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ICMA Quarterly Report

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ICMA
International Capital Market Association

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

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include public and private sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has some 615 members in 65 jurisdictions worldwide.

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

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ICMA: looking ahead

by **Bryan Pascoe**

It is a great pleasure to be able to communicate with you all for the first time and share some initial thoughts just one month into my appointment as the new CEO of ICMA. The last 18 months have undoubtedly been a huge challenge for everyone with periods of great market stress and the need to adapt to new, and initially unfamiliar, styles of working. With that in mind I feel very fortunate to be joining at a time when we are beginning to see more normality in how we operate, and the ability to engage in face-to-face meetings, at least in many of the major markets.

As global economies emerge from COVID and financial markets normalise, I am very confident that the mission of ICMA to support resilient, well-functioning and efficient international debt capital markets, and to engage with regulators to ensure regulation helps to meet those goals, is more relevant than ever. Post-COVID, the capital markets must play an ever-increasing role as a key driver of sustainable economic recovery and growth. Markets are at their most efficient when they are inclusive, with the broadest pools of participants operating under easily understood, streamlined frameworks, and in the fixed income space ICMA is uniquely positioned to support and drive this agenda. It was indeed this scope and ability to influence market direction and best practice to help future-proof the international debt capital markets that was of huge appeal to me in joining the Association.

Joining ICMA, I have been immediately struck by the breadth of the remit, the effectiveness of engagement with stakeholders and the technical expertise that exists within the organisation. Across its committees, forums, councils and workshops there is a huge commitment by ICMA staff and members to engage effectively to drive best outcomes by leveraging the incredible knowledge base and number of touch points that we have access to. At the same time, this breadth of reach brings its own challenges. We will need to be more flexible and commercially agile to adapt to the needs of a fast-evolving market and enhance our relevance as we look ahead. The establishment of the Brussels office is a great recent example of this, enabling our teams to stay close to decision-makers, grow closer relationships with some of our most important stakeholders, and ultimately better serve our members. Looking forward, FinTech and digitisation will be embedded in most if not all market evolution and it is important ICMA plays a very visible role in supporting frameworks to foster consistency with best practice, promoting standardisation across the various strands of the market and communicating developments to members.

I believe my own personal career experience in the financial markets marries well with the breadth of responsibilities that we have as an organisation. While I have spent the majority of my 28-year career in key capital markets roles, including Global Head of Debt Capital Markets at HSBC, I also acted as Group Treasurer, covering the asset, liquidity, funding and capital management for the HSBC Group. The combination of these roles has enabled me to view the challenges and initiatives we face through the lens of intermediary, issuer and investor, as well as significant regulatory involvement, which I believe will position me well to balance all our members' priorities on both the buy side and the sell side.

We will also strive to broaden our geographical reach to complement our core European focus, with a strong footprint in Asia already established and growing relevance in other regions, especially in areas such as sustainability, where we have an extremely strong brand, and in the education services we provide to our membership. Having spent over 10 years of my career in Asia based in Hong Kong, and time in MENA also, I will be focused on ensuring we continue to grow our global presence. In Asia, given its tremendous growth and scale, with a large number of markets in very different stages of maturity, the ICMA proposition is particularly well-suited to support orderly and well-framed market development aligned with international best practice, and we have already worked extensively with key partners such as NAFMII in China to this end.

On the finance side, capitalising more on our strong product proposition highlighted above as well as other options to

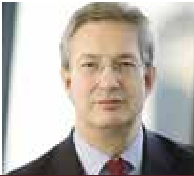
grow revenue will be very important in the coming period. Costs will undoubtedly increase next year as we look to make some targeted hires to reinforce key positions, business travel and physical events return and we see greater use of facilities. It is critical we manage our finances effectively through this and develop our long-term revenue streams.

Subject to travel restrictions, we are planning to hold our next Board meeting face-to-face in Zurich on 2 and 3 December at which I will look to discuss and set the priorities and strategy for the Association for the next 2-3 years with the Board members. Delivering for our members is the ultimate core purpose of ICMA, and I will be very eager to meet as many of you as possible ahead of this event, as well as other key stakeholders, to ensure the vision factors in all your priorities and clearly reflects the interests of members across the board. Looking ahead, I am very excited to work alongside the excellent ICMA staff and all of you to build on previous achievements and embed the Association even more at the core of positive and transformational capital markets developments.

Finally, it would be remiss of me not to say a word about Martin. Under his 12-year stewardship of ICMA, the Association has established a market-leading position and a track record of impactful delivery across all areas where it operates. In my short time at ICMA I have quickly appreciated how respected he is both within the Association and across the industry not just for his impressive in-depth technical knowledge but also his natural empathy and engaging personality. I would like to take this opportunity to thank him for the great work he has done over the years leading ICMA and the support he has given me since joining, and wish him all the very best for his retirement after our period of transition.

