

11 *Prospectus Directive:* ICMA representatives have discussed the review of the Prospectus Directive, through meetings or conference calls, with the European Commission, ESMA, the German Ministry of Finance and a number of national regulators.

12 *PRIIPs:* ICMA responded to the ESAs' joint Discussion Paper on *Key Information Documents for Packaged Retail and Insurance-based Investment Products* on 17 August.

Secondary markets

13 *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.

14 *CSDR Level 2:* ICMA responded, by the deadline of 6 August, to ESMA's supplementary consultation on the CSD Regulation (CSDR). ICMA also published a briefing note on *Buy-ins, How They Work, and the Challenge of the CSDR.*

15 *Electronic trading platforms:* ICMA has published the results of its mapping exercise on electronic trading platforms and their use by the buy side and the sell side.

16 *Secondary market liquidity:* ICMA has applied for observer status on IOSCO Standing Committee 2 on secondary markets. One of Standing Committee 2's projects over the next year is on secondary market liquidity.

Asset management

17 *Systemic risk:* The ICMA Asset Management and Investors Council (AMIC) responded, by the deadline of 29 May, to the FSB/IOSCO consultation on non-bank non-insurer global systemically important financial institutions.

18 *Bail-in:* The ICMA Bail-In Working Group wrote to the ECB on 31 July about the remaining uncertainties for investors arising from the bail-in process, following a meeting with the ECB on 8 July.

19 *EMIR:* The AMIC responded, by the deadline of 13 August, to the consultation on EMIR, focusing on certain aspects of the clearing obligation, trade reporting and the exemption for pension funds.

Capital market products

20 *Pan-European private placements*: An ICMA delegation visited the German Ministry of Finance in Berlin on 7 September to discuss the Schuldschein market, and a pan-European Private Placement Joint Committee was hosted in Paris by the Banque de France on 29 September.

21 *Green bonds:* The Green Bond Principles Executive Committee met in Paris on 17 September following the vote to increase the Committee from 18 to 24 members, while keeping the proportions of issuers, intermediaries and investors the same.

Other meetings with central banks and regulators

22 *RPC:* ICMA's Regulatory Policy Committee held a discussion with Verena Ross, the Executive Director of ESMA, at its meeting in Paris on 11 June; and with David Lawton, International Director of the FCA, at its meeting in London on 17 September.

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

24 *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.

International Regulatory Reform

by David Hiscock

Global financial regulatory reforms

On 2 July 2015, the FSB launched a peer review on the implementation of its policy framework for financial stability risks posed by non-bank financial entities other than MMFs ("other shadow banking entities"). The objective of the review is to evaluate the progress made by FSB jurisdictions in implementing the overarching principles set out in the framework – in particular, to assess shadow banking entities based on economic functions, to adopt policy tools if necessary to mitigate any identified financial stability risks, and to participate in the FSB information-sharing process. A questionnaire to collect information from national authorities was distributed to FSB members; and the FSB invited feedback (by 24 July) from financial institutions, industry and consumer associations, as well as other stakeholders on the areas covered by the peer review. The responses will be analysed and discussed by the FSB later this year, with the peer review report planned to be published in early 2016.

Following from a thorough process of review, on 28 July 2015, IOSCO published a document setting out the *Strategic Direction for IOSCO from 2015 to 2020*. IOSCO's Strategic Direction comprises the following:

- A Mission to 2020;
- A Goal intended to support accomplishing the Mission;
- Priorities to support achieving the Goal;
- An integrated package of Action Plans to deliver the Priorities.

IOSCO's Mission as agreed in 2010 will continue to 2020, hence it will continue to be:

- to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
- to enhance investor protection and promote investor confidence in the integrity of securities markets through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

IOSCO's Goal to 2020 will be to reinforce IOSCO's position as the key global reference point for markets regulation and to accomplish its Mission by focussing on the following Priorities: (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 Organisations. Action Plans are stated to support the delivery of each of these Priorities.

G20 Finance Ministers and Central Bank Governors convened, for the third time under the Turkish Presidency, in Ankara on 4-5 September 2015; and upon the conclusion of the meeting, the agreed *communiqué* was released. During this meeting the participants exchanged views on the recent global economic developments, challenges and collective measures to address them. They also reviewed the progress in monitoring and adjustment of G20 growth strategies and evaluated the way forward for G20 investment strategies; and discussed international financial architecture issues, financial regulation, the international tax agenda and climate finance.

Regarding financial regulation, paragraph 9 of the *communiqué* reports that they reaffirmed their resolve to finalise the remaining core elements of the global financial reform agenda during 2015. They welcomed the work by the FSB, BIS and BCBS on rigorous and comprehensive quantitative impact assessments on TLAC for G-SIBs and by the BCBS and IOSCO on criteria for identifying simple, transparent and comparable securitisations. They look forward to the finalization of (i) the common international standard on the TLAC for G-SIBs and robust higher loss absorbency requirements for G-SIBs by the, 15-16 November 2015, Antalya Summit; (ii) previously agreed work on the extension of the contractual recognition of temporary stays on early termination rights for OTC derivatives contracts to include other instruments and firms; (iii) work on excessive variability in risk-weighted asset calculations for bank capital ratios; and (iv) implementation of the G20 shadow banking roadmap.

They also look forward to progress in 2015 on the agreed work plans regarding (i) CCPs' resilience, recovery planning and resolvability; (ii) misconduct risk; and (iii) withdrawal from correspondent banking and remittances services. They will work to address legal barriers to the reporting of OTC derivatives contracts to TRs and to the cross-border access of authorities to TR data, as well as to improve the usability of that data. They continue to closely monitor financial stability challenges, including those associated with asset management activities and will ensure that related risks are fully addressed. They look forward to the FSB's first annual report on the implementation and the effects of all reforms, including any material unintended consequences, particularly for EMDEs. Finally, they recognised potential risks to financial stability arising from liability structure distortions in corporate balance sheets and ask the FSB, in coordination with other international organisations, to continue to explore any systemic risks and consider policy options.

On 17 September 2015, IOSCO published the Final Report of the IOSCO Task Force on *Cross-Border Regulation*, which finds that cross-border regulation is moving towards more engagement via different forms of recognition to solve regulatory overlaps, gaps, and inconsistencies. While the increased engagement is mostly bilateral at this stage, multilateral engagement is likely to develop further as markets continue to grow and emerge around the world and with the greater use of supervisory MoUs. The report presents a series of concrete next steps aimed at supporting cross-border regulation and embedding the consideration of cross-border issues more effectively into IOSCO´s work, including that IOSCO Policy Committees will start to identify and consider specific cross-border implications of their policy making.

Task Force members also agree that IOSCO should engage more with the G20 and the FSB in order to raise greater awareness of the key issues and challenges faced by IOSCO members on cross-border regulation, including the need for more refined thinking on concepts of "deference". The report provides a detailed resource for regulators, as it includes a toolkit of three broad types of cross-border regulatory options; supporting case studies; a description of the processes

They look forward to the FSB's first annual report on the implementation and the effects of all reforms

used to assess comparability of foreign regulatory regimes; and considerations on the application of the toolkit.

On 25 September 2015, the FSB met in London to discuss progress in its ongoing workplan, in brief, subsequently reporting as follows:

- *Vulnerabilities:* The FSB discussed several current financial vulnerabilities, including the implications of rising debt in advanced economies and emerging markets and the volatility in commodity prices against the prospect of the normalisation of US monetary policy; and members also noted the potential for a cyber-security threat to exacerbate underlying vulnerabilities in the financial system.
- *Market liquidity and asset management:* The FSB has been working, based on the workplan it agreed in March, to identify risks associated with market liquidity and asset management activities in the current market conditions, as well as potential structural sources of vulnerability associated with asset management activities; and will evaluate in the first phase the role that existing or additional activity-based policy measures could play in mitigating potential risks, and make policy recommendations as necessary. Also, it reviewed the initial findings from the longer-term work on asset management structural vulnerabilities and identified areas for further analysis. The FSB and IOSCO will continue to conduct detailed analysis in these areas and, as necessary, develop policy recommendations in the first half of 2016.
- *Ending "too-big-to-fail":* Following on from last year's FSB consultation on a proposal for a global standard for TLAC to be applied to G-SIBs, FSB members discussed the TLAC impact assessments, and agreed the draft final principles and the updated term sheet; and the TLAC standard and its timelines will now be finalised by the time of the Antalya G20 Summit in November. The FSB reviewed the findings from the first round of the Resolvability Assessment Process for G-SIBs and the actions to address remaining impediments to resolvability. The FSB also endorsed the first version of the Higher Loss Absorbency (HLA) requirement for G-SIIs developed by the IAIS. The HLA standard will be revised before its implementation in 2019 to reflect further work by the IAIS on the G-SII assessment methodology and insurance capital requirements.
- *Transforming shadow banking into resilient market-based finance:* The Plenary agreed the approach for applying the FSB framework of numerical haircut floors to non-bank-to-non-bank SFTs. The final framework will be published shortly with an implementation date by the end of 2018.
- *Derivatives:* Plenary members reviewed progress in implementing OTC derivative market reforms; and, on cross-border issues, members received an update from the OTC Derivatives Regulators Group on its work and discussed the recent IOSCO report on cross-border regulation.
- *Implementation monitoring:* The Plenary discussed the draft of its first annual report on implementation and effects of reforms that will be presented to the Antalya G20 Summit.
- *Progress on the misconduct workplan:* The FSB reviewed progress on its coordinated workplan to reduce misconduct risk and discussed potential next steps to advance the workplan in 2016.
- *Auditing, accounting and disclosure issues:* The Plenary reiterated its support for the objective of achieving a single set of high-quality global accounting standards; and the International Forum of Independent Audit Regulators (IFIAR) to continue working with the big six audit firms to promote greater consistency of audit quality in global systemically important firms.

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European financial regulatory reforms

The Finance Ministers of the EU Member States met, in Brussels on 14 July 2015, to attend the first formal meeting of the ECOFIN under the Luxembourg Presidency. The Ministers then concluded the 2015 European Semester process by adopting the country-specific recommendations and had an initial exchange concerning the *Five Presidents' Report* on the deepening of EMU. The Luxembourg Minister of Finance and President of the ECOFIN Council, Pierre Gramegna, also presented the work programme of the Luxembourg Presidency of the Council.

On 19 August 2015, the EBA stated that it will incorporate additional analysis into its calibration reports on NSFR and the Leverage Ratio (LR). This announcement followed a request by the European Commission to obtain further advice so as to ensure its possible future policy actions in this area are well informed. In particular, the EBA has been called to conduct further analysis on proportionality, the scope of application and impact on markets of the calibration of NSFR and the LR. The EBA is mandated to elaborate a calibration report on NSFR by the end of 2015 and on the LR by October 2016, but it stated that the delivery date of the latter is likely to be advanced to July 2016.

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The administrators of the three most widely used IBORs have all taken major steps.

Stocktaking and Challenges of the EU Financial Services Regulation: Impact and the Way Forward Towards a More Efficient and Effective EU Framework for Financial Regulation and a Capital Markets Union is a report being prepared by the European Parliament. The draft Committee report was tabled, on 26 August 2015, by the *rapporteur*, Burkhard Balz, and is now under review. This own-initiative report is a first step to take stock of this legislative work, to address observed shortcomings in financial services law-making and to voice concerns that emerged in particular from the fact that the impact of the individual legislative measures and their interactions has not been sufficiently analysed and the accumulated impact of the overall legislation has so far not been fully evaluated.

EU Role in the Framework of International Financial, Monetary and Regulatory Institutions and Bodies is another report being prepared by the European Parliament. The draft Committee report was tabled, on 3 September 2015, by the *rapporteur*, Sylvie Goulard, and is now under review. It is perceived that the European institutions and national governments have difficulty in finding answers to simple but pertinent questions, such as: Who makes the decisions? Who lays down the rules governing the activities of the financial sector? When faced with expert opinion and private interests, do parliaments and governments still have the last word? And how do the EU and the euro area defend their strategic interests? This own-initiative report seeks to help clarify matters by examining the work of the EU within a dozen or so organisations of a political and/or technical nature.

EU Ministers of Economy and Financial Affairs met, in Luxembourg on 11 September 2015, during the first day of the informal ECOFIN convened by the Luxembourg Presidency of the Council. On this occasion, the Ministers discussed the financing of the fight against climate change, just over two months before the Paris Climate Conference, the principle of minimum effective taxation and the financial impact of the refugee crisis currently facing the EU. The informal ECOFIN reconvened, on 12 September, with this second day of the meeting dedicated to deepening EMU as well as the issue of the “bridge financing” for the SRF.

Participants in the Financial Markets Regulatory Dialogue (FMRD) met in Brussels, on 18 September 2015, to exchange information on regulatory developments as part of their ongoing dialogue. EU participants included representatives of the European Commission and the three ESAs, whilst US participants included staff of the Treasury and independent regulatory agencies, including the Fed, the CFTC, the FDIC and the SEC. Participants held productive discussions and exchanged views on bank structural measures, recent developments in bank resolution, CCP resolution, derivatives reforms, securitisation within the context of the CMU, MMFs, AIFMs, benchmarks, information sharing for supervisory and enforcement purposes, cyber security, and cooperation on audit oversight. The next FMRD meeting will be in Washington DC in February 2016.

On 21 September 2015, ESMA published a revised organigramme which reflects changes ESMA is making to support the objectives set out in its *2016-2020 Strategic Orientation*. The revised structure will take effect on 16 November 2015 and the key changes to ESMA’s organigramme are:

- a Supervision Department which will integrate CRAs and TRs supervision. CRA policy work will be integrated into the renamed Investors & Issuers Department, previously Investment & Reporting Division, while TR policy work will remain with the Markets Department;
- a Risk Analysis & Economics Department as the central function for risk assessment and statistical capabilities – this Department will develop innovative and practical analytical tools for the purpose of

financial stability, investor protection and market functioning and provide a unified overview of, and approach to, data; and

- a new Corporate Affairs Department which will bring together the stakeholder management, communication, internal governance, planning and control functions.

On 24 September 2015, the Board of Supervisors of ESMA decided to extend the terms of office for both the ESMA Chair, Steven Maijoor, and ESMA's Executive Director, Verena Ross, for another five years. The Board based its decision on an evaluation of the work of the Chair and Executive Director over the past five years, as well as on ESMA's requirements for the coming years. The decision to extend Steven Maijoor's term is subject to confirmation by the European Parliament.

Similarly, on 9 September 2015, the Board of Supervisors of EBA confirmed the extension of the mandates of the EBA Chairperson, Andrea Enria, and EBA's Executive Director, Adam Farkas, for another five years, with the decision to extend Mr Enria's term being subject to confirmation by the European Parliament.

On 1 October 2015, the Board of Supervisors of EIOPA agreed to extend the term of office of EIOPA's Chairman, Gabriel Bernardino, for another five years from 2016 to 2021, with this decision also being subject to confirmation by the European Parliament.

On 30 September 2015, the European Commission launched its CMU Action Plan, which is intended to help build a true single market for capital across the 28 EU Member States. As part of the Juncker Commission priority to boost jobs, growth and investment across the EU, CMU, a key pillar of the Investment Plan, aims to tackle investment shortages head-on by increasing and diversifying the funding sources for Europe's businesses and long-term projects. Alternative sources of finance, complementary to bank-financing – including capital markets, venture capital, crowdfunding and the asset management industry – are more widely used in other parts of the world, and should play a bigger role in providing financing to EU companies that struggle to get funding, especially SMEs and start-ups. Having more diversified sources of financing is good for investment and business but is also essential to financial stability, mitigating the impact of potential problems in the banking sector on companies and their access to finance.

CMU is a medium-term project but with some important early initiatives (Annex 1 in the Action Plan provides a full list of actions and an indicative timeline). Accordingly, alongside the CMU Action Plan, the Commission has also unveiled a first set of measures to relaunch high-quality securitisation, and to promote long-term investment in infrastructure. In addition, the Commission will announce proposed changes to the Prospectus Directive before the end of 2015, with a view to making it easier and less expensive for SMEs to raise capital; and the Commission has started two consultations on Venture Capital Funds and on Covered Bonds (both of which are for comment by 6 January 2016). Furthermore, in line with the principles of "better regulation", the Commission is also launching a call for evidence (also open until 6 January 2016) on the cumulative impact of financial legislation — to make sure that it is working as intended without (for example) overlapping reporting requirements or inconsistencies between the various laws.

The CMU Action Plan is built around the following key principles:

- *Creating more opportunities for investors:* CMU should help mobilise capital in Europe and channel it to companies, including SMEs, and infrastructure projects that need it to expand and create jobs. It should give households better options to meet their retirement goals.
- *Connecting financing to the real economy:* CMU is a classic Single Market project for the benefit of all 28 EU Member States. Member States have a lot to gain from channelling capital and investment into their projects.
- *Fostering a stronger and more resilient financial system:* Opening up a wider range of funding sources and more long-term investment, ensuring that EU citizens and companies are no longer as vulnerable to financial shocks as they were during the crisis.
- *Deepening financial integration and increasing competition:* CMU should lead to more cross-border risk-sharing and more liquid markets which will deepen financial integration, lower costs and increase European competitiveness.

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Financial benchmarks and credit ratings

On 9 July 2015, the FSB published an interim progress report on reforms to existing major interest rate benchmarks (such as LIBOR, EURIBOR and TIBOR, collectively the "IBORs") and in the development and introduction of alternative near risk-free interest rate benchmarks (termed "RFRs"). The report examines progress toward the FSB's recommendations for reforms in this area, developed by the Official Sector Steering Group (OSSG) and published in July 2014, which called for a strengthening in existing IBORs and for steps to be taken to develop alternative RFRs.

Since July 2014, the administrators of the three most widely used IBORs have all taken major steps in this regard. These steps have included reviews of respective benchmark methodologies and definitions, data collection exercises and feasibility studies, consideration of transitional and legal issues, and broad consultations with submitting banks, users and other stakeholders. Additionally, OSSG member authorities, benchmark administrators and market participants from other jurisdictions, including Australia, Canada, Hong Kong, Mexico, Singapore and South

Africa, have also taken steps towards reforming the existing rates in their own jurisdiction, given the importance of these rates to their domestic markets and their role as international financial centres.

OSSG members have also made concrete progress in identifying potential RFRs. In particular, detailed data collection exercises have been undertaken in key markets, and work is now under way to identify potential RFRs, where these do not currently exist. In addition to authorities in the euro area, Japan, UK and US, several other OSSG members are also working with industry in local markets to develop RFRs in their respective currencies.

The OSSG will continue to monitor progress in implementing the FSB's recommendations in the year ahead, and will prepare an updated progress report for publication by the FSB in July 2016.

As reported in this section of Issue 35 of the ICMA Quarterly Report, in September 2014 the FSB published recommendations for reforms to FX benchmarks. The recommendations responded to concerns raised about the integrity of FX benchmarks stemming particularly from the incentives for potential market malpractice linked to the structure of trading around the benchmark fixings. On 1 October 2015, the FSB published a follow up report, which draws on assessments of progress made by the main FX committees, as well as by central banks in other large FX centres, to meet the 2014 recommendations. The report concludes that progress has been made with reforms to the WM/Reuters 4pm London fix but further work is required to ensure that the recommendations are implemented for all FX benchmarks globally. The FSB will continue to monitor progress in this area, and work with authorities and industry bodies as needed to ensure continued enhancements to FX benchmarks and related activity.

On 10 July 2015, ESMA formally approved the registration of modeFinance S.r.l., based in Trieste, Italy, as a CRA under Article 16 of the CRA Regulation, meaning that modeFinance's credit ratings can be used for regulatory purposes within the EU. Following this approval, there are currently 24 registered and four certified CRAs in the EU (amongst the 24 registered CRAs, three operate under a group structure, totaling 17 legal entities in the EU, which means that the total number of CRA entities registered in the EU is now 38).

Besides maintaining its official list of EU registered and certified CRAs, ESMA also maintains the central repository (CEREP) database. This provides information on credit ratings issued by the CRAs which are either registered or certified in the EU, and allows 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 the time period of choice.

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OTC (derivatives) regulatory developments

On 2 July 2015, ESMA issued its final report on interoperability arrangements between EU-based CCPs, as required under EMIR and related Guidelines and Recommendations. In its report, ESMA recommends to extend the EMIR provisions related to interoperability arrangements to Exchange-Traded Derivatives (ETDs), with a further extension to OTC derivatives to be assessed at a later stage. The report provides a mapping and a description of the current interoperability arrangements between EU CCPs for different product types: ie EU equities, EU government bonds and EU ETDs. ESMA's final report has been submitted to the European Commission, Parliament and Council so that its recommendation may be endorsed and implemented. In the future ESMA will cooperate with the Commission on the annual assessment of systemic risk and cost implication of interoperability arrangements.

On 24 July, the FSB published its ninth progress report on the implementation of OTC derivatives market reforms. This report finds that the implementation of OTC derivatives market reforms is well under way, with the foundational authority needed to give effect to the full range of these reforms in place in most FSB member jurisdictions. The main findings are:

- implementation of reforms is most advanced for trade reporting and for higher capital requirements for non-centrally cleared derivatives;
- there has been further incremental progress to promote central clearing of standardised OTC derivatives;
- few jurisdictions have regulatory frameworks in place to promote execution of standardised contracts on organised trading platforms;
- most jurisdictions are only in the early phases of implementing the BCBS–IOSCO framework for margin requirements for non-centrally cleared derivatives; and
- availability and use of centralised infrastructure to support OTC derivatives reforms continues to expand.

Authorities continue to note a range of implementation issues, though international workstreams that aim to address most of these issues are under way, including: steps to harmonise transaction reporting and to agree to a framework for uniform trade and product identifiers; further coordinated consideration of CCP resilience, recovery and resolution, and central clearing interdependencies; and ongoing multilateral and bilateral discussions to address cross-border regulatory issues (with several additional steps recently taken by authorities in this regard).

Under Article 85 of EMIR, the European Commission, in cooperation with the ESRB and ESMA, is under the obligation to assess the efficiency of margining requirements to limit pro-cyclicality and the need to define additional intervention capacity in this area. In this regard, the ESRB published its report, dated 28 July

2015. The ESRB developed its opinion on the basis of a twofold perspective; considering (i) the actual performance of the EMIR provisions and (ii) a qualitative analysis of the existing provision with a view to whether the overall anti-cyclical toolbox included in EMIR may be considered complete or can be reinforced. The ESRB notes that in the first, short period of implementing the EMIR provisions, no significant evidence of pro-cyclical implications stemming from margining and haircut requirements of European CCPs emerged. However, notwithstanding the results of this first short period of EMIR provision implementation, the ESRB notes that, under the second perspective, the overall anti-cyclical equipment of EMIR could be reinforced, while confirming the current design.

The ESRB also took the opportunity to provide its views on topics other than the efficiency of margining requirements, recommending that the European Commission consider points for the EMIR review regarding: (i) a swift process for the removal or suspension of mandatory clearing obligations; (ii) the evaluation of systemic risks for mandatory clearing purposes; (iii) replenishment of default funds and the skin-in-the-game design; (iv) transparency requirements consistent with guidance developed at the international level; (v) publication of a list of approved interoperability arrangements by ESMA; and (vi) access to TR data.

On 29 July 2015, IOSCO published its report on the *Review of Implementation Progress in Regulation of Derivative Market Intermediaries* (DMI). The report sets out the findings on the progress jurisdictions have made in adopting legislation, regulation and policies in relation to DMIs in the six reform areas (scope of regulatory reform — including the framework for regulation and definition of DMIs; registration/ licensing standards; capital standards or other financial resources requirements for non-prudentially regulated DMIs; business conduct standards; business supervision standards; and record-keeping standards) addressed in IOSCO's June 2012 report on *International Standards for DMI Regulation*. The DMI Standards are for the regulation of market participants that are in the business of dealing, making a market or intermediating transactions in OTC derivatives, and were developed as part of the G20 commitment to reform the OTC derivatives market in response to the crisis.

On 6 August 2015, the European Commission adopted new rules, in the form of a Delegated Regulation, implementing the clearing obligation under EMIR for the first time. This Regulation covers interest rate swaps denominated in euro, pounds sterling, Japanese yen or US dollars that have specific features, including the index used as a reference for the derivative, its maturity, and the notional type (ie the nominal or face amount that is used to calculate payments made on the derivative).

The European Commission adopted new rules, in the form of a Delegated Regulation, implementing the clearing obligation under EMIR for the first time.

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ESMA published four reports focused on how the EMIR framework has been functioning.

The contracts covered are:

- fixed-to-float interest rate swaps (IRS);
- float-to-float swaps (ie basis swaps);
- forward rate agreements;
- overnight index swaps.

The clearing obligations will enter into force subject to scrutiny by the European Parliament and Council; and will be phased in over three years to allow additional time for smaller market participants to begin complying.

On 7 August, IOSCO published the final report, *Post-Trade Transparency in the Credit Default Swaps (CDS) Market*. In the report, IOSCO concludes that greater post-trade transparency in the CDS market — including making the price and volume of individual transactions publicly available — would be valuable to market participants and other market observers. IOSCO encourages each member jurisdiction to take steps toward enhancing post-trade transparency in its CDS market.

On 13 August, ESMA published four reports focused on how the EMIR framework has been functioning and providing input and recommendations to the European Commission's EMIR Review. Three of the reports are required under Article 85 of EMIR, and cover non-financial counterparties (NFCs), pro-cyclicality, and the segregation and portability for CCPs. The fourth report responds to the Commission's EMIR Review including recommendations on amending EMIR in relation to the clearing obligation, the recognition of third country CCPs, and the supervision and enforcement procedures for TRs.

On 27 August, ESMA published, for comment by 30 September, a public consultation on the review of Article 26 of its RTS under EMIR which deals with the liquidation period (margin period of risk) that CCPs need to apply to client accounts. This consultation should be read in the context of the debate on the equivalence between the legal and supervisory arrangements for CCPs in the US and the EU and the different requirements – the US regime for CCPs foresees a minimum liquidation period for financial instruments other than OTC derivatives of only one day (although applied for client accounts on a gross basis) whereas under EMIR the minimum liquidation period is two days (but margin may be provided on a net basis).

On 22 September 2015, the FSB, BCBS, CPMI and IOSCO released a progress report on their work to enhance the resilience, recovery planning and resolvability of CCPs. This progress report provides an update on delivery against the 2015 workplan developed by these bodies to ensure effective coordination of policy work to make CCPs more resilient. The 2015 workplan focuses on CCPs that are systemic across multiple jurisdictions, consistent with the February 2015 Istanbul *communiqué* of the G20 Finance Ministers and Central Bank Governors.

On 13 July 2015, ESMA published an update of its list of CCPs which are authorised under EMIR and its Public Register for the Clearing Obligation. The update concerned Eurex Clearing AG which has extended its activities and services, now additionally being authorised to clear OTC inflation swaps. On 29 July 2015, ESMA published a further update, concerning BME Clearing which has been authorised to extend its activities and services to clear OTC interest rate derivatives and some cash equities (OTC and Regulated Market). Finally, on 21 September 2015, ESMA published an update concerning CME Clearing Europe, which has been authorised to extend its activities and services to clear short term interest rate futures and deliverable swap futures.

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Short-Term Markets

by David Hiscock and Andy Hill

European repo market: SFTR

As reported in this section of Issue 38 of the ICMA Quarterly Report, on 17 June 2015 the European Commission issued a press release welcoming political agreement on its proposal for a Securities Financing Transaction Regulation (SFTR). Based upon this political agreement, work on the technical finalisation of SFTR is nearing conclusion, ahead of a final process of endorsement by the Council and the Parliament.

The thrust of the SFTR concerns the transparency of SFTs, with provisions to require the reporting of SFTs to TRs; to provide transparency for investors regarding funds' use of SFTs; to make reuse transparent; and to achieve an adequate level of TR data transparency and availability. For the purposes of SFTR, an "SFT" is defined as being any repurchase transaction; securities or commodities lending and securities or commodities borrowing; buy-sell back transaction or sell-buy back transaction; or margin lending transaction.

Whilst putting the provisions of SFTR into effect will take much detailed work on technical standards through 2016, followed by a further period for actual implementation, a key consequence will be a requirement for SFTs to be reported to TRs by no later than the working day following the conclusion, modification or termination of the transaction. Market participants required to comply with this daily TR reporting will have a lot of preparatory work to do in the meantime.

This is notwithstanding that SFTR is in fact only one of a number of new reporting requirements which SFT participants will need to adapt to in the period ahead. Adding to already significant concern in this regard, it is now our understanding that transaction reporting of SFTs will be required under MiFIR until such time as TR reporting of SFTs under SFTR is live – whilst it had previously been anticipated that SFTs would be fully exempted from MiFIR transaction reporting because of the parallel development of SFTR. To help make these multiple challenges clearer, ICMA has prepared a briefing paper entitled *Regulatory Initiatives on the Identification and Reporting of SFT Transactions*; and will continue to work with its members to help them best address these reporting challenges.

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European repo market: MiFID II

On 28 September 2015, ESMA published a series of final draft Regulatory Technical Standards (RTS) it has prepared in relation the revised Markets in Financial Instruments Directive (MiFID II) and the

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SFTs will not have to be transaction-reported under MiFIR.

Markets in Financial Instruments Regulation (MiFIR). In particular, these new rules apply to the trading of non-equity financial instruments, whereas the existing MiFID regime focusses on the trading of equity instruments. Hence these new rules apply to trading in bonds; and since repos in fact comprise simply the sale and repurchase of securities (most typically government bonds) these new rules also impact repo transactions. Whilst much detailed work remains to be done to more fully assess the RTS as now proposed and to seek to understand their potential impacts, both directly and indirectly, on the repo market, initial review of these RTS indicates that the direct impacts on repos are much as already expected from ESMA's earlier consultation and the reading of the underlying EU legislative texts for MiFID II and MiFIR.

Helpfully, it is confirmed in draft RTS 22 that SFTs will not have to be transaction-reported under MiFIR where they are, or will in future have to be, reported to a TR under SFTR. But this does leave an awkward question mark over the work, which still now seems to be needed, to ensure that where SFTs are specifically exempt from reporting to a TR under SFTR they do get transaction-reported when required under MiFIR.

Additionally, it continues to appear (from RTS 2 re non-equity transparency) that for SFTs with non-equities collateral both pre- and post-trade transparency requirements will apply to SFTs traded on a trading venue (RM, MTF, OTF), although to avoid confusion in post-trade reporting from trading venues SFT trades will be flagged as "non-price forming trades" (similar provisions apply in RTS 1 where there is equities collateral). For SFTs traded OTC there is no pre-trade transparency requirement and post-trade transparency will not be applied.

It should also be noted that RTS 28 clearly sets out requirements for investment firms, where they are fulfilling client orders, to publish annual information on the identity of execution venues and on the quality of execution (with SFTs required to be separately reported from client order flow in non-SFTs).

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European repo market: CSDR settlement discipline

In August, ICMA, on behalf of its members, responded to the ESMA Consultation Paper, *Regulatory Technical Standards on the CSD Regulation – The Operation of the Buy-in Process*.

On 28 September 2015, ESMA published the Final Regulatory Technical Standards (RTS) for CSDR. However, ESMA also confirmed a delay in publishing the RTS for settlement discipline in consideration of the recent consultation on the buy-in process. This is in line with one of ICMA's recommendations.

On 4 August 2015, ESMA published its Final Report for Technical Advice under the CSD Regulation for the European Commission. The report includes more details on the system of cash penalties for settlement fails to be implemented by CSDs, including the proposed penalty rates.

While the RTS for mandatory buy-ins are yet to be published, ESMA, in the Final Report published on 28 September does state its intention to propose a 24 month delay for the implementation of CSDR settlement discipline (including mandatory buy-ins and cash penalties) in line with the roll-out of TARGET2-Securities.

Both mandatory buy-ins and cash penalties for fails will apply to repos and securities financing transactions, as well as to cash bond transactions. ICMA's response to the CSDR buy-in consultation, the delay in publishing the final RTS for settlement discipline, and the technical advice related to cash penalties for settlement fails are all discussed in further detail in the Secondary Markets section of this Quarterly Report.

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Collateral's increasing significance

Well before the 2007 financial crisis the use of collateral to protect against counterparty risk was common practice in the repo markets. Helped by Basel II reducing the practice of unsecured interbank lending, the repo markets had been created by central banks on the European Continent (France and Belgium); and throughout the late 1990s all other central banks in Europe endorsed and encouraged repo transactions. Since then the use of various types of collateral has developed and the central bank community's range of eligible collateral for the purpose of liquidity provision within the euro area has expanded.

The importance of collateral has thus grown over many years, but this process has accelerated significantly since the advent of the financial crisis in mid-2007. This is in no small measure related to the shift in risk appetite of market participants, with an increased demand amongst them to secure their credit risk exposures through the taking of high quality collateral. Official policy makers have also significantly fuelled the demand for high quality collateral as they have advanced steps to make markets more robust, to reduce systemic risk and help mitigate the risks of any future financial crises. Amongst examples of these increasing demands, the effect of which is all the more significant to the extent that there is failure to achieve adequate international consistency, are:

- increased focus on covered bond issuance by banks, secured against high-quality mortgage pools, as against senior unsecured issuance;
- increased use of repo funding to finance assets, including in context of an increase in the use of central bank financing;
- Basel requirements, translated in the EU through the CRR/CRD, introducing the holding of liquidity stress buffers – assets to satisfy these requirements comprise a short list of high-quality collateral;
- the shift of standardised OTC derivatives to CCP clearing, as required in the EU by EMIR, which gives rise to demands for significant amounts of initial margin (as well as some increase in variation margin amounts); and
- increased requirements to margin any bilateral OTC contracts (outside of CCP arrangements).

For market participants to be able to deploy collateral in financial transactions, it is necessary that the applicable collateral assets (sources) can be effectively matched with collateral requirements (uses). This gives rise to the need to mobilise collateral assets, both within and between organisations. If this is to occur efficiently it is important that there are no barriers inhibiting such collateral flows. The challenge of delivering the desirable degree of collateral fluidity concerns the development of an efficient market infrastructure – which needs good connectivity between market participants and an effective engine, in the form of the repo and securities lending markets, to drive the timely movement of collateral around the system.

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> This represented a 2.9% decline in market size from the figure of €5,782 billion recorded a year ago.

ICMA ERC 29th semi-annual repo market survey

The *ICMA ERC 29th European Repo Market Survey* set the baseline figure for market size at €5,612 billion, based on the amount of repo business outstanding on 10 June 2015. This represented a 2% increase from the headline figure of €5,500 billion in December 2014 and a 2.9% decline in market size from the figure of €5,782 billion recorded a year ago in the survey for June 2014.

The main trends in the 29th repo survey are:

- A further increase in the share of directly-negotiated transactions, which have been increasing since 2012. This is presumed to reflect a regulatory-driven shift away from low-margin interbank and commoditised transactions, much of which are electronically traded, towards customer and customised business, most of which is directly negotiated.
- Domestic repo continued its long term decline, probably reflecting the restructuring of the European repo business in the face of regulatory and other challenges.
- The share of tri-party repo fell back to 10.0% from 10.5% and the outstanding value of tri-party repo reported directly by the major tri-party agents in Europe also contracted. Together with the drop in the use of General Collateral financing facilities, this may reflect a reduced need for funding against a backdrop of continued central bank assistance.
- There was a drop in the share of all government bonds within the pool of EU-originated fixed income collateral reported in the survey to 77.0% from 81.5%. This change was driven to some extent by an increase in non-government bond and equity collateral. It may reflect a focus (albeit temporary) on higher margin business and is likely to be related to the drop in the share of electronic trading. There was a sharp decline in Japanese collateral and increases in the shares of US and "other OECD" collateral.