Contact: Bryan Pascoe
bryan.pascoe@icmagroup.org

Reflections: looking back



by **Martin Scheck**

It has been both a privilege and a pleasure to serve as Chief Executive of ICMA over the last 12 years, and I am delighted to welcome Bryan Pascoe as my successor. Bryan joined ICMA at the beginning of September, and I wish him every success as he leads ICMA forward in the future.

I am very encouraged and feel sure that with his wide capital market experience and personality Bryan is the right person to take up the challenge. Under his leadership ICMA will go from strength to strength. In my new role I look forward to supporting him settling in during a transition period and to both migrating and developing further the relationships which are the lifeblood of our Association.

Times like this are very stimulating – fresh ideas, new perspectives, perhaps a different style and revised priorities and overall a new phase for ICMA. It is also a time for reflection, and I am pleased to set down some brief observations from my own experiences over the last years.

The key to ICMA's success is its people and networks. Perhaps the most critical factor in my role over the last decade has been to ensure we have the right people in the right positions at ICMA. They need to create high quality, relevant content, and remain attuned to the needs of our members and the objectives of other stakeholders, such as the regulatory and supervisory community.

At the same time ICMA needs to nurture its networks, continually building and refreshing our contacts. The support of member firms of all sizes operating across the spectrum of the capital markets in the geographical areas in which we operate is essential – active member engagement is a must. But at the same time ICMA's network of contacts with the official sector – regulators, supervisors, civil servants, politicians – is hugely important and requires ongoing maintenance and development. Of increasing importance has been relationships with other trade bodies around the globe – this adds breadth and depth to our work, avoids unnecessary duplication on behalf of common members and enhances efficiency.

I believe that the breadth of our membership is a defining and unique feature of ICMA. Issuers, intermediaries, investors of all types, market infrastructures and in fact any type of entity with a direct interest in the operation of the international bond markets – large and small, all are welcome at ICMA as full or associate members. The variety adds greatly to the input we receive, and by representing the market as a whole I am sure our comments are perceived differently by the official sector, as compared to those from "special interest" associations. It is important also not to be perceived as "wedded" to a particular jurisdiction, and in this respect being headquartered in neutral Switzerland has in my view also been a positive, particularly given the ongoing rancour of the Brexit situation.

Given our central role in the international debt securities markets, at the hub of a number of different but interlocking networks, we are privileged at ICMA to see developing trends in the capital markets at a very early stage, whether in market practices, market infrastructure changes, trading patterns, FinTech or regulatory developments. We need to be able to assess these and have the confidence to select and commit resources to those we judge will be transformational – good examples would be helping to develop the green bond principles back in 2014 by taking on the secretariat, setting up ICMA's first Asian office in Hong Kong in 2013, our Brussels office this year and the first phase of the common domain model, just completed this summer.

I very much enjoyed working with the ICMA Board during my time as Chief Executive and particularly with the Chairs. On the whole I found the Board very supportive, and Board members generous with their time given that they all have high-powered paid day jobs! It has been instrumental in shaping the strategy of ICMA during a period of immense change for ICMA and the markets, and I think it has been important that our strategy has been relatively simple and consistent. This makes it straightforward to articulate and easy to understand for our staff, members, and others. After 17 years on the Board (5 with my former employer and 12

as Chief Executive) I have seen many different iterations and built enduring relationships with many dozens of Board members, which has been a great pleasure.

Another set of observations relates to the culture of ICMA, and I remember when I started how different I found it working for a modest sized not-for-profit entity as compared to a previous career spent at the coal-face of investment banking! No longer the "stick and carrot" management style, but a more collaborative and consensual approach to getting things done – very much a "we" not "I" culture. And developing a certain humility in the presence of the many product experts in the team, each with such deep knowledge.

A further set of challenges related to ensuring that we spend our money wisely. Being funded almost entirely by membership fees I felt a responsibility to ensure that at all times our work was relevant and of real value to members. And as with all trade associations there is always more to do than can be managed so an important part of the role, within the strategy set by the Board, is managing priorities.

A final observation on the period during the pandemic. Here I must say that ICMA has coped extremely well, and I believe is emerging from the pandemic in an even stronger position than previously. The restrictions due to the pandemic have accelerated our use of technology dramatically, opened up new internal and external communication channels, allowed us to react more nimbly with members and the official sector, spurred healthy debate and developed hybrid working models for the future. Overall, this has allowed ICMA to broaden its reach geographically, making us and our work more accessible to a wider range of members and potential members. It has provided for a lower cost operating model and yet at the same time our membership continues to grow and now stands at a two-decade high. This is a real tribute to the dedication and flexibility of ICMA's staff.