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European repo market study

Since June, the ICMA European Repo Committee has been conducting a new study into the current state and future evolution of the European repo market. The study is largely qualitative and based on semi-structured interviews with a broad range of repo market stakeholders, including bank repo market-makers, asset and fund managers, intermediaries, agency lenders, and infrastructure providers including trading platforms, triparty agents, and central counterparty clearing houses.

Completion of the study is projected for early October, with the final report of the study to be published in early November.

The initial findings of the study show that the European repo market has undergone a significant transformation, and continues to do so, mainly as a result of Basel III capital and liquidity requirements, unconventional monetary policy, and a variety of other national, European, and global regulatory initiatives. The leverage and supplementary leverage ratios, more than anything, have increased the cost of holding repo to the point where, without the benefit of netting, principal intermediation of repo ("matched-book trading") is no longer profitable. Accordingly, the provision of repo pricing and liquidity by banks has become more of a value-added service for clients, largely subsidised by other, more profitable businesses.

This, along with the Liquidity Coverage Ratio (LCR) requirements, is changing the way banks interact with their clients. As well as re-evaluating the amount of banks prepared to provide for client funding, the transactions they are prepared (or able) to do are as much being driven by the banks' liquidity and capital requirements as client-financing needs. Whereas clients could once rely on their banks to show them liquidity and pricing for their specific funding requirements, now they are being forced to become more flexible, with the terms of transactions (including collateral, dates, and contingent trades) becoming more a process of negotiation and finding matching interests with a view to both netting and liquidity optimisation.

This is forcing banks to change their business models. Whereas repo desks traditionally have been stand-alone profit centres within the fixed income division, now they are seen overlapping with treasury, securities lending and equity finance, as well as bringing margin management out of the back office and onto the trading desk. Effectively, the repo desk is becoming more of a centralised collateral and liquidity management hub rather than a trading unit.

The impacts of the ECB's Public Sector Purchase Programme (PSPP) are also widely discussed. While it seems to have not caused too much dislocation in the repo market, there are growing concerns that longer term this could lead to scarcity in certain government bonds, particularly those issued by Germany, while also reducing the overall availability of High Quality Liquid Assets (HQLA) in the repo market. Meanwhile, excess

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The provision of repo pricing and liquidity by banks has become more of a value-added service for clients, largely subsidised by other, more profitable businesses.

> There is a high degree of concern over future regulation, and the implications for repo market efficiency and stability.

liquidity is making it harder to invest short-term cash on a secured basis, particularly over reporting statement dates, something already being reflected in increased repo rate volatility and thinning repo market liquidity at month and quarter-ends.

While the market is, for the most part, adjusting to the new Leverage Ratio and LCR requirements, there is a high degree of concern over future regulation, and the implications for repo market efficiency and stability. High amongst the list of possibly adverse regulations is the Basel III Net Stable Funding Ratio, which will make short-term repo activity even more balance-sheet onerous when transacting with non-bank financial institutions. Meanwhile, the provision for mandatory buy-ins under the CSDR will make trading term repo more difficult from a risk management perspective and deter overall lending. Other concerns arise under the Bank Recovery and Resolution Directive (BRRD), particularly in relation to discretionary powers to suspend payment and delivery obligations. Other regulations that are frequently flagged include the various repo and securities financing reporting initiative, such as SFTR. While nobody objects to the principle of improved transparency of activity and risk to support regulatory oversight, the general view is that the cumulative reporting requirements are likely to be unnecessarily onerous and costly, while not providing the authorities with information that is readily meaningful.

In terms of the future outlook for the European repo market, there are mixed levels of optimism, with some firms identifying clear opportunities, particularly as they recalibrate their business models and as much of the competition retrenches. However, overriding this is deep concern about the potential repercussions of future regulation, as well as what will happen once we reach the end of unconventional monetary policy. A number of respondents have highlighted the fact that excess liquidity is currently papering over a number of cracks in the market, which are only set to widen. However, there is a broad belief that the repo market will still exist in one form or another, not least since the demand for secured funding and the growing need for collateral is set to continue, although the consensus view is that it will look very different. A number of banks are likely to cease providing repo liquidity to clients, while new entrants, both sell side and buy side, are expected to fill some of this gap. Meanwhile, overall trading volumes and liquidity should decrease, and bid-ask spreads should begin to widen to reflect better the true cost of capital. Balance sheet efficiency will remain the primary concern, and so central clearing for repo is also likely to expand, with buy-side firms, particularly those requiring leverage or with large cash balances to invest, exploring CCP solutions. However, a significant concern is that, more and more, much needed collateral sits primarily with real money investors, many outside of Europe, most of whom do not need to lend securities and do so only as a marginal ancillary business. As regulation makes it more onerous, expensive, and risky for these investors to provide collateral to the market, so the possibility of a much feared "collateral crunch" increases.

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ECP market

Money Market Funds: On 2 September 2015, IOSCO published the final report on the *Peer Review of Regulation of Money Market Funds* (MMFs), which describes the implementation progress made by 31 jurisdictions in adopting legislation, regulation and other policies in relation to MMFs; and responds to a request from the G20 Leaders in September 2013 for IOSCO to conduct such a peer review.

The review covers the implementation progress for the eight reform areas – definition of MMFs in regulation and appropriate inclusion of other investment products presenting features and investment objectives similar to MMFs; limitations to the types of assets of, and risks taken by, MMFs; valuation practices of MMFs; liquidity management for MMFs; addressing the risks and issues which may affect the stability of MMFs that offer a stable NAV; use of ratings by the MMF industry; disclosure to investors; and MMF practices in relation to repurchase agreement transactions – covered in IOSCO´s October 2012 report on *Policy Recommendations for MMFs*. It does not assess the consistency of implementation measures against the 2012 IOSCO report´s recommendations.

Overall, the review found that as of 31 March 2015 – the reporting date – participating jurisdictions had made progress in introducing implementation measures across the eight reform areas; but implementation progress varied between jurisdictions and between reform areas.

ABCP: As reported in this section of Issue 37 of the ICMA Quarterly Report, in January 2015, the ICMA, together with AFME, the BBA and ISDA, responded to the EBA's *Discussion Paper on Simple, Standard and Transparent Securitisations*. The one specific aspect of this response which was important from the perspective of ABCP appeared on pages 3-4 of the draft, under the sub-heading "*We are disappointed that asset-backed commercial paper is out of scope*". We hoped that this would lead to further work to explore which criteria could be acceptable for ABCP SST securitisations and are pleased to be able to report that this feedback was indeed heard and has been acted upon.

Following on from the aforementioned consultation, on 7 July 2015 the EBA published the full text of its advice to the European Commission on a framework for qualifying securitisation. The requirements detailed in the report propose a more risk-sensitive approach to capital regulation for long-term securitisation instruments, as well as for ABCP. The report illustrates how the capital charges foreseen in the newly published revision of the Basel securitisation framework should be lowered so as to recognise the relative lower riskiness of qualifying products, while always keeping regulatory capital within the perimeter of a prudential surcharge.

Within the EBA Opinion Recommendation 4 is in respect of "criteria defining 'qualifying' ABCP securitisations"; and states that:

- 'qualifying' ABCP securitisations should be defined by means of the criteria presented in section 5.6.1 of the report; and
- 'qualifying' ABCP programmes should be defined by means of the criteria presented in section 5.6.2 of the report.

The executive summary of EBA's report on qualifying securitisation outlines that EBA considers that the regulatory approach to securitisations should incorporate a distinction between qualifying securitisations and other securitisations; and that the regulatory definition of 'qualifying' securitisation should follow a two-stage approach. So in order to qualify for differential treatment, a securitisation transaction should first meet a list of criteria ensuring simplicity, standardisation and transparency (SST) and, as a second step, the underlying exposures should meet criteria of minimum credit quality of the underlying exposures.

The proposed criteria to identify SST securitisations aim to capture and mitigate the major drivers of risk of a securitisation that are not related to the underlying exposures. Three proposed pillars are intended to ensure many safeguards, including retention of economic interest, enforceable legal and economic transfer of the underlying exposures, simple payment waterfall structures, lack of maturity transformation and liquidation risk, disclosure of data on underlying exposures on a loan-by-loan level, where proportionate, as well as disclosure to investors of underlying transaction documentation, where appropriate, and periodic reporting. Minimum credit quality of the underlying exposures, in the form of maximum risk weights, granularity criteria and regulatory underwriting standards, is considered strictly necessary to complement the SST securitisation framework and to support a differentiated regulatory capital treatment for 'qualifying' transactions.

EBA also considers that the envisaged two-stage approach and the related criteria ought to distinguish term securitisations from short-term securitisations in the context of ABCP programmes. While the two segments have many common features and should both benefit from the 'qualifying' differentiation, criteria dealing with ABCPs should incorporate several specific characteristics, including but not limited to, the different exposures that can arise at the ABCP transaction-level and ABCP programme-level, the maturity transformation, the role of full support played by credit institutions and the existence of multi-seller structures involving non-regulated corporate entities. It is also noted that the recommendations provided in this report in relation to the implementation of a qualifying securitisation framework in Europe will have to be revisited depending on the progress and decisions taken by the Basel and IOSCO Committees on the definition of a global simple, standard and comparable (STC) securitisations framework, and on the re-calibration of the BCBS 2014 securitisation framework to provide regulatory recognition to STC securitisations.

Section 5.5 of the EBA report (at page 67) details the specific characteristics of the ABCP qualifying framework. EBA proposes that in order to issue 'qualifying' CP an ABCP conduit should meet the following conditions:

- The ABCP programme should provide for full liquidity support at the transaction level, ie each transaction in the conduit should be fully liquidity-supported, also in light of the short-term nature of the investment in CP.
- The ABCP programme should be such that each and every transaction in the conduit is a "qualifying transaction within an ABCP programme", ie complies with all the transaction-level qualifying requirements.
- The ABCP programme should comply with certain additional programme-level criteria taking into account the specificity of the programme-level exposure – ie the exposure of the investor to the CP (and of those other parties exposed to credit risk at ABCP programme level) – allowing for differences for example between disclosure requirements applicable to securitisation positions held at transaction level and at programme level.

Section 5.6 of the report then goes on to detail EBA's proposed criteria for identifying qualifying ABCP securitisations and qualifying ABCP programmes. With respect to the transaction-level criteria for securitisation transactions within an ABCP programme (section 5.6.1) there are 23 stated criteria, of which 21 relate to stage one (6 for simple, 7 for standard and 8 for transparent) and 2 to stage two; and with respect to the programme level criteria for securitisation transactions within an ABCP programme (section 5.6.2) there are 18 stated criteria, of which 16 relate to stage one (6 for simple, 5 for standard and 5 for transparent) and 2 to stage two.

This recommendation in respect of "criteria defining 'qualifying' ABCP securitisations", along with the EBA's other recommendations related to qualifying term securitisations, is undergoing review by the European Commission, which must determine whether or not it will accept and act upon these recommendations. Since their publication, the industry has been debating the details of these recommendations and, whilst recognising the need to move this project forward quickly, has urged the Commission to take further advice and to engage with industry representatives on these criteria before proposing legislation.

In particular there is concern that, under the criteria as proposed, it is likely that almost no existing ABCP programmes would qualify; and few if any of the underlying transactions currently funded in ABCP programmes would qualify. This of course could mean that this important initiative would not achieve its goal; and that its results could instead further constrain and discourage the use of securitisation through ABCP conduits, and similar transactions funded by banks, to provide funding for European commercial and consumer finance. The industry considers it important that the criteria be relatively simple and clear and that they take into account the special characteristics of ABCP programmes and, at the transaction level, those of private and bilateral transactions funded by ABCP programmes or by banks directly.

As reported in this section of Issue 37 of the ICMA Quarterly Report, in February 2015, the ICMA, jointly with the GFMA, the IIF and ISDA, responded to the BCBS/IOSCO's Consultative Document on *Criteria for Identifying Simple, Transparent and Comparable (STC) securitisations*. Of particular relevance was the answer this response gave to the consultation question 3 (on pages 9-13 of the response), which asked about the possible use of STC securitisation criteria in relation to ABCP; and which we hoped would lead to further work to explore which criteria could be acceptable for ABCP STC securitisations. Following on from the aforementioned consultation, on 23 July 2015, the BCBS/IOSCO issued their final criteria for identifying STC securitisations, which are intended to assist in the financial industry's development of STC securitisation structures; but are not intended to serve as a substitute for investors' due diligence.

The BCBS/IOSCO have amended certain aspects of the proposed criteria that were considered overly prescriptive, and have clarified other issues where respondents raised doubts about their interpretation or implementation; but these criteria still only apply only to term securitisations and are non-exhaustive and non-binding. This new report of the final criteria does acknowledge that the earlier consultation queried "whether further work should be undertaken to develop criteria for short-term securitisations (eg ABCP), which have been so far outside of the scope of the BCBS/ IOSCO's goals". It states that: "In response to questions posed in the consultative document, many public commentators submitted feedback that criteria for short term securitisations (eg ABCP) and enhanced standardisation of securitisation documentation would be useful"; and then goes on to announce that: "The BCBS and IOSCO will consider whether, and how, to take such work forward." Whilst this is somewhat encouraging, it is a shame that the BCBS/IOSCO have not more expressly recognised the benefit of promptly extending the STC framework to cover ABCP; and in this regard they are lagging the EBA, which has already published advice on a possible set of criteria relating SST ABCP securitisations (as detailed earlier in this section).

On 3 September 2015, IOSCO published its final report on the *Peer Review of Implementation of Incentive Alignment Recommendations for Securitisation*, which describes the implementation progress made by 25 jurisdictions in adopting legislation, regulation and other policies in relation to incentive alignment in securitisation; and responds to a request from the G20 Leaders in September 2013 for IOSCO to conduct such a peer review. IOSCO published the incentive alignment recommendations in November 2012, as part of its final report on *Global Developments in Securitisation Regulations*. The review reports progress in implementation as of 30 April 2015 (the reporting date); but does not assess the consistency of implementation measures against the recommendations in the 2012 IOSCO report. The review found that participating jurisdictions have made significant but mixed progress in implementing the incentive alignment recommendations.

On 30 September 2015, the European Commission published details of its securitisation initiative, which comprises a package of two legislative proposals:

- A Securitisation Regulation which will apply to all securitisations and include due diligence, risk retention and transparency rules together with the criteria for simple, transparent and standardised (STS) securitisations – this proposal only allows "true sale" securitisations to become STS, as at this moment there is insufficient clarity on which synthetic securitisations should be considered STS and under which conditions (the Commission will further consider this issue and follow the work of international and European bodies on this topic); and
- A proposal to amend the Capital Requirements Regulation to make the capital treatment of securitisations for banks and investment firms more risk-sensitive and able to reflect properly the specific features of STS securitisations (as the prudential treatment of securitisations for insurers is laid down in Level 2 texts, future adjustments will come at a later moment; and the same applies to banks and investment firms as regards the prudential treatment for liquidity purposes which is included in a Delegated Act that will be amended at a later stage).

These proposals will now be considered by the European Parliament and the European Council, following which agreement will be reached on a finalised version for actual adoption into EU law.

Articles 6 to 13 of the proposed Securitisation Regulation contain the requirements for STS Securitisation. There will be two types of STS requirements, one for long-term securitisations and one for short-term securitisations (ABCP); but to a large extent the requirements are similar. This is to reflect the fact that the functioning of these markets are different, with ABCP programmes relying on a number of ABCP transactions consisting of short-term exposures which need to be replaced once matured; and, in addition, STS criteria need also to reflect the specific role of the sponsor providing liquidity support to the ABCP conduits. More specifically, Article 11 states that "ABCP securitisations shall be considered 'STS' where the ABCP programme complies with the requirements in Article 13 [Programme level requirements] of this Regulation and all transactions within that ABCP programme fulfil the requirements in Article 12 [Transaction level requirements]."

The industry will need to carefully examine the details of this legislative proposal in order to assess its implications. Given the many detailed practicalities involved in the functioning of the ABCP market, it seems more than likely that there will be quite a number of detailed considerations which need to be carefully assessed and adapted if this welcome initiative is to in fact successfully fulfil its objective to contribute significantly to the revitalisation of the ABCP, and broader securitisation, market.

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Primary Markets

by Ruari Ewing and Charlotte Bellamy

FCA market study: debt capital markets underwriting

Introduction: The UK FCA initiated its current competition initiative with a Call for Inputs in July 2014. The initiative has widened beyond competition in the strict anti-trust sense (ie market fixing and abusing dominant positions) into general market "efficiency", *inter alia* picking up conduct of business considerations also covered by other regulatory initiatives – namely the EU's MiFID II, the UK's FEMR and the FCA's own supervisory "deep dives" into underwriting practices. Much seemingly stems from investors equating their concerns at new issue execution *outcomes* (low allocations stemming from post-crisis massive oversubscriptions as demand swamps supply) with *process* failure. But the initiative also covers bundling and cross-subsidisation aspects that are wider than debt underwriting *per se*.

History: The initial *Call for Inputs* on the wholesale sector competition review:

- discussed various aspects of *equity* underwriting, noting this had been the focus of a recent (2010/2011) UK Office of Fair Trading market study and querying any reasons to revisit the topic;
- noted hypothetically that "similar mechanisms might be at play" in the *debt* context and welcomed evidence on whether these or other issues existed in the supply of debt.

Given the apparent marginal relevance to debt underwriting itself, the ICMA response simply flagged press coverage indicating robust competition amongst bond underwriters. Subsequently the Feedback Statement and feedback from roundtables noted positive feedback only regarding debt underwriting specifically. The FCA nonetheless announced plans to launch a wholesale *market study*, including debt underwriting (which was presumed to be for consistency and completeness).

The *terms of reference* for the study set out hypothetical questions focusing on: (i) less competition to serve smaller issuer clients; (ii) limitations arising from bank specialisation by industry sector; (iii) limitations arising from familiarity with issuer clients; (iv) competitive tenders; (v) multi-sourcing and third-party advisers; (vi) circumstances where syndication restricts issuer ability to select banks and/or play them off against each other; (vii) reciprocity through banks bringing rival banks into a syndicate for one issue in exchange for inclusion in a syndicate in another issue; (viii) less information given to smaller issuer clients; (ix) favouring of certain investors in allocations; and (x) contractual/actual final approval of allocations by issuers and circumstances in which it is difficult for clients to monitor allocations. The FEMR final report subsequently also noted that the transparency of the corporate bond allocation process would be assessed as part of the competition study. Bundling and cross-subsidisation, though wider than debt underwriting as such, are also covered in this FCA competition initiative.

Bilateral information requests were sent by the FCA to the main underwriters for completion in July and early August 2015. These were particularly onerous (even after toning down following initial draft consultation), involving some underwriters reportedly providing data from over 1,000 transactions that involved manually populating over 30,000 data fields.

Ongoing process: The terms of reference stated the FCA's intent to engage stakeholders (notably including issuers as well as investors) during its study (and welcomed any inputs by 22 June on its terms of reference). ICMA arranged for the FCA to meet a specific delegation from the Public Sector Issuer Forum (on 17 September), and to meet the ICMA Corporate Issuer Forum on 1 October. An FCA interim report is expected around year-end 2015 and a final report is expected in spring 2016. It is relevant to note in this context that the final MiFID II Level 2 instrument has been expected to be adopted over the summer (subject only to European Parliament/ Counsel veto) ahead of coming into effect in 2017.

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Prospectus Directive

As reported in previous editions of this Quarterly Report, the next review of the Prospectus Directive (PD) is under way and was launched under the umbrella of the European Commission's Capital Markets Union initiative. Pages 27-29 of the previous edition of this Quarterly Report contain a summary of ICMA's response to the European Commission's consultation on the next review of the Prospectus Directive.

The European Commission's Capital Markets Union Action Plan that was published on 30 September 2015 confirmed that the Commission will modernise the Prospectus Directive to make it less costly for businesses to raise funds publicly, which will involve an update of when a prospectus is needed, streamline the information required and the approval process, and create a genuinely proportionate regime for SMEs to draw up a prospectus and access capital markets.

The European Commission is expected to publish legislative proposals designed to achieve those policy goals before the end of 2015 and submit those proposals to the European Parliament and the Council for review.

ICMA has been engaging with a number of national regulators, ESMA and the European Commission via meetings and conference calls both in advance of, and after, submitting its response to the PD consultation.

The 6th Euromoney Prospectus Rules Conference on 29 and 30 September in London was a good opportunity for market participants and regulators (including the European Commission, ESMA and various national regulators) to meet and discuss the future of the PD and how it interacts with other regulation such as PRIIPs and MiFID II. One of the key themes to emerge from the conference was the importance of considering the PD review in the context of CMU: there is clearly a need to consider how issuers can be encouraged to use or continue to use capital markets in Europe, as well as a need to protect investors effectively, when thinking about changes to the PD. Market participants also spoke about the crucial function that the wholesale debt market plays in funding the real economy and the corresponding importance of ensuring that any changes that are made to the PD are made in a way that will ensure the continued efficient functioning of that market.

Other points that were raised for consideration included:

- the need to learn from the practical issues faced by market participants and national regulators at the time PD II was implemented by ensuring that PD III provides for an appropriate grandfathering period to allow market participants and national competent authorities to adjust to the new rules;
- the need to re-visit the prescribed format summary requirements, which (while well intentioned) have resulted in summaries that are difficult for retail investors to read and understand;
- questions around how the length of prospectuses can be reduced (in particular risk factor sections), including a consideration of whether an adjustment to the "necessary information" test in PD Article 5 could be amended to encourage more tailored disclosure; and
- questions around whether burdens on issuers could be alleviated by allowing "future" incorporation by reference of certain regulated information and/or removing the prospectus requirement for secondary issues.

Market participants also emphasised the need to ensure that issuers can continue to access the capital they need in an efficient and cost-effective manner, with appropriate and proportionate liability levels. This point was emphasised not only in relation to the PD review, but also in the context of the PRIIPs regime and the liability for the KID (which has been discussed in several previous editions of this Quarterly Report, including the 3Q 2014 edition).

Market participants also emphasised the need to ensure that issuers can continue to access the capital they need in an efficient and cost-effective manner.

Separately, it is expected that the European Commission will publish a Green Paper on Retail Financial Services in 4Q 2015, which will be followed by a public consultation. A roadmap for such a Green Paper has been published, but it is not clear how or whether the review of the PD will be affected by the review of retail financial services. It is to be hoped that the European Commission takes a joined up approach to the review of the Prospectus Directive in the context of the Capital Markets Union initiative and the review of retail financial services, which may involve making a set of smaller, self-contained changes to the PD now, and leaving the door open for a more fundamental and coordinated review later in the CMU project.

Omnibus II Directive changes: As reported in the previous edition of this Quarterly Report, the European Commission is considering final draft RTS on prospectus-related issues under the Omnibus II Directive that ESMA submitted to the European Commission at the end of June 2015. The draft RTS relate to the Prospectus Directive approval, publication and advertisement rules and would impact the Prospectus Directive currently in force (PD II) rather than the review of the Prospectus Directive reported above.

While the final draft RTS are improved from the original proposals (eg the deletion of the incorporation by reference RTS), ICMA still has some concerns with the application of the proposed RTS on advertisements, which it has flagged to the Commission.

In particular, the proposed requirement to disseminate amended advertisements following the publication of a supplement to the prospectus is likely to be problematic from a number of perspectives. Primarily, this stems from the fact that the definition of advertisement includes a large number of different types of advertisement, so one regime is unlikely to be capable of being effectively applied in practice to all types of advertisement. It is not clear how the proposals will work for advertisements such as preliminary prospectuses or roadshow materials in particular. ICMA is also concerned that the PD advertisement regime should not undermine the prospectus regime by giving investors a false sense of the importance of an advertisement over the prospectus.

Following the 6th Euromoney Prospectus Rules Conference, we understand that the Omnibus II RTS are due to be published at some point before the end of 2015 and there is likely to be guidance from ESMA on the application of the advertisement rules to certain types of advertisement such as preliminary prospectuses and roadshow materials. It is hoped that such guidance will be put in place in a timely fashion, so that uncertainty for market participants is minimised.

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FCA CoCo rules

As reported in the previous edition of this Quarterly Report, the FCA has published its Policy Statement containing the final permanent marketing restriction relating to CoCos. The permanent rules replaced the temporary rules previously in force on 1 October 2015.

There are several differences in the wording of the permanent and temporary rules. However, despite those differences in wording, there are a number of reasons why lead managers of new issues within the scope of the permanent rules may think it prudent to continue to apply the practices and procedures developed under the temporary rules from 1 October 2015.

One of the overarching reasons is that the purpose of the temporary rules (broadly, to prevent CoCos being held by mass retail investors) appears to apply equally to the permanent rules. Both sets of rules also appear to be results-based, with the potential for lead managers' conduct to be judged with hindsight. While the FCA Policy Statement states that the permanent rules "only apply to sales and approval and communication of promotions, and not to other activities by firms higher up the chain of distribution", it goes on to say that the FCA may "intervene as necessary in relation to firms which will not be subject to the permanent rules if we find that they are acting in a manner that undermines the effect of the restrictions on distribution of CoCos in the retail market". In addition, statements issued by other regulatory bodies such as ESMA, the joint ESAs, and various other national regulators in relation to the suitability of CoCos for retail investors provide context to both sets of rules.

Lead managers will also wish to bear in mind that product governance requirements (including requirements relating to the identification of a target market and appropriate distribution channels for securities) are due to be introduced under MiFID II in January 2017. ICMA will be discussing this through its lead manager committees and working groups in the coming months.

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Launch of the ICMA Primary Market Handbook

by Lalitha Colaco-Henry

As reported in previous issues of this Quarterly Report, ICMA has been carrying out a thorough top-to-bottom review of the ICMA Primary Market Handbook, on which work started in 2011. We are pleased to announce that the review has now been completed and the revised Handbook was launched at a well-attended ICMA event on 10 September 2015, hosted by Linklaters in London. The launch focused on what has changed, what has stayed the same, and how the revised Handbook is structured. Martin Scheck (Chief Executive, ICMA) gave the opening remarks, followed by Lachlan Burn (Partner, Linklaters) who provided a brief outline of what the Primary Market Handbook is and what it seeks to achieve. This was followed by a lively panel session consisting of David Hopkins (RBS), Cynthia Cheung (BAML), Kate Craven (ICMA) and Lachlan Burn, moderated by Lalitha Colaco-Henry (ICMA). ICMA will be holding similar events in Brussels, Frankfurt and Hong Kong in due course. Training on the revised Handbook is also available upon request.

The revised ICMA Primary Market Handbook is available on the ICMA website together with a Table of Destinations to assist readers who are familiar with the old Handbook to navigate around the new version. It is also available in printed form.

The old Handbook is also still available on the archive section of the ICMA website. The revised Handbook is available to both ICMA members and non-members who are subscribers.

It is worth emphasising that ICMA will continue to assess whether the ICMA Primary Market Handbook is in need of further amendment as market conditions and practices change and evolve. However, the new structure of the Handbook should make it easier for revisions to be incorporated in a logical way.

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Other primary market developments

Pricing references for new sterling Eurobonds: A new ICMA Recommendation 1.33 (since reorganised as ICMA Recommendations 7.3 to 7.5) on pricing references for new sterling Eurobonds was introduced into the ICMA Primary Market Handbook in February 2015 (and referenced in the Practical Initiatives section of the Second Quarter 2015 edition of this Quarterly Report). The purpose of the Recommendations is to clarify the appropriate gilt to use when pricing new sterling Eurobond issues. The Recommendations reference generic reasons why a gilt might not be appropriate as a benchmark but do not reference specific gilts for future-proofing reasons. However, primary market practitioners currently seem generally to consider that:

- three existing gilts are inappropriate as credit benchmarks in the context of ICMA Recommendation 7.3: 8% 2015, 8.75% 2017 and 8% 2021; and
- new gilts should be considered appropriate as credit benchmarks, in the context of ICMA Recommendation 7.3, when they approach £10 billion of free float.

In this last respect, UKT 2% September 2025 has been increased through auctions over the last six months, taking it over the £10 billion free float threshold.

PRIIPs: On 17 August, ICMA submitted a response to the ESAs' 23 June Technical Discussion Paper on risk, performance scenarios and cost disclosures for KIDs (reported in the Third Quarter 2015 edition of this Quarterly Report). The response, covering the "vanilla" bond perspective only (and not structured securities), mainly emphasised concerns around potential impact on vanilla issuers coming to retail markets, KID purpose and liability, as well as risk indicators and performance scenarios.

Bank of Italy reporting requirements under Article 129 TUB: On 25 August 2015, the Bank of Italy issued a final measure pursuant to Article 129 of the Italian Banking Act (TUB) concerning post-issuance reporting requirements to be fulfilled when financial instruments are (i) placed in Italy by any entity, (ii) placed or offered by an Italian resident issuer in any country or (iii) placed or offered in Italy by non-Italian resident entities belonging to an Italian resident group parent company that is subject to supervision in Italy. The reporting obligations will take effect from 1 October 2016 and cover a variety of quantitative and qualitative information in relation to the securities, which must be reported via an online platform within the working day following the filing of the prospectus with the competent authority or, if a prospectus is not required, within the settlement or issue date. Certain other data must also be reported within 20 days of that date. The measure is likely to represent a significant additional administrative burden for affected market participants, and it will be interesting to see if it affects levels of bond market activity in Italy and by Italian issuers. More generally, it is out of step with EU aspirations to create a Capital Markets Union, by imposing administrative burdens on issuers at a national level.

LIBOR: ICE BA published a second position paper on the evolution of LIBOR on 31 July 2015, which calls for comments by 16 October 2015. This follows the first position paper, to which ICMA replied by e-mail in April 2015 outlining the importance of contractual continuity. The second position paper is similar to the first position paper but with some adjustments reflecting submitters' concerns and a new proposal for the definition of LIBOR (among other things). ICMA will be considering carefully the need to respond to this second position paper.

UK HMRC consultation on deduction of income tax from savings income: ICMA responded to a UK HMRC consultation, entitled *Deduction of Income Tax from Savings Income: Implementation of the Personal Savings Allowance*, on 18 September 2015. The Personal Savings Allowance (PSA) will be introduced in the UK from 6 April 2016 and will exempt the first £1,000 of "savings income" for basic rate taxpayers, and the first £500 for higher rate taxpayers, from income tax. The PSA will cover interest paid under funding bonds, among other things. The consultation invited views on whether changes are required to tax deduction arrangements currently in place for certain types of savings income, including interest paid under funding bonds. There was no direct suggestion in the consultation that the quoted Eurobond or other similar exemptions for interest paid under bonds would be affected by the proposals. However, there is a possibility that in making any changes to the Income Tax Act, the quoted Eurobond and other exemptions could be impacted in some way. In summary, ICMA's response states that we do not have a strong preference between the various options suggested for adjusting the current regime, but it is important that any amendments made to the regime do not affect the gross paying market nature of the international bond market.

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Secondary Markets

by Andy Hill and Elizabeth Callaghan

Secondary markets: MiFID II

Background: The objectives of MiFID II are to increase market transparency, efficiency and safety by bringing the majority of non-equity products into a robust regulatory regime and moving a significant part of OTC trading onto regulated platforms.

Publication of ESMA's final report on MiFID II/MiFIR and draft Regulatory Technical Standards (RTS) On 28 September 2015, ESMA published its final report on MiFID II as well as draft Regulatory Technical Standards (RTS). Included in the RTS is a newly introduced liquidity assessment for non-equity instruments (including fixed income). Significantly, ESMA has proposed the use of an instrument-by-instrument approach (IBIA) liquidity determination model for bonds. This was to reduce the incidence of so-called "false positives" and "false negatives" (securities that are classified as either liquid or illiquid with respect to the regulation, but would, by more granular, security specific assessment, be considered the opposite), and which was identified as the primary weakness of the previously proposed class-of-financial-instrument approach (COFIA) liquidity determination model. As ESMA now states: "IBIA is considered to strike the right balance among flexibility, stability and operational manageability".

The ESMA transparency regime, including the bond liquidity determination model noted in ESMA's final report, seems to have moved significantly from ESMA's earlier proposals. This new (and somewhat unexpected) move to an IBIA-based liquidity determination model will now enable correct calibration of instruments across a liquidity spectrum, protecting both the buy side and sell side. The alternative approach would have led to a misclassification of instruments (associated with the COFIA approach) and undue risk in the market. The ICMA MiFID II Working Group views ESMA's choice of IBIA as a workable way forward for market participants. The key now will be how all of this will be implemented in practice and how nimble it will be.

Next steps for MiFID II: The next steps are for the European Commission to adopt, amend or reject ESMA's proposed RTS by the end of December 2015; and for MiFID II to apply by January 2017.

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> “
> IBIA is considered to strike the right balance among flexibility, stability and operational manageability.

The changing landscape of cash bond trading in Europe

Cash bond trading in Europe is increasingly becoming more electronic, as is evidenced by electronic trading's share of total volume, which is on the rise. This is due in part to the natural evolution of bond trading practices, but more recently is a by-product of regulation. Market participants have a regulatory obligation to evidence best execution and to meet MiFID II's transparency obligations. Of equal importance is the need to source and optimise liquidity in market conditions where liquidity is constrained. The fixed income trading landscape is very fragmented and multiple trading platforms are competing for this limited and very fragmented flow of liquidity. As a result, competition for screen real estate on trading desks has become more intense.

Key features of cash bond electronic trading are that**:**

- Fixed Income electronic trading is *not* the same as equities electronic trading: there are 9,000 listed equity instruments, which trade on average 400 times per day; and 300,000 fixed income instruments, which trade on average 1.5 times per day.
- For corporate bonds in particular, "liquidity is a mile wide and an inch deep".
- Bond inventories have moved from the sell side to the buy side, and so has the risk.

The main drivers of cash bond electronic trading are:

- The diffusion of liquidity leading to a fragmented landscape due to a reduction in balance sheet in response to Basel III: it is too expensive for brokers to take large trades onto their balance sheets.
- Under MiFID II, the regulatory obligation to evidence best execution and meet transparency obligations.

Liquidity is growing more fragmented across a number of channels and platforms, each with different types of participants and protocols. Identifying sourcing and aggregating platforms (of available liquidity) and various trading protocols that best fit the trade will play a big role in future market participants' daily practices. Choice will be the key factor. Whether mitigating market impact using "buy-side to buy-side anonymous trading platforms" or facilitating natural two-way flow through smaller retail sized orders in "central limit order books", dynamic flexibility in dealing with liquidity is the way forward.

Advances in technology (and decreasing costs), as well as evolving trading practices, are changing the trading landscape in fixed income. For example, sourcing and aggregating technology is leading to new "information network" providers that focus on the hunt for liquidity and finding "the other side". In addition, trading protocols are undergoing scrutiny and their own version of "Darwinism". This is due to a combination of changing regulation, technology and balance-sheet availability. The protocols under scrutiny are: request-for-quote (RFQ); block trading, central limit order book (CLOB); anonymous trading and auctions. Market participants are scrambling to understand the order of importance of the protocols and how they are used on the various electronic trading platforms.