In closing I would again like to thank my colleagues, the Board and the very many other individuals who have contributed to ICMA for their generous support, and I wish Bryan, and ICMA as a whole, every success in this new phase.

Contact: Martin Scheck
martin.scheck@icmagroup.org

Retirement of Thomas Hunziker

After 32 years of loyal service with ICMA, Thomas Hunziker has decided to retire as of 31 October 2021.

Thomas joined ICMA (or the AIBD as it was then) back in 1989 in the newly created legal department, taking on the position of General Counsel, and moving to his current role as Company Secretary in November 2011.

During the time of Thomas' tenure he has witnessed immense change at ICMA and been intimately involved in almost every aspect – the formation of ISMA, the takeover of IPMA, the creation of ICMA and the sale of TRAX to name but a few. He has been involved with the GMRA since its inception in 1992, and he has been instrumental in maintaining and updating ICMA's governance arrangements and rules and recommendations over the last two decades.

As Company Secretary, Thomas has continued to provide advice to the Board, the Executive Committee, the Membership Committee, the Nomination Committee and others. Additionally, Thomas has managed the formal processes around ICMA's AGM – quite a challenge in the COVID environment – and ensured that changes to the composition of ICMA's Board are executed smoothly. Recently a major task has been coordinating the arrangements for the new Chief Executive with the Chair of the ICMA Board.

I know that we all wish Thomas a long and happy retirement, and I would like to thank him for his dedication and enormous contribution to ICMA over so many years. On a personal note, I would like to thank Thomas for all the support and guidance he has generously given me since I arrived at ICMA in 2009.

Contact: Martin Scheck
martin.scheck@icmagroup.org

The transition from LIBOR: "tough legacy" bonds

by **Paul Richards**

Summary

This Quarterly Assessment focuses on "tough legacy" bonds referencing LIBOR: why there is a tough legacy problem in the bond market; what the bond market has done to address the problem; how the authorities are proposing to help address the problem through legislative proposals for the orderly wind-down of LIBOR; and whether tough legacy bonds are being addressed in a consistent way internationally.

Introduction

1 The Financial Stability Board considers that continued reliance by global financial markets on LIBOR poses clear risks to global financial stability.[1] For some time, the authorities have argued that the market for unsecured wholesale term lending between banks is no longer sufficiently active to support such a widely used reference rate as LIBOR.[2]

- In July 2017, the Chief Executive of the FCA, the regulator and supervisor of the IBA, the administrator of LIBOR, announced that the FCA would no longer persuade or compel banks to submit quotations for LIBOR after the end of 2021.
- On 5 March 2021, the IBA and the FCA formally confirmed the dates on which panel bank submissions for all 35 LIBOR settings in the five LIBOR currencies will cease or lose representativeness of their underlying market at the end of 2021, with the exception of certain US dollar settings, which will continue to be representative until the end of June 2023 to support legacy contracts only.[3]
- On 2 June 2021, global agreement was announced by the Financial Stability Board and IOSCO to stop the use of LIBOR in new transactions, including in US dollars, by the end of 2021.[4]

2 The authorities have encouraged the market to transition from LIBOR to near risk-free rates: SOFR for US dollars; SONIA for sterling; €STR for euro; SARON for Swiss francs; and TONA for Japanese yen. In each case, the most robust risk-free rates are overnight rates, which are measured by the volume of overnight transactions and do not depend on any use of expert judgment. To take account of local market conditions, risk-free rates in some currencies are based on secured transactions and in others on unsecured transactions.

3 Although the authorities prefer the market to use overnight risk-free rates, wherever practicable, because these rates are the most robust, they also recognise the need for the

1. See FSB Global Transition Roadmap, 2 June 2021.

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

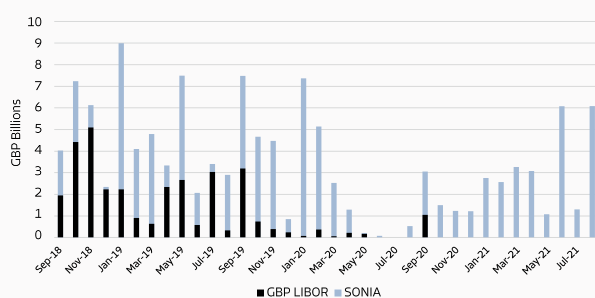
3. Overnight, one, three, six and 12 month US dollars LIBOR settings. For these five US dollar LIBOR settings, the FCA set out on 29 September 2021, for consultation (CP21/29), its proposed decision for restricting new use of these LIBOR settings after end-2021, in line with existing US supervisory guidance.