However, no matter how good the process and technology, many feel there is not enough liquidity in the market to achieve "critical mass" (the criteria for success) across the newly emerging vast range of platforms. What are needed are new liquidity providers. Of late, we are starting slowly to see innovation lead to new liquidity providers emerging. The new liquidity providers are appearing in the form of "buy-side to buy-side" trading venues and hedge funds acting as "price makers" as well as "price takers". It will be interesting to monitor how these new bond trading entrants perform in the coming months and years ahead.

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ICMA's electronic trading platform mapping study

Technology is gradually becoming the only way to enable market participants to uncover the limited liquidity available. Understanding the contrasts and capabilities of new and more traditional ETPs is the first step to choosing the best execution venue or information network available in the market. Therefore, ICMA has undertaken a capabilities mapping initiative for participants in European fixed income markets to better understand the unique selling points of various electronic trading platforms (ETPs) and information networks (INs). By offering a centralised one-stop shop to research e-trading capabilities available in the market, ICMA members will be able to compare and contrast the various ETP and IN providers in order to determine which platforms best suit their trading and investment strategies.

ICMA's ETP mapping study for cash bonds is available on ICMA's website.

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Secondary markets: CSDR settlement discipline

ESMA consultation on mandatory buy-ins

In August, ICMA, on behalf of its members, responded to the ESMA Consultation Paper, *Regulatory Technical Standards on the CSD Regulation – The Operation of the Buy-in Process.*

The consultation followed wide-scale criticism of the original proposed buy-in mechanism outlined in the December 2014 Level 2 Consultation Paper, highlighting growing market concern over the provisions of the Level 1 Regulation, already in law, and the realisation that it seemingly contains a number of flaws.

In the follow-up Consultation Paper, ESMA put forward three alternative buy-in mechanisms for respondents to assess:

- *Option 1:* trading level execution.
- *Option 2:* trading level with fall-back (cash compensation at CSD participant level) execution.
- *Option 3:* CSD participant level execution.

> Without addressing the flaws in the Level 1, any mandatory buy-in regime will be extremely detrimental to European capital market stability and liquidity.

ICMA, along with the vast majority of respondents, argued that none of the options were particularly desirable, and that without addressing the flaws in the Level 1, any mandatory buy-in regime will be extremely detrimental to European capital market stability and liquidity. The potential unintended consequences of imposing mandatory buy-ins are highlighted in an ICMA impact study published in February 2015. However, the option closest to how buy-ins currently work, and which would be least likely to create significant additional risk or cost to market participants, would be Option 1: trading level execution. Options 2 and 3, meanwhile, would create market exposure for CSD participants (settlement agents, custodians, and even CSDs themselves), which would require collateralisation of client settlement risk, particularly in the case of Option 3.

ICMA's primary concerns with the Regulation, which are shared by many other market participants and representative bodies, are:

- The Regulation fails to define what a buy-in is or its purpose. It simply mandates that buy-ins must happen, and when.
- The responsibility for the buy-in process is taken away from the trading level counterparties and placed on CSD participants that, in most cases, are not party to the original transaction. This not only creates additional and unnecessary risk for the original trading counterparties, but also for the CSD participants, who in turn will require collateral from their clients to mitigate this risk.
- The automatic default to cash compensation in the event of a buy-in being unsuccessful undermines the rights of the purchasing (failed-to) counterparty, as well as creating additional market risk.
- Bringing the start-leg of many securities financing transactions into scope of mandatory buy-ins will not only increase the risk of managing a funding "matched book", but will also act as a deterrent to lending securities. The risk of cash compensation in the event of a failed return will provide a further disincentive for securities lending (see previous point).
- The provision for settling the difference between the original transaction price and the buy-in price under mandatory buy-ins is the opposite direction to how buy-ins currently work, which creates an additional risk for the failing counterparty, and will actually penalise them in the event that the market moves lower (this is the equivalent of the seller of securities providing the purchaser with a free "double put" in the event that the transaction fails). Other than being a deterrent for market makers providing offer-side liquidity, this could also be an incentive for market manipulation.
- By introducing a mandatory regime, the regulation undermines the rights of the failed-to purchaser to manage their market and counterparty risk at their own discretion.

Delay in publishing RTS for mandatory buy-ins

On 28 September, ESMA published the Final Regulatory Technical Standards (RTS) for the CSDR. However, ESMA also confirmed a delay in publishing the RTS for settlement discipline in consideration of the recent consultation on the buy-in process. This is in line with one of ICMA's recommendations. It is now expected that ESMA will finalise the RTS for mandatory buy-ins in November, and while the market consensus was for trading level buy-ins as a "least worst option", the fear is that this may be illegal with respect to the Level 1, and that a mechanism more in line with Options 2 or 3 is more likely. Meanwhile, it is expected that the potential flaws in the Level 1 related to buy-ins will become the focus of even wider attention and discussion.

ESMA Technical Advice for cash penalties for settlement fails

On 4 August 2015, ESMA published its Final Report for Technical Advice under the CSDR for the European Commission. The report includes more details on the system of cash penalties for settlement fails to be implemented by CSDs, including the proposed penalty rates. Cash penalties are intended to apply in addition to mandatory buy-ins.

The key points of note from the Technical Advice are:

- The penalties are to be applied by the (I) CSD to the failing party from intended settlement date.
- The penalties will be paid by the failing party and received by the non-failing party. In transaction chains, intermediaries will be both penalised and compensated, creating an incentive to settle the chain.
- To ensure a harmonised approach across different transactions, counterparties, and CSDs, penalties should be calibrated on a standard

reference price for each instrument, for each day. This will ensure that, in a transaction chain, counterparties will be penalised and compensated identical amounts.However, there will be nosingle source of reference prices provided by ESMA. Instead,it will be up to the CSDs toadopt a "common approach" in the sourcing of prices.

- In determining the penalties, ESMA considered the liquidity of various asset classes, as well as the relative borrowing rates for these instruments. The aim is to have penalty rates that would strongly incentivise the borrowing of instruments. Therefore, it was decided to have higher penalty rates for more liquid instruments.
- In the case of fixed income, ESMA decided that MiFID II liquidity calibrations for transparency should not apply in determining the appropriate penalty rates. Also, given the large size of most bond transactions, a relatively small penalty coefficient should apply.
- The proposed penalty rates are below. Note that these are flat rates applied per business day (the approximate equivalent annualised rate is provide in parentheses):
- Liquid shares: 1.0bp (2.50%)
- Illiquid shares and others (ETFs, etc.): 0.5bp (1.25%)
- SME growth markets: 0.25bp (0.62%)
- Corporate bonds: 0.20bp (0.50%)
- SME bonds: 0.15bp (0.37%)
- Government and municipal bonds: 0.10bp (0.25%)

Finally, ESMA also requested a mandate to review the table of penalty rates on an *ad hoc* basis when market conditions are changing and to update the technical advice as necessary. Such flexibility to review the rates in a timely manner based on their market impact was one of the key points raised by ICMA in the last public consultation on this issue in February 2015.

ESMA recommendation for a 24 month "phase-in" for settlement discipline

While publication of the RTS for mandatory buy-ins is to be delayed, ESMA does state its intention to recommend a 24 month "phase-in" period for the implementation of settlement discipline measures, including mandatory buy-ins and cash penalties. This is to allow appropriate lead time for settlement internalisers, as well as CSDs, to make the necessary systems upgrades and allocate the requisite resources to support both implementation of T2S as well as to be compliant with the new CSDR framework. Based on the current timeline for CSDR application, this would take the implementation of settlement discipline to early 2018.

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ICMA rules related to fails claims

The ICMA Secondary Market Rules and Recommendations (ICMA SMR&R) provide that, where the buyer of securities, or its clearing agent, has caused the failure of settlement, the seller shall have the right to claim from the buyer loss of interest on the net amount of the transaction from the date of presentation of the securities until the date that settlement takes place (see Rule 405). However, the ICMA SMR&R do not provide for a symmetric treatment of the buyer in the event of the seller of securities, or its clearing agent, causing the failure of settlement in markets that may feature negative interest rates.

Accordingly, ICMA has introduced a new rule, Rule 407 (Claim against seller), that gives the buyer the right to claim from the seller the loss resulting from the funds payable by the buyer being subject to a negative interest rate. The ICMA Executive Committee, following consultation with the Secondary Market Practices Committee and on the basis of Article 21 (1) of the ICMA Statutes, resolved to amend the ICMA SMR&R by adding to Section 400 of the ICMA SMR&R, after Rule 406 ("Fault of seller or his clearing agent"), the new Rule 407 ("Claim against seller") as follows:

"Rule 407 Claim against seller: Where the seller or its clearing agent has caused the failure of settlement, either for one or several of the reasons stated in Rule 401 or because the securities were not presented on time for settlement to take place on the value date, the buyer shall have the right to claim from the seller the loss resulting from the funds payable by the buyer in exchange for the securities being subject to a negative interest rate from the date of presentation of such funds until the date that settlement takes place or a buy-in in accordance with Section 450 in respect of the transaction concerned, taking into consideration any partial deliveries, is completed."

The change in the SMR&R became effective on 9 September 2015.

Meanwhile, ICMA continues to consult with members on a proposed change to Rules 405 and 407. Currently this states that "(i)f the interest amount of a claim in accordance with rule 405 or rule 407 amounts to is less than US$100 or the equivalent in other currencies per transaction, no interest claim shall be claimed made by the seller or buyer." It is proposed that this recommended minimum threshold be increased to US$250 in line with current market practice.

Members are encouraged to share any concerns related to this proposal, or any other aspects of the SMR&R, with Andy Hill, Director in ICMA's Secondary Market team.

A link to the ICMA SMR&R can be found on the ICMA website.

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ICMA Secondary Market Practices Committee

by Andy Hill

The ICMA Secondary Market Practices Committee (SMPC) is an open forum for participants in the European corporate bond secondary markets, including broker-dealers, investors and asset managers, and other ICMA members with a vested interest in the evolvement of an efficient, liquid European credit market. The principal objective of the SMPC is to be the representative body of the European corporate bond secondary market through: addressing practical issues directly relevant to market practitioners; standardising market best practice; disseminating relevant market information; and promoting the best interests of an efficient and liquid market.

The SMPC is chaired by Asif Godall, Global Head of Traded Credit at HSBC, and it aims to meet four times a year, bringing market practitioners together to discuss key issues related to the rapidly evolving market landscape, and to drive practical solutions to the growing challenges facing the European credit markets.

Recent agenda items of the SMPC include a discussion on market pricing and request protocols on electronic platforms, led by Pimco, a presentation and subsequent discussion on fixed income research and ESMA/Commission proposals for "unbundling" under MiFID II, led by Nomura, a presentation and discussion on corporate bond standardisation and benchmarking, led by BlackRock, a discussion on the pros and cons of becoming a systematic internaliser under the new MiFID II regime, and a discussion on the extent to which non-bank financial institutions can play the role of liquidity provider in the corporate bond market.

Underpinning the SMPC, and driving the agenda, are three Working Groups, all open to both sell side and buy side members, which meet on a more regular, *ad hoc* basis:

(i) The MiFID II Working Group focuses on advocacy work related to MiFID II, particularly with respect to evolving market structure and the new transparency requirements for pre- and post-trade reporting.

(ii) The CSDR/Buy-in Working Group is focused on advocacy related to CSDR settlement discipline, as well as on reviewing and revising the current ICMA Rules and Recommendations related to the buy-in process, including the development of a buy-in auction mechanism.

(iii) The Electronic Trading Working Group brings together market participants to discuss and map their way through the evolving electronic landscape, so as to have better visibility of the available platforms and electronic trading solutions in the European fixed income markets.

Members who are interested in participating in the Secondary Market Practices Committee or any of its Working Groups, or who are interested in learning more about the initiatives and output of the Committee and the Groups, are encouraged to contact Andy Hill or Elizabeth Callaghan, Directors in ICMA's Secondary Market team.

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The principal objective of the SMPC is to be the representative body of the European corporate bond secondary market.

Asset Management

by Patrik Karlsson

Fund liquidity

The ICMA AMIC (Asset Management and Investors Council) Executive Committee has decided to set up a new Working Group to examine what tools are already available to fund managers to manage liquidity. Liquidity issues have been of concern to the AMIC for a period of time following the market dislocations in 2008-2010. As has now been well documented, secondary fixed income markets are experiencing a prolonged period of illiquidity.

The AMIC Market Finance Working Group dealt with investment fund liquidity issues in connection with its work on systemic risk in the asset management sector. In discussing some of the FSB/IOSCO ideas about risk transmission from investment funds, the AMIC Working Group concluded: "Most investment funds have a number of measures available to them to cope with unusually high outflows (ie investor redemptions), such as swing pricing or liquidity fees or gates. We believe that FSB and IOSCO have unfairly disregarded the tools already available in this regard to investment funds." It is with this goal in mind that the new Working Group was set up: ie to explain to policy makers about what tools are already available.

The new Working Group is focusing primarily on issues related to the liquidity of liabilities of investment funds, and on a secondary basis on the liquidity of the assets as they are related (bearing in mind that secondary market liquidity is covered in many other ICMA work streams). The Working Group will attempt to agree the extent of the asset-liability mismatch problem including, if possible, data gathering among members. The Working Group will also explore options for action to raise awareness in the wider regulatory community about the tools available to investment funds to counteract "runs" on funds and will explore the feasibility of position papers and engagement with regulators.

> The new Working Group is focusing primarily on issues related to the liquidity of liabilities of investment funds.

Given the breadth of work going on in this area, the AMIC Secretariat will coordinate with other trade associations to ensure that work undertaken is complementary and avoids unnecessary duplication of effort and input by members.

The Working Group held its first meeting on 14 September. Participants discussed latest market developments in liquidity conditions. All agreed that conditions have not become any better since this issue was first raised. The importance of accurate net outflows in the debate on redemption risk was stressed. The Working Group also agreed that the bond market should not automatically be assumed to behave the same way as equity markets. This should be reflected in how fixed income investors structure their investments, whether through funds or direct.

The Working Group members also reviewed the latest regulatory developments, including the Andrew Bailey speech from May 2015, which suggested larger capital buffers, leverage limits, and restricted redemption terms for funds.

The Working Group agreed that a paper would first need to be prepared setting out the issues and regulators' concerns; what tools are already in existence at national and international levels, and if necessary what additional tools and measures might be needed to address the issues. Further discussion with regulators is expected to follow from this paper.

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Securitisation and the buy side

Over the summer the European Commission has been developing its legislative framework on simple, transparent and standardised (STS) securitisation, which was released as part of the Capital Markets Union initiative on 30 September.

The AMIC Working Group welcomes many of the very positive aspects of the proposal, which shows that the Commission has taken on board many of the arguments raised by investors. In particular, the Working Group welcomes:

- the application of the STS framework to whole vehicles and not only to senior tranches;
- placing the onus on issuers/sponsors to retain 5% net economic interest rather than limiting investors to those vehicles where issuers/sponsors have retained 5% net economic interest;
- the inclusion of Asset-Backed Commercial Paper (ABCP), and ABCP programmes, as distinct categories of STS securitisation;
- the role of the ESAs in ensuring consistent interpretation and application of the STS criteria;
- the commitment by the Commission to revise the CRR and Solvency II capital requirements for investors in STS securitisations; and
- the ambition for a swift timetable for implementation and application (in 2016).

However, the Working Group has also identified a number of potential shortcomings in the text.

First, issuers will be entrusted to self-certify that the securitisation is compliant with the simple, transparent and standardised (STS) criteria. Investors would prefer either a regulatory confirmation or third party verification system, as false declarations of STS-compliance by issuers could lead to significant cliff effects (capital charge, distressed pricing) for investors.

Second, the Working Group welcomes the inclusion of ABCP in the framework, but considers that with a few changes the framework could be much more effective. The Working Group is concerned that the draft Regulation restricts the underlying assets to those with a remaining maturity of no longer than three years with a weighted average of two years. Although better than the initial proposal of a one-year limit, this three-year limit would effectively prohibit the inclusion of auto loans and leases (the largest asset class financed in EU ABCP).

Finally, the Working Group considers that some of the drafting in the text with regard to transparency requirements by issuers towards investors is unclear. By restricting the transparency requirements in one section of the legislation to "holders" instead of "investors", the Commission has excluded potential investors from getting access to appropriate information to make a decision to invest into an existing structure. The Working Group notes that the proposal does contain a separate section on information to be provided to investors before investment.

The Working Group recognises that sometimes unnecessarily burdensome transparency requirements on issuers can be unhelpful, but restricting certain information to "holders" only is detrimental to investors. This is particularly regrettable as much has been achieved to empower investors to make their own due diligence and credit decisions.

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EMIR and the buy side

The European Commission conducted a review of the framework legislation for OTC derivatives clearing, known as the European Market Infrastructure Regulation (EMIR), during the summer. AMIC decided to respond to the consultation but touching only on a few select issues of interest to investors.

The AMIC members expressed interest in the following three aspects of the review:

- the functioning of the clearing obligation in the areas of frontloading and risk compression;
- trade reporting; and
- the functioning of the pension scheme arrangement (PSA) transitional exemption from the clearing obligation.

On the clearing obligation, the AMIC said that the EMIR review was a useful opportunity to re-examine the effectiveness of the frontloading regime and the value of risk compression trades. The AMIC believed that the frontloading requirement should be removed for all future classes of derivatives deemed subject to the clearing obligation and the treatment of trades that result from systemically risk-reducing processes should be exempted from the clearing mandate and rules governing the margining non-cleared derivatives.

With regard to trade reporting, the AMIC said that the European Commission should consider moving to single-side reporting to improve the accuracy of the data provided to regulators so as to allow improved monitoring of systemic risk.

On the pension scheme arrangement for transitional exemption from central clearing OTC derivatives, AMIC members concluded that the exemption would benefit from an extension. Such an extension should last until a robust solution is found to allow non-cash variation margin to be used by pension scheme arrangements. At the very least, the AMIC argued that the Commission should restart the time on the exemption to coincide with the start of the clearing obligation in 2016 (the transitional exemption started in 2012 already).

The European Commission will now reflect on the feedback it has received to the consultation and report back on any possible amendments to the EMIR framework legislation.

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Bail-in: buy-side views

by Katie Kelly

The ICMA Bail-In Working Group (BIWG), which reports to the ICMA Asset Management and Investors Council (AMIC), sent a discussion paper to the ECB on 31 July 2015, the purpose of which was to set out buy-side views on the operation of the bail-in mechanism, including investors' concerns and information needs that arise from the implementation of the bail-in regime, how investors should evaluate the risks of investing in bank unsecured paper and what can be done to increase the transparency of the mechanisms ofregulatory intervention. A summary of the main points of the discussion paper follows.

In general terms, while acknowledging that the operation of the bail-in regime is inevitable, the discussion paper stresses the need to create conditions that allow investors to assess the range of potential risks of investing in bank capital – a crucial part of the investment decision-making process. The paper addresses concerns that extra layers of regulatory complexity and lack of transparency may not only make it more difficult for banks to raise capital in the first place, but may also ultimately negatively impact investor demand and investor behaviour, and thereby render bank capital uninvestable.

The paper highlights that, in terms of regulatory complexity, a number of triggers have been set, the location of which along a complex, revised capital structure is not always entirely clear and may indeed be varied through time. Moreover, some of the triggers are subject to significant degrees of regulatory discretion which, together with the absence of a track record of resolutions, renders it difficult to reasonably price contingencies. It is important for investors to be able to determine which the effective triggers are, given any reasonably foreseeable scenario, rather than whether losses are imposed via coupon restrictions or losses to principal via write-down or equity conversion.

As for transparency, under new and more intrusive supervision, regulators are likely to be privy to much detailed information. Enhanced transparency is at the core of investment decision-making, and investors are keen to avoid a situation whereby there is a lack of available information by which to price risk, for which they are not being adequately compensated. Greater visibility, for example on *asset encumbrance* and *Pillar 2 requirements,* is necessary, as to which the paper suggests that the development of a unified, detailed and publicly available chart of accounts and financial reporting for the euro-area financial system would be helpful, mindful however of the technical challenge it may pose. Such accounts would, in particular, help to establish the maximum possible degree of parity between what the banks disclose to the market and what they disclose to the regulators.

In addition, while primarily addressing the liability structure, asset quality issues arising from the financial crisis remain unresolved – in particular, the stock of bad loans remaining on the books of many of the euro-area banks. The concern, as highlighted in the paper, is that investors may be called upon to fund these bad loans years after the onset of the financial crisis and as part of the bail in/resolution of a bank and will be less willing to fund new capital and TLAC instruments if the perception is that these funds will be deployed to clean up legacy problems.

The paper recognises that the resolution regime is still in the development/transition stage, and welcomes an extended period of stability in the rule-setting process. However, investors would like to receive significantly better *ex ante* disclosure as to the manner in which a resolution would be expected to unfold at any given institution and would encourage the authorities to establish, at the earliest opportunity, a consistent approach that can then be clearly and transparently articulated to the market.

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Issue 39 | Fourth Quarter 2015
www.icmagroup.org

Pan-European private placements

by Nicholas Pfaff and Katie Kelly

Following the launch of the *Pan-European Corporate Private Placement Market Guide* on 11 February 2015, a number of intermediaries approached the Pan-European Private Placement Joint Committee (PEPP JC) to discuss potential areas of convergence with its work and developments in the Schuldschein market.

The Schuldschein market is indeed Europe's largest private placement market traditionally focused on implied investment grade issuers in Germany. The market represented in excess of €12 billion in funds raised in 2014 and is on track to match that number in 2015. It has also progressively internationalised, especially towards French and Austrian issuers. This trend is one of the reasons the Loan Market Association published in 2014 a comprehensive *SSD Product Guide* aimed especially at the international component of the market.

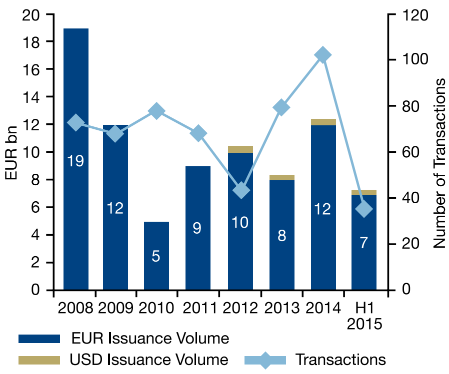
A first meeting was organised on the convergence topic in July 2015 in London with a group of leading banks working with the PEPP JC and also active in the Schuldschein market. Convergence was identified, first of all, in the increasing internationalisation of the Schuldschein market illustrated in 2014 by approximately 30% non-German issuers and around 40% demand of non-German investors; second, with the predominance of unrated issuers and a trend towards non investment grade/crossover profiles, especially in the foreign segment; and finally in market practice (eg the role of intermediaries, issuer information requirements) and in documentation (eg reps and warranties, financial covenants, events of default, early redemption and conditions precedent).

The meeting was followed by a discussion with the German Ministry of Finance in September in Berlin on the work of the PEPP JC and on current trends in the Schuldschein market. The Ministry was invited to participate as an observer in the PEPP JC meetings. The plan is to pursue contacts in Germany with market participants, regulatory authorities and trade associations.

The objective of these contacts is not to promote the idea that some form of merger may be possible between the PEPP and Schuldschein markets. It is to share best practice in areas such as risk management and documentation while engaging in a constructive dialogue with the official sector on regulation and financial stability. The opportunity is to facilitate the emergence of a dynamic pan-European private debt market with strong regional components catering to both investment and non-investment grade issuers and providing an alternative and bridge between the loan and public debt markets. Convergence points with the Schuldschein market will feature in the next edition of the *Pan-European Corporate Private Placement Market Guide* with reference to the comprehensive *Schuldschein Product Guide* of the LMA that is also expected to be updated in 2016.

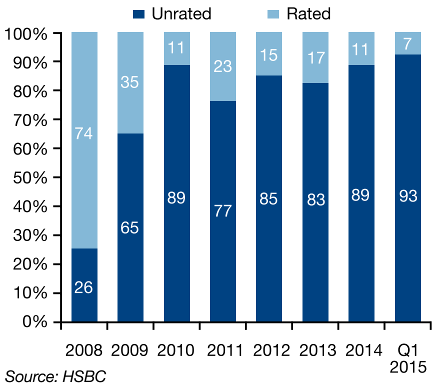
Schuldschein Market – Transaction Volumes & Deal Statistics

Annual issuance volumes and transactions



Source: HSBC

Unrated vs. rated transactions



Source: HSBC

The PEPP JC met in Paris on 29 September hosted by the Banque de France and with a strong representation of the French Euro PP Working Group. The agenda covered topics such as the Schuldschein market and plans for a new risk management working group. Presentations were also made on ongoing league table and market monitoring work that is being done by S&P (in collaboration with the Private Placement Monitor), and Dealogic (with the support of the French Euro PP Working Group) that has recently issued its first half 2015 report focused on the Euro PP market.

In the *Action Plan on Building a Capital Markets Union*, published on 30 September, the European Commission concluded on private placements: "The Commission is therefore fully supportive of the work by ICMA and the German Schuldscheine regime on these issues and will seek to draw on best practices and promote them across the EU through appropriate initiatives."

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Green bonds

by Nicholas Pfaff and Valérie Guillaumin

Following the approval of the revised GBP Governance in June, a vote took place over the summer to elect the six new members (two from each constituency: investor, intermediary and issuer) of the GBP Executive Committee (GBP Excom) in line with new rules. As a result, after a vote registering a high level of participation (more than two-thirds of members), KfW and Actiam were elected in the investor category, Morgan Stanley and Rabobank as intermediaries, and Unibail-Rodamco and EBRD as issuers. These new participants joined the existing members of the GBP Excom for the first time at a meeting in Paris on 17 September 2015. The full composition of the GBP Excom can be found in the table below:

GBP Executive Committee as of September 2015

Investors:
Actiam / Blackrock, Inc. / California State Teacher's Retirement System (CalSTRS) / KfW / Natixis Asset Management / Mirova / Standish Melon Asset Management Company LLC / TIAA-CREF Asset Management / Zurich Insurance Group
Issuers
EDF S.A. / Engie / European Bank for Reconstruction and Development (EBRD) / European Investment Bank (EIB) / International Finance Corporation (IFC) / Unibail-Rodamco / Unilever / World Bank
Underwriters
Bank of America Merrill Lynch / Citi / Credit Agricole CIB / HSBC / JPMorgan Chase & Co./ Morgan Stanley / Rabobank / Skandinaviska Enskilda Banken AB (SEB)

Adding to an active summer schedule for the GBP, the 2016 GBP consultation was also launched with a deadline in mid-September. Members and observers were asked to identify their top five priorities for the 2016 update of the GBP. We received 45 answers from a highly representative group of 11 investors, 12 underwriters, 6 issuers and 16 observers. The key themes that arise from this feedback are: (i) GBP enforceability and assurance recommendations; (ii) standards/ definition of Green; (iii) Social Bonds; (iv) impact reporting; and (v) centralised GB database. This was reviewed on a preliminary basis by the GBP Excom at the Paris meeting and it was decided to form a number of working groups to start discussions on how they may be best translated into changes or possible adjustments of the GBP. Six groups are in the process of being created:

- Standards/assurance
- Defining "green"
- Impact reporting
- GB database
- Policy and regulatory matters
- GB development in China

The GBP Excom also confirmed at the Paris meeting that it welcomed the opportunity to respond to the consultation on the Climate Bond Initiative (CBI) on its proposed Climate Bond Standard version 1.9 (CB Standard). In addition to detailed comments, the GBP Excom expressed the view that the GB market may indeed put increasing emphasis on certification over time and incorporate a number of the aspects of the proposed CB Standard, but also underlined a number of high level concerns. These are, amongst others, that mandatory use of verifiers for certification may generate costs that could prove prohibitive for issuers; that the CB Standard risks creating considerable procedural and administrative complexity which could be a deterrent to issuers in the market; and that certification post-issuance could prove market sensitive and may require careful consideration. The GBP Excom has proposed the establishment of a common working group with CBI to discuss all of this.

On behalf of the GBP, ICMA has now joined the Green Finance Committee of the China Society for Finance and Banking that is providing input into the possible establishment of a GB market by the Chinese Authorities. ICMA's input has been recognized in the Policy Outcomes of the 7th China-UK Economic and Financial Dialogue and encouraged by both the Chinese and UK Authorities. ICMA's advice is focused on recommendations aimed at ensuring the compatibility of developments in the Chinese markets with the standards that have been established in the international GB market. It is expected that a number of China's financial institutions will start issuing GBs in the near term.

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Market Infrastructure

by Alexander Westphal

Market infrastructure developments

ECB: Contact Group on Euro Securities Infrastructures (COGESI)

As reported in ICMA's previous Quarterly Report, the latest bi-annual meeting of the ECB's COGESI group took place on 23 March 2015 in Frankfurt. The summary of the meeting is available on the ECB website. Following the meeting, the group agreed on a joint response to the Commission's Capital Markets Union (CMU) consultation which was submitted on 13 May. The next COGESI meeting is scheduled to take place on 17 November 2015. An agenda for the meeting has not yet been published but should be available shortly on the group's webpage.

ECB: Money Market Contact Group (MMCG)

Summary and relevant meeting documents of the MMCG meeting of 17 June 2015 are now available on the group's webpage. A further meeting of the MMCG took place on 9 September 2015. Items on the agenda included a discussion with a representative of the Single Supervisory Mechanism (SSM) on the first year of operation of the SSM, a presentation on the main findings of the *Euro Money Market Survey 2015* which will be published later this year, an exchange of views on the latest developments in the euro money market and a number of other topics of interest to the group, including an update on the ECB's Money Market Statistical Reporting Regulation (MMSR). The last quarterly MMCG meeting this year is scheduled for 8 December.

ECB: Bond Market Contact Group (BMCG)

The BMCG last met on 30 June 2015. A summary of the meeting as well as five presentations have been made available on the ECB website. These include a general market outlook provided by Citi, an assessment of the implications of the expected end of "tapering" by the US Fed (presentation by Allianz) as well as three presentations which analyse the impact of the different parts of the ECB's Asset Purchase Programme (APP) on bond markets, from a dealer and from an investor perspective (JP Morgan, Blackrock and Union Investment). The next regular quarterly BMCG meeting is scheduled for 13 October 2015. The agenda covers, as usual, a general bond market outlook, but also envisages discussions on the impact of specific regulations on bond markets (in particular MiFID II, derivative regulation and new capital regulations) and a review of self-regulated market practices in the primary and secondary bond market. On the last topic, David Hiscock, Senior Director at ICMA, will contribute to a presentation.

Operations Managers Contact Group (OMCG)

A fourth ECB market contact group of relevance for the fixed income market is the Operations Managers Contact Group (OMCG) composed of settlement experts from commercial banks as well as a number of euro area central banks. Initially established as a sub-group of both the MMCG and the Foreign Exchange Contact Group, the group was upgraded to one of the contact groups in 2012. Since then, the OMCG has generally met three times a year and had its latest meeting on 9 June 2015. At this meeting, OMCG members covered among other things a recent survey on operational processes, current changes in SWIFT, the importance of ethical behaviour in financial markets based on a presentation by ACI, cyber risk and trade confirmation practices. In addition, the ECB provided a detailed overview of the background and content of its ongoing work on MMSR. A summary of the meeting is available on the ECB website. The next OMCG meeting is scheduled for 3 November 2015.

ECB: TARGET2-Securities (T2S)

On 31 August 2015, the Italian market successfully connected to the T2S platform. The T2S go-live of Monte Titoli, the Italian CSD, which was initially expected to take place in June, completed Wave 1 of the migration. Five CSDs are now connected to the Eurosystem's common settlement platform. The Italian move was carefully observed by market participants, given the significant size of the Italian market. The Italian migration was therefore also an important test case for the next wave of CSDs joining T2S which is scheduled to take place in March 2016. This second wave will connect four more markets and five CSDs to the T2S platform: the three ESES CSDs (Euroclear Belgium, Euroclear France and Euroclear Nederland), the settlement system of the National Bank of Belgium, as well as Interbolsa from Portugal. The remaining 13 CSDs that participate in the project will subsequently join in two further waves, which will be completed, if all goes well, in February 2017.

Two months ahead of the Italian migration, on 2 July 2015, representatives from the ECB, national central banks, CSDs, authorities and others involved in the T2S project gathered in Milan to celebrate the successful launch of the T2S platform in June. ECB President Draghi provided the opening remarks at the event. Other speakers included Yves Mersch, ECB Executive Committee Member, the Governor of the Banca d'Italia, Ignazio Visco, and José Viñals, Director at the IMF.

The launch event directly followed the latest T2S AG meeting which took place earlier that day in Milan. Main agenda items discussed by AG members included general updates on the T2S Programme Status as well as different issues related to the T2S work stream on harmonisation which had been raised earlier in the T2S Harmonisation Steering Group (HSG) as well as by the Cross-Border Market Practices Sub-Group (XMAP). Most importantly, AG members approved an updated catalogue of CSD restrictions (published on 16 July 2015) and discussed an HSG proposal to introduce a new T2S harmonisation activity in relation to non-mandatory T2S matching fields, focused currently on the "client of the CSD participant" field.

Following its latest meeting on 2 July, the T2S AG also adopted a joint response to ESMA's public consultation in relation to the draft technical standards on the buy-in process under CSDR launched in June 2015. The final AG response was submitted to ESMA on 5 August 2015. The next T2S AG meeting, which will be the last regular meeting this year, is scheduled for 16-17 November.

The latest T2S info session was held on 24 September 2015 in Luxembourg. The focus this time was on the connection between T2S and the Commission's Capital Markets Union project, which was discussed by a high level panel. A second panel was dedicated to the perspectives for investment funds in T2S. The date and location of the next info session have not been confirmed yet.

On 22 September, another edition of T2S online was published. In his editorial, Marc Bayle, Chairman of the T2S Board, recaps the important events of the summer months for T2S, including the launch of the platform, the conclusion of the first migration wave and the first three months of operations. This latest edition also includes a roundtable interview with representatives from the five CSDs now connected to the T2S platform who share their views on the first months with T2S.

On 1 October, the ECB published a new issue of the special series, *T2S – 360 Around the Globe.* The series explores the impact of T2S on the post-trade industry worldwide through interviews with senior figures from CSDs, banks and central banks globally.

ESMA

On 22 April 2015, ESMA launched a call for evidence on *Investment Using Virtual Currency or Distributed Ledger Technology*. The consultation is the first step taken by ESMA to look from a supervisory perspective into the potential implications for financial markets from innovations in the virtual currency space, including so-called blockchain technology (see Box). Before ESMA, the European Banking Authority (EBA) had already published an opinion on virtual currencies, focused however less on the underlying technology but more on their role as a means of payment. By the consultation deadline of 21 July 2015, ESMA received 18 responses to the call of evidence which have been published on the consultation page.

European Post Trade Group (EPTG)

The EPTG is a joint initiative by the European Commission, the ECB, ESMA, and the industry to follow up on the work of the Expert Group on Market Infrastructures (EGMI). The EPTG aims to support the dismantling of remaining borders to cross-border settlement and aims to better coordinate different harmonisation initiatives across the participating institutions. The 9th and latest meeting of the Group took place on 24 June 2015 in Brussels and focused on the implications of the Commission's CMU initiative for the post-trade space. Agenda and summary of the meeting are available on the Commission website.