4. The US authorities have set out very limited exceptions.

market to use forward-looking term risk-free rates in some limited cases. Term risk-free rates have been, or are being, developed in some currencies, though not in Swiss francs. In particular, the authorities in the US and the UK want the market to avoid the use of credit-sensitive rates, which they consider would run similar risks in the future to those experienced with LIBOR in the past.[5]

4 Very considerable progress has been made in transitioning the bond market, as well as the derivatives and loan markets, from LIBOR to risk-free rates in the different LIBOR currencies and jurisdictions. In the sterling bond market, all new issues have referenced overnight SONIA compounded in arrears for some time. The remaining problem in the bond market relates to tough legacy LIBOR bonds, where the authorities are keen to ensure an orderly wind-down of LIBOR.

Sterling floating rate note issuance, to end-August 2021



Source: Bloomberg Finance L.P & Bank of England calculations

Why is there a tough legacy problem in the bond market?

5 Tough legacy contracts are defined by the Financial Stability Board as "contracts that have no or inappropriate fallbacks, and [which] cannot realistically be renegotiated or amended."[6] The tough legacy problem in the sterling bond market arises as a result of a combination of circumstances:

- First, a large number of legacy sterling LIBOR bonds are due to mature beyond the end of 2021, when panel bank LIBOR is due to cease. In June 2021, the value of outstanding legacy FRNs and securitisations in one, three or six month sterling settings was estimated by the FCA at around £90 billion in 480 transactions at the end of 2021.[7] In many cases, these bonds have long maturities.
- Second, most legacy LIBOR bonds are due to fall back from a floating rate to a fixed rate at the permanent cessation of LIBOR when LIBOR is no longer available on screen. When these fallbacks in bond contracts were written, it was assumed that LIBOR could become unavailable temporarily, but it was not generally envisaged that LIBOR would become unavailable permanently. Consequently, there is a risk of market disruption if nothing is done to prevent this.
- Third, changing the interest rate provisions in the fallbacks of these bond market contracts is not straightforward. The customary mechanism in the bond market involves consent solicitation, under which an issuer seeks agreement with investors to change the contractual terms of the bond. The consent threshold for agreement by investors is often high, and the process takes time and can be costly, as consent solicitation needs to take place bond by bond, and there is no guarantee of success. A multilateral protocol to change the terms of contracts is not possible in the bond market, unlike the derivatives market.

6 Legacy bonds referencing LIBOR in Japanese yen and US dollars under English law are likely to operate in a similar way to sterling LIBOR bonds. For bonds governed by New York law, consent thresholds are commonly 100%, which makes consent solicitation of legacy US dollar bonds referencing LIBOR under New York law impracticable. In Swiss francs and euro, the number of legacy bonds referencing LIBOR is not considered to be significant and, in both these currencies, LIBOR is due to cease permanently at the end of 2021. In the EU, while EONIA is due to be replaced by €STR from 3 January 2022, the benchmark most widely used in the bond market is EURIBOR, which is not currently planned to cease, though €STR fallbacks are being included in new issues.

What has the sterling bond market done to address the problem?

7 The UK authorities have recommended that legacy sterling LIBOR bonds should be reduced to an irreducible core before LIBOR becomes unrepresentative of its underlying market and panel bank LIBOR ceases at the end of 2021. The sterling bond market has addressed the problem in three main ways.

- First, following the FCA's announcement in July 2017, new issues referencing LIBOR in the sterling bond market began to use different fallbacks. Instead of fallbacks to a fixed rate (so-called Type 1s), fallbacks on new issues referencing LIBOR began to provide for an Independent Adviser to select a successor rate plus a fixed credit adjustment spread, either at LIBOR cessation or earlier in some cases, eg in the case of a prohibition on use (so called Type 2s). In some more recent cases, there is in addition a pre-cessation trigger if and when LIBOR is designated as unrepresentative of its underlying market

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

6. FSB, *Reforming Major Interest Rate Benchmarks,* 20 November 2020.

7. FCA consultation (CP21/19).

by the FCA (so called Type 3s).[8] The introduction of Type 2 and 3 fallbacks at an early stage into bond documentation for new issues still referencing LIBOR capped the number of bonds with Type 1 fallbacks from a floating rate to a fixed rate.

- Second, during the course of 2018, the bond market began to reference overnight SONIA compounded in arrears in place of LIBOR for new issues of both FRNs and securitisations and, over a period of time, stopped using LIBOR for new issues altogether. The transition from LIBOR to SONIA in new issues capped the overall size of the legacy LIBOR problem. This is in line with the authorities' preference for the use of overnight SONIA compounded in arrears as the most robust rate. As a result, the number and value of legacy sterling LIBOR bonds outstanding has now begun to diminish as bonds mature, and certain fallbacks are triggered. In some cases, there are also call options which issuers can exercise before the maturity date of the bonds.
- Third, a significant number of legacy sterling LIBOR bonds have already been converted in the market to compounded SONIA plus a fixed credit adjustment spread, using consent solicitation