Global Legal Entity Identifier System (GLEIS)

The introduction of the LEI as a global standard to uniquely identify legal entities across the globe continues to take shape. By the end of September 2015, the total number of LEIs issued has reached close to 400,000. In 2015 alone around 70,000 entities were assigned the new 20-character unique identifier. The Global LEI Foundation (GLEIF), responsible for the operational management of the Global LEI System, maintains on its website a public central LEI directory which includes all LEIs issued to date. The list is updated on a daily basis with data from all Local Operating Units (LOUs), who are responsible for the issuance of LEIs in their home jurisdiction. Until the GLEIF takes on that responsibility (probably later this year), all LOUs need to be endorsed by the LEI Regulatory Oversight Committee (ROC), a collection of over 60 public authorities involved in the LEI project and responsible for the oversight of the GLEIS. Since the publication of the last edition of the ICMA Quarterly Report, two more LOUs were provisionally endorsed by the ROC: SACB from Saudi-Arabia in July 2015 and APIR Systems from Australia in early September. In total, 27 "pre-LOUs" have now received ROC endorsement and are thus authorised to issue LEIs in their local market. An updated list with all pre-LOUs is available on the LEI ROC's website.

On 7 September 2015 the LEI ROC launched a public consultation on *Collecting data on direct and ultimate parents of legal entities in the Global LEI System*. Stakeholders are invited to submit their responses to the questionnaire by 19 October 2015.

BIS: Committee on Payments and Market Infrastructures (CPMI)

On 9 July 2015, the CPMI in conjunction with IOSCO announced that they have started their first Level 3 assessments of the progress in the implementation of the *Principles for Financial Market Infrastructures* (PFMI). The Level 3 assessments will be based on peer reviews by regulators in the 28 participating jurisdictions and will be undertaken in parallel to CPMI-IOSCO's Level 1 and Level 2 assessments which are also still ongoing. While the latter focus on the adoption of appropriate legal measures to implement the Principles and their completeness, the new Level 3 assessments will examine the consistency in the outcomes of implementation. In the context of their work on the global implementation of the PFMI, CPMI-IOSCO also published a short note with further guidance on the application of the 24 Principles to FMIs owned and operated by central banks. The note was released on 19 August 2015 and elaborates on some of the relevant aspects included in the PFMI.

CPMI and IOSCO are also driving forward global work on Unique Transaction Identifiers (UTIs). While already a legal requirement in many jurisdictions today, work is still needed on a harmonised global definition of the concept. On 19 August 2015, CPMI-IOSCO released an important first consultation on the *Harmonisation of the Unique Transaction Identifier*. The deadline for stakeholders to respond to the consultation was 30 September. Although the bulk of the work at global level is currently focused on OTC derivatives markets, as a precedent the consultation is relevant for cash markets as well, as these will have to accommodate the UTI concept in the near future. In parallel, CPMI-IOSCO is also working on a global Unique Product Identifier (UPI) and is expected to release a first consultative report on this topic in the course of the next months.

A related consultation which was recently launched by CPMI-IOSCO is in relation to the *Harmonisation of Key OTC Derivatives Data Elements (other than UTI and UPI)*. The consultation was published on 2 September 2015, introducing a first batch of proposed data items. A further consultation with a second batch of data items is due to be released in the next months. Similar to the UTI itself, some of the proposals are likely to serve as precedent for the subsequent adaptation of the relevant data concepts for cash markets. The deadline to submit comments on the consultative report is 9 October 2015.

On 30 September 2015, CPMI-IOSCO released the 2014 version of its annual *Statistics on Payment, Clearing and Settlement Systems in the CPMI Countries*, including detailed tables for each individual country covered as well as a number of comparative tables.

IOSCO

Greg Medcraft, Chairman of the Australian Securities and Investments Commission and Chair of the IOSCO Board, delivered an interesting speech on 16 September 2015 on *The Future of Capital Markets in a Digital Economy*. Greg Medcraft focused his remarks on the immense potential for blockchain technology and other innovations to disrupt financial markets and reflected upon the role of regulators worldwide in this process, stressing in particular the key role for IOSCO to ensure that a global strategy is in place.

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Blockchain

by Alexander Westphal

What is a blockchain?

Blockchain, or distributed ledger technology, emerged as the technology underlying bitcoin, the first significant virtual or crypto-currency created in 2009. The blockchain is the operating model that allows bitcoin transactions to be processed and recorded. While public attention was previously focused on the economic role and monetary aspects of bitcoin and other crypto-currencies, over past months the focus has clearly shifted to the underlying distributed ledger technology and its possible applications which are considered to extend far beyond virtual currencies or payments more generally.

Distributed ledger technology introduces a form of collective bookkeeping via the internet. More specifically, the blockchain is a fully decentralised record of ownership which is shared across a network of computers linked through specific software. This shared public ledger contains records of all transactions in the crypto-currency (or indeed potentially any other asset) that have ever been processed by the blockchain. This in turn implicitly allows verification at any moment in time of who owns how much of it. Each of the computers connected to the network hosts a complete copy of these records. The so-called mining process described further below thereby allows new transactions to be verified and added to the ledger in a consensual, fully decentralised way. Unlike in conventional payment systems, in the blockchain there is no need for a trusted central authority to do this job. Distributed ledger technology is said to "decentralise" trust, probably its main innovative feature.

How does it work in practice?

As the name indicates, all transactions contained in the blockchain are packaged into blocks. These blocks in turn are embedded in the chain in a chronological sequence. In the case of bitcoin, the addition of new blocks happens through a technically elaborate and competitive process called "mining". This process is at the core of the blockchain as it ensures its integrity and security. Every computer connected to the blockchain can in principle participate in the mining process, ie become a "miner". Miners pick a set of transactions of their choice from a pool of all recently concluded transactions and package them into blocks. However, before miners can add their block to the public ledger they need to go through two steps. They first need to solve a specific mathematical puzzle, which requires a significant (computational) effort. Only once a miner has solved this iterative puzzle, he will publish the block to all other computers in the network who then validate it. Only blocks which contain transactions that have all been unanimously agreed are added to the

Issue 39 | Fourth Quarter 2015
www.icmagroup.org

chain. While this confirmation process ensures the validity of each single transaction, the effort put in by miners secures the blockchain as it ensures that there is only one trusted blockchain at any moment in time.

The effort required by miners however also makes it necessary to incentivise them to do the heavy lifting of collecting and verifying transactions. In the bitcoin system miners are remunerated through a combination of newly issued currency and transaction fees. In other distributed ledger systems it would in principle be possible to rely solely on transaction fees or other incentives.

The mining process is configured in a way that, on average, every 10 minutes a new block gets added to the blockchain. In order to maintain this timeframe, the system automatically adjusts the difficulty of the mathematical puzzles that miners need to solve before adding a new block to the chain. With each new block added to the chain all other blocks in the chain are confirmed one more time. The longer a transaction is part of the chain, the more difficult it becomes to reverse it and the more certain is its validity.

Why is this relevant for financial markets?

Although developed specifically for bitcoin, the concept of distributed ledgers is by no means limited to crypto-currencies or indeed payments more generally. Every system that currently relies on trusted central authorities for the transfer and recording of asset ownership could theoretically be replaced by decentralised systems such as distributed ledgers, although the extent to which this will actually happen will depend on many factors.

Given that already today most securities exist solely as digital records in the books of banks and infrastructures, the extension of distributed ledger technology to financial markets seems a logical next step. As the current processing and settlement of financial transactions relies heavily on intermediaries and central infrastructures to oversee and control the transfer and recording of ownership in securities the decentralised nature of the blockchain potentially promises important efficiency gains in the post-trade processing of transactions. Distributed ledger technology could substantially reduce the time needed for a transaction to settle, in particular in markets that still involve a high degree of manual processing such as syndicated loan markets for instance, and is expected to lead to significantly lower transaction and collateralisation costs. Overall, potential yearly cost reductions achievable via distributed ledger technology over the next few years have been estimated at up to $20 billion in a recent report prepared by Santander and others.

Efficiency gains are only one part of the potential advantages of the blockchain. Firms might also benefit from lower risk exposure as a result of the disintermediation through distributed ledgers which would allow them to interact directly with their counterparty. Finally, the decentralised and inherently global nature of the blockchain might also improve access to capital markets, particularly in economies with a less developed financial market infrastructure. While the potential benefits of the technology are thus without a doubt substantial and expectations are enormous, as evidenced by the various industry initiatives that have recently been announced in this field, it is also important to note that the blockchain story is still very much at the beginning. There are significant risks and a number of fundamental questions that would need to be addressed before the technology can seriously be considered an alternative to the way securities markets currently operate.

Such questions include for instance concerns about the confidentiality and misuse of information in an open source blockchain, or the obviously critical issue of cyber-security. Other questions concern inevitable capacity and resource constraints of a continuously growing blockchain amid the sheer number of financial transactions processed on global markets today. There are also fundamental questions on how to ascertain the legal ownership of securities. And finally, there is the crucial issue of regulation of distributed ledger technology. Given the substantial efforts made over the past years to make the existing financial system safer and the complex regulatory environment that has evolved from these efforts, it is far from obvious how a technology without central authority and liability can fit into the picture. It is not difficult to predict that regulators around the globe will face important challenges in this regard as they are starting to assess potential implications of disruptive financial innovations (see main text).

It will be interesting to see if and how these and other obstacles can be overcome by further innovation. ICMA will be following closely the evolution of this interesting development.

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Macroprudential Risk

by David Hiscock

On 3 July 2015, the EBA published its Seventh Semi-Annual Report, based on December 2014 data, on risks and vulnerabilities of the EU banking sector. This report finds that the repair process of the European banking system since 2011 has led to a major strengthening of banks' capital position, but that EU banks still face important challenges and vulnerabilities remain. On the asset side, the deleveraging trend has plateaued with some signs of growth in total assets and loan volumes. On the liability side, funding markets and deposit bases showed a stable and partially even positive picture in the second half of 2014 and the first quarter of 2015; yet, regardless of generally benign funding conditions, financial markets remain overall fragile and volatile – and segmentation within the Single Market persists on both the asset and liability sides. EU banks still face important challenges to profitability, alongside of which further changes to business models might arise.

On 20 July 2015, the ESRB published its 2014 Annual Report, which is the ESRB's fourth Annual Report and covers the period between 1 April 2014 and 31 March 2015. The 2014 Annual Report includes sections on systemic risks in the financial system of the EU, the ESRB report on the regulatory treatment of sovereign exposures, policy measures addressing macro-prudential risks, and activities ensuring implementation of past ESRB recommendations and accountability of ESRB.

The ESRB published its Decision, of 21 July 2015 (and the associated annexes), on the provision and collection of information for the macroprudential oversight of the financial system within the EU; and repealing Decision ESRB/2011/6. This Decision sets out the aggregated information required by the ESRB for the performance of its tasks and lays down the detailed rules for provision and collection of that information. It addresses both the regular and the *ad hoc* provision of aggregated information.

On 21 July 2015, the EBA published a report on macroprudential policy measures across the EU. This report's objective is to take stock of the range of practices applied by EU Member States in relation to the provisions for macroprudential policies set out in the CRR and CRD IV, focusing on the interaction of macroprudential and microprudential objectives and tools. The report finds that Member States have made significant use of the new framework, mostly in relation to the application of macroprudential measures in the real estate sector and/or to address systemic risks and capital requirements for systemically important institutions. The report makes a number of observations related to the analysed measures; and concludes that the implementation of macroprudential measures requires a strong coordination between macroprudential and microprudential authorities.

On 28 July 2015, the EBA published the key metrics used to identify global systemically important institutions (G-SIIs) in the EU, with information on size,

“ Market risks for the European securities markets have increased; and the risk indicator for market risk is now at “very high”.

interconnectedness, substitutability, complexity and cross-jurisdictional activity. To promote a level playing field in the EU regarding the disclosure requirements and to increase transparency, the EBA goes beyond the minimum standards required by the BCBS, both in terms of granularity of the disclosed information and applicable scope of institutions. This year's disclosure exercise covers 37 EU institutions whose Leverage Ratio exposure measure exceeded €200 billion in 2014. While each participating institution discloses this information individually, the EBA acts as a central data hub in the disclosure process, providing a platform to aggregate data across the EU.

Made available by the BIS on 30 July 2015, *Phases of Global Liquidity, Fundamentals News, and the Design of Macroprudential Policy*, was produced as part of the BIS Consultative Council for the Americas Research Network project, "Incorporating financial stability consideration into central bank policy models". The authors consider the fact that the unconventional shocks and non-linear dynamics behind the high volatility of financial markets present a challenge for the implementation of macroprudential policy. Their paper introduces two of these unconventional shocks, news shocks about future fundamentals and regime changes in global liquidity, into a quantitative non-linear model of financial crises; and the model is then used to examine how these shocks affect the design and effectiveness of optimal macroprudential policy. The results show that both shocks contribute to strengthen the amplification mechanism driving financial crisis dynamics. Macroprudential policy is effective for reducing the likelihood and magnitude of financial crises, but the optimal policy requires significant variation across regimes of global liquidity and realizations of news shocks.

On 14 September 2015, ESMA published Trends, Risks and Vulnerabilities Report No. 2 for 2015 on EU securities markets, covering market developments from January to June 2015, and also published its Risk Dashboard No. 3 for 2015. ESMA reports that, overall, market risks for the European securities markets have increased; and the risk indicator for market risk is now at "very high" – which is the highest level. This increase is due to high volatilities and fluctuating performances across asset classes – all of which translates into elevated risks for investors, market infrastructures and the financial system at large. ESMA's credit risk indicators remain unchanged at very high levels; whilst, at a lower level, liquidity risk is expected to intensify further. Contagion and operational risk remain unchanged, at high and elevated levels respectively.

Key overall risk sources remain the improved but uneven economic outlook; ultra-low interest rates; high public sector indebtedness; and potential weaknesses in market functioning. Other key findings of the report are that (i) Greek trading suspensions and short-selling bans, despite being unprecedented measures, did not impact market functioning and infrastructures outside Greece in a critical way; (ii) the EU investment fund industry saw increased appetite for risk-taking, reflected by strong inflows into more risky fund types and large fluctuations in the performance of most fund-industry segments; and asset managers' search-for-yields was accompanied by increased leverage, which nevertheless remains very low compared to other types of intermediaries; and (iii) capital market financing expanded further in the reporting period, but continues to play a more limited role in funding the EU economy compared to loan financing – highlighting the need to strengthen capital market financing with a view to achieving a more diversified financing base for the EU economy.

Besides updating on risk, ESMA's report also monitors possible vulnerabilities which are provided through specific in-depth analyses. These include ESMA (i) continuing to monitor risks from the €6 trillion EU shadow banking system and proposing a focused approach to better measure its size; (ii) looking at how liquidity in sovereign bond markets is affected by funding constraints of primary dealers, given the recent concerns around structural and cyclical weaknesses in market liquidity; and (iii) investigating both the potential and risk of bank-loan mutual funds as a source of lending, complementing traditional bank lending, in relation to the EU's efforts to explore alternative funding sources for the economy.

In addition, the ESAs August 2015 Joint Committee Report on Risks and Vulnerabilities in the EU financial system identifies that risks to the EU financial system have persisted since March 2015. Risks resulting from low interest rates, search for yield and low profitability of financial institutions remain present, along with risks related to reductions in market liquidity and their possible implications for asset managers; whilst the fragile recovery of European economies continues to adversely affect profitability and asset quality of the EU's financial sector. Currently, the main risks seen to challenging financial stability in the EU are (a) the low interest rate environment and its impact on the profitability and business model sustainability of financial institutions; (b) the continued search for yield by financial institutions and the associated mispricing of assets; (c) political and economic risks due to residual uncertainty around Greece's financial situation; (d) financial market volatility and structural concerns about economic prospects of emerging market economies, in particular in China; and (e) reductions in market liquidity.

On 15 September 2015, the BCBS published the results of its latest semi-annual Basel III monitoring exercise. Data were provided for a total of 221 banks, comprising 100 large internationally active banks ("Group 1 banks", defined as internationally active banks that have Tier 1 capital of more than €3 billion) and 121 Group 2 banks (ie representative of all other banks). The results of the monitoring exercise assume that the final Basel III package is fully in force, based on data as of 31 December 2014; and report on where the banks stand with respect to satisfying requirements for the common equity Tier 1 (CET1) capital ratio, leverage ratio and NSFR.

Also on 15 September 2015, the EBA published its Eighth Report of the Basel III monitoring exercise on the European banking system, which monitors the impact of the transposition of the Basel III requirements on EU banks. In particular, it monitors the impact of fully-implemented Capital Requirements Directive and Regulation (CRD IV/CRR) on capital and risk-weighted assets (RWA), and the impact of fully implementing the Basel III framework on Leverage Ratio (LR) and liquidity ratios (LCR and NSFR) using data as of December 2014 under a static balance sheet assumption. Not unexpectedly, the largest banks are almost all fully compliant with the CET1 capital ratio requirements, but as a group have more to do to achieve full leverage ratio compliance and still face quite an adjustment to fully satisfy the NSFR.

The General Board of the ESRB held its 19th regular meeting on 17 September 2015. The General Board highlighted the global repricing of risk premia and a possible weakening of financial institutions' balance sheets – including insurers, banks and shadow banking – as key EU financial stability concerns. Furthermore, the General Board discussed the need to monitor medium-term risks related to public and private debt sustainability. The General Board also noted that the insurance sector plays an important role in reducing systemic vulnerabilities by diversifying risks and providing long-term investments, but that, nevertheless, the insurance industry may also cause or amplify systemic risk in both cyclical and structural terms, especially for business activities outside traditional insurance; and hence ensuring that macroprudential authorities have appropriate instruments to mitigate these risks is crucial. In addition, the General Board discussed risks related to the real estate sector, where the ESRB has undertaken work to better understand how structural features of real estate markets in the EU are linked to financial stability. Finally, the General Board noted that adequate recovery and resolution regimes for insurance companies and CCPs are important building blocks of a sound financial stability architecture, so the General Board therefore sees the need to establish EU-wide recovery and resolution frameworks for such entities.

On 22 September 2015, the FSB released three reports that were sent to G20 Finance Ministers and Central Bank Governors ahead of their meetings in Ankara on 4-5 September. The reports are:

1. *Corporate Funding Structures and Incentives*: This report highlights the growth of non-financial corporate debt in many countries over the past 15 years, including an acceleration in emerging

markets since the financial crisis. It notes that high corporate leverage can amplify shocks and dampen economic growth and considers whether there are factors incentivising firms to choose to issue debt rather than equity. The report proposes that further work in 2016 could include: further data analysis on economic factors driving corporate liability decisions and whether any financial stability risks arise; case studies on countries' actions to address the debt-equity tax bias; and sharing country experiences on the use of macro-prudential tools to counter these risks.

2. *The Financial Crisis and Information Gaps*: The IMF and the FSB published their Sixth Annual Progress Report on the implementation of the G20 Data Gaps Initiative begun in 2009. The report notes significant progress over the six years in addressing the data gaps identified following the financial crisis, with data increasingly being used to support financial stability analysis and macro-policy decision making. The report proposes a second phase, subsequently endorsed by the G20, with a five-year horizon with more specific objectives that promote the regular flow of high quality statistics for policy use.

3. *Work on Foreign Currency Exposures*: The IMF, FSB and BIS presented a report providing an update on their work to address data gaps involving foreign currency exposures. The main objective of this ongoing work is to set the stage for improved assessments of cross-border risks. The G20 September communiqué notes the expectation that this work will be taken forward as part of the second phase of the overall Data Gaps Initiative.

On 24 September 2015, the ESRB released the thirteenth issue of its Risk Dashboard, which comprises a set of quantitative and qualitative indicators of systemic risk in the EU financial system; and, on 25 September 2015, the ESRB published an updated overview of measures of macroprudential interest and an updated overview of countercyclical capital buffer rates.

On page 31 in Issue 34 of ICMA Quarterly Report there was an article regarding IOSCO's, 15 April 2014, research department paper entitled *Corporate Bond Markets: A Global Perspective*. On 25 September 2015, IOSCO's research department published a companion Staff Working Paper entitled *Corporate Bond Markets: An Emerging Market Perspective*. This presents findings from an in-depth study on the development and functioning of corporate bond markets in emerging markets specifically. The report presents data and analysis in three streams: (i) identifying determinants of corporate bond market development in emerging markets; (ii) tracking trends in primary and secondary market activity, including issuer make-up; and (iii) risks and vulnerabilities.

The main findings of the report can be summarized in the following key messages:

- Corporate bond markets across emerging markets are getting bigger, with a large portion of activity concentrated in Emerging Asia;
- Corporate bond market development in Emerging Market Economies (EMEs) is being spurred by broad financial sector development, infrastructure improvement and increasing institutional health;
- The level of activity of emerging markets issued bonds on US and European secondary markets shows great divergence from region to region and country to country;
- Discussion of risks emanating from EME corporate bond markets may require a shifting away from treating emerging market corporate debt as a homogenous source of risk.

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ICMA in Asia


by Mushtaq Kapasi and Ricco Zhang

UK-China Economic and Financial Dialogue

For the second consecutive year, ICMA's work has been formally recognised by the UK-China Economic and Financial Dialogue (EFD). The EFD is an annual dialogue between the two Governments, led again this year by Chancellor George Osborne and Chinese Vice Premier Ma Kai, to set out various areas of strategic cooperation between the two countries covering a range of topics from trade and investment to technology and intellectual property. Under financial services and capital markets, the UK and China acknowledged the significant potential to work together and develop China's bond markets, and acknowledged that further openness will help improve market liquidity and resilience, whilst also supporting the international use of the Chinese renminbi.

In particular, both sides welcomed the continued development of China's capital markets, and the efforts made by both ICMA and China's National Association of Financial Market Institutional Investors (NAFMII) to facilitate exchanges and cooperation of both markets, including the publication by the ICMA-NAFMII Working Group of a comparative analysis of primary debt capital market practices in the international and Chinese inter-bank markets. This Working Group will continue to assist the development of all aspects of China's onshore bond market, including green finance, as well as to help drive the harmonization between the onshore and offshore market. Also as part of this year's EFD, the UK and China supported cooperation between ICMA and the Green Finance Committee of the China Society for Finance and Banking on developing consistent global green bond standards, and will work towards further opening up of green capital markets for global investors. The Bank of England and the People's Bank of China (PBOC) will also focus on identifying areas for international cooperation in advancing green finance, and are committed to promoting the global consensus on green finance and green investment, as well as related best practices. The UK and China agreed to promote to launch more active green finance policies, make green projects more attractive for investments, and raise awareness of environmental protection and the social responsibility of financial institutions, enterprises and the general public.

Primary markets in China

In last year's EFD, both Governments agreed that further cooperation between UK and Chinese financial market participants would benefit the development of capital markets, which led to the establishment of a private sector working group chaired by ICMA and the NAFMII.

This Working Group will continue to assist the development of all aspects of China's onshore bond market, including green finance.

The ICMA-NAFMII Working Group, which has brought together experts from financial institutions in China and London to share expertise on processes, practices, and the associated market infrastructure in debt capital markets, completed its first report: *Practices and Procedures in the Chinese and International Primary Debt Capital Markets*. The report was issued on 21 September 2015 concurrently with the seventh UK-China EFD.

This first report by the Working Group is intended to give policymakers and market practitioners a useful outline of the way in which bonds are sold through the primary capital markets in both the cross-border international debt market and the onshore Chinese interbank bond market.

The analysis in this report covers bond issuances in two significant market segments:

- the international investment grade public markets (with their generally prevailing European-style book-built syndications); and
- the Chinese onshore interbank market, which is China's over-the-counter market, and accounts for more than 90% of the total onshore market by new issuance and trading volume.

ICMA and NAFMII will together continue to explore ways in which common market practices can help to make the debt markets more efficient, resilient, and well-governed.

Green finance

As the secretariat for the Green Bond Principles, which are used in the international capital market, ICMA is active in the development of the green bond market in China and across the Asia-Pacific region. Green finance is now a major part of China's high-level economic policy, and is drawing considerable attention in India and south-east Asia. ICMA has been accepted as an international member of the Green Financing Committee affiliated with the PBOC, helping to establish a green financing framework in China. Also, the Research Centre for Climate and Energy Finance, at Central University of Finance and Economics has joined the Green Bond Principles as an observer. More broadly, ICMA has been involved in discussions about the development of socially responsible investment in the Association of Southeast Asian Nations (ASEAN) and Japan.

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Repo markets in Asia

ICMA, jointly with ASIFMA, has recently published a *Guide to Repo in Asia*. The Guide takes a comprehensive view of all aspects of repo market development in Asia, in particular addressing best practice in the repo market and how can it be implemented through internationally-recognised standards for trading repo across borders. The Guide covers the full scope of the repo trading life cycle including: fixing dates, affirmation and confirmation of transactions, margining, non-standard interest calculations, issuing notices, delivery issues and dealing with negative repo rates.

ICMA is working with various jurisdictions to further develop repo market standards and documentation in local and cross-border markets. To this end, ICMA has also organized several repo events in the region, including comprehensive workshops on repo mechanics, trading, operations, and documentation, as well as more focused seminars on GMRA documentation and repo case law in Asia

ICMA Capital Market Research

Impact Study for CSDR Mandatory Buy-ins
Published: 24 February 2015
Author: Andy Hill, ICMA

The Current State and Future Evolution of the European Investment Grade Corporate Bond Secondary Market: Perspectives from the Market
Published: 25 November 2014
Author: Andy Hill, ICMA

Continually Working to Develop Efficient and Effective Collateral Markets
ERC Occasional Paper
Published: 4 September 2014
Author: David Hiscock, ICMA

Covered Bond Pool Transparency: the Next Stage for Investors
Published: 21 August 2014
Author: Prepared for ICMA by Richard Kemmish Consulting Ltd

Collateral is the New Cash: The Systemic Risks of Inhibiting Collateral Fluidity
Published: 3 April 2014
Author: Andy Hill, ICMA

Collateral Damage: the Impact of the Financial Transaction Tax on the European Repo Market and its Consequences for the Financial Markets and the Real Economy
Published: 8 April 2013
Author: Richard Comotto, ICMA Centre

Avoiding Counterproductive Regulation in Capital Markets: A Reality Check
Published: 29 October 2013
Author: Timothy Baker, Senior Adviser to ICMA

Economic Importance of the Corporate Bond Markets
Published: 8 April 2013
Author: Timothy Baker, Senior Adviser to ICMA

ICMA Capital Market Lectures

Robert Parker
Senior Advisor, Credit Suisse
6 October 2015, London
Navigating Economic, Capital Markets and Investment Risk

Elizabeth Corley
Chief Executive Officer, Allianz Global Investors GmbH
13 April 2015, London
Capital Markets Evolution

Sir Nigel Wicks
31 March 2015, London
Political Risk - the New Normal?

Ignazio Angeloni
Member of the Supervisory Board, European Central Bank
27 January 2015, Frankfurt
Transparency and Bank Supervision

Mario Nava
Director of the Financial Institutions Directorate, European Commission
4 November 2014, Brussels
Perspectives of financial regulation and growth

Benoît Cœuré
Member of the Executive Board of the European Central Bank
19 May 2014, Paris
Euro Area Financial Markets: Overcoming Fragmentation

Charles Roxburgh
Director General, Financial Services, Her Majesty's Treasury
8 May 2014, London

David Wright
the Secretary General, International Organization of Securities Commissions (IOSCO)
1 April 2014, London
The Major Challenges facing IOSCO as the World Shifts towards Market Based Financing

Mark Boleat
Chairman, Policy and Resources Committee of the City of London Corporation
4 March 2014, London
Britain and the EU, a City perspective

David Lawton
Director, Markets at the Financial Conduct Authority
3 February 2014, London (jointly with AFME)
Price: the Cornerstone of Markets

Peter Praet
Chief Economist, European Central Bank
12 December 2013, London
Monetary Policy in a Changing Regulatory Environment

Thomas Wieser
President of the EU Economic and Financial Committee
18 November 2013, Brussels
Euro Area and the Short to Medium Term Outlook

Verena Ross
Executive Director, European Securities and Markets Authority (ESMA)
11 November 2013, London
ESMA and the EU Regulatory and Legislative Agenda

diary

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

14 OCT

ICMA European Repo Council General Meeting, London, 14 October

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

22 OCT

ICMA Future Leaders Launch Event: Networking and career progression in the fixed income market, London, 22 October

ICMA Future Leaders, aimed at the younger generation of finance professionals from ICMA member firms to foster networking, further education and career progression, is holding its launch event in London. Hear from keynote speaker Ryan O'Grady, co-head of Global Syndicate at JP Morgan. Ryan is a recognised capital market specialist who will be talking about how to build a successful career in the market, giving insights drawn from his own experience. Join us to network with other fixed income professionals.

Register

27 OCT

ICMA Conference: The impact of MiFID II and related regulations on the Nordic secondary bonds and derivatives market, Copenhagen, 27 October

This half day conference is an opportunity to hear policy experts from ICMA, experts and senior managers from the leading Nordic banks, investors and regulators discussing the current proposals from ESMA on MiFID II and related regulations and their likely effect on market functionality and liquidity, both from a European and Nordic market perspective. ICMA is especially delighted to welcome Lars Rohde, Governor, Danish Central Bank as the opening keynote speaker.

Register

29 OCT

ICMA Asset Management and Investors Council (AMIC) Conference: Longer term themes and challenges facing the Asset Management Industry, London, 29 October

The AMIC conference is an opportunity to hear experts from the international asset management community discussing the forces which are shaping the industry at a time of rapid change. The topics for discussion at this half day event include: corporate governance by asset managers; investment trends and risks; and the unintended consequences of regulation. The featured speaker is John Kay, celebrated British economist and Financial Times columnist.

Register

03 NOV

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

Frank Czichowski, Senior Vice President, Treasurer of KfW will give this ICMA Capital Market Lecture in Frankfurt.

Register

10 NOV

ICMA Conference: The impact of MiFID II and related regulations on the Dutch secondary bonds and derivatives market, Amsterdam, 10 November

This half day conference is an opportunity to hear policy experts from ICMA, experts and senior managers from the leading Dutch banks, investors and regulators discussing the current proposals from ESMA on MiFID II and related regulations and their likely effect on market functionality and liquidity, both from a European and Dutch market perspective.

Register

SAVE THE DATE

For two more ICMA Future Leaders networking events!

Zurich, 1 December
Amsterdam, 9 December
For more details contact:
shannelle.rose@icmagroup.org

12 NOV

IWN Winter Event: Speaking up – getting your voice heard, London, 12 November

This ICMA Women's Network event will focus on practical tips for getting yourself and your ideas noticed at work and for making a positive impact when interacting with colleagues and clients, all in the context of career development in capital markets. It will feature an interactive session with Impact Coach Esther Stanhope and a panel discussion with senior industry figures drawing on their own experiences and successful strategies.

Register

18-20 NOV

ICMA Workshop: Repo and securities lending under the GMRA and GMSLA, Frankfurt, 18-20 November

This workshop 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), and 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

08 DEC

ICMA Workshop: Ethics and the Capital Markets, London, 8 December

This new ICMA Workshop seeks to raise awareness of ethics and bringing ethical values to bear in the financial markets. It looks at the principal ethical theories from moral philosophers to economists using examples along the way to enhance understanding.The Workshop will consider the purpose of business and how moral values play a key role in the modern business environment. Finally we look at ethical issues in the financial markets by working on case studies drawn from today's international debt markets.

Register

12&13 NOV

Launch of the remodelled ICMA Primary Market Handbook Hong Kong, 12 November Singapore, 13 November

The ICMA Primary Market Handbook is a comprehensive document covering the issuance of a broad range of international securities, continuously responding to market developments when guidance is required. It is the most widely used issuing framework in the international debt markets worldwide. Join us for the launch of the remodelled It Handbook, where you can hear what has changed, what has stayed the same, and how the new Handbook is structured.

24 NOV

The 9th ICMA Primary Market Forum, London, 24 November

The ICMA Primary Market Forum brings together issuers, syndicate banks, investors and law firms active in primary debt capital markets, to discuss the developments they are seeing and the outlook for the future. This year, the ICMA Primary Market Forum will be focusing on growth in the debt capital markets, with delegates having the opportunity to participate in a debate regarding the balance between bank and capital markets financing in Europe.

Register

03 DEC

The Euromoney Capital Markets Union Forum, Brussels, 3 December

On 3 December, Euromoney Conferences will gather together key debt capital markets banks, issuers and investors with key members of both the European Commission and European Parliament for its Capital Markets Union Forum, co-hosted with AFME and ICMA.

Register

15-17 JAN 2016

ICMA Annual Charity Ski Weekend 2016, Zermatt, 15-17 January 2016

This annual charity ski weekend is one of the main social gatherings in the calendar year for the Association. The weekend attracts provides ICMA members, and non-members with an opportunity to combine business, networking and pleasure all in aid of charity

Register

SAVE THE DATE

ICMA Annual General Meeting and Conference 2016
Dublin, 18-20 May

ICMA Executive Education

Courses in 2016

The ICMA Executive Education programme for 2016 is now available and we are taking registrations for the courses shown here.

Our online learning programmes, launched this year, have made our industry-recognised certificate programmes accessible to many more of our members (and others) around the world. Our 2015 graduates have already benefited from the flexibility that the programmes offer to study in their own time and from where they choose, as well the fully supportive student experience through online interactions with tutors and fellow students.

You can register now for the online Financial Markets Foundation Course (FMFC), Fixed Income Certificate (FIC), and Securities Operations Foundation Course (SOFC) which will be starting in early 2016, as well as our classroom based programmes, by visiting www.icmagroup.org/education.

Level I: Introductory Programmes

Financial Markets Foundation Course (FMFC)
London: **4-6 May 2016**
Luxembourg: **8-10 June 2016**
Luxembourg: **21-23 September 2016**
London: **2-4 November 2016**

Financial Markets Foundation Course (FMFC) Online Programme
Next start date: **11 January 2016**
(register by 5 January 2016)

Securities Operations Foundation Course (SOFC)
London: **7-9 March 2016**
Brussels: **13-15 April 2016**
London: **28-30 September 2016**
Brussels: **9-11 November 2016**

Securities Operations Foundation Course (SOFC) Online Programme
Next start date: **11 January 2016**
(register by 5 January 2016)

Level II: Intermediate Programmes

Fixed Income Certificate (FIC)
Barcelona: **24-30 April 2016**
Barcelona: **23-29 October 2016**

Fixed Income Certificate (FIC) Online Programme
Next start date: **1 March 2016**
(register by 25 February 2016)

Operations Certificate Programme (OCP)
Brussels: **17-23 April 2016**
Brussels: **13-19 November 2016**

Primary Market Certificate (PMC)
London: **9-13 May 2016**
London: **21-25 November 2016**

Level III: Specialist Programmes

Collateral Management
London: **28-29 April 2016**

Securities Lending & Borrowing – Operational Challenges
London: **2-3 May 2016**

Corporate Actions - An Introduction
London: **10-11 May 2016**

Corporate Actions - Operational Challenges
London: **12-13 May 2016**

Fixed Income Portfolio Management
London: **16-17 June 2016**

Further 2016 course dates are to be announced.

For more information contact: education@icmagroup.org or visit www.icmagroup.org/education

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
EMDE	Emerging market and developing economies
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
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
T+2	Trade date plus two business days
T2S	TARGET2-Securities
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
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.

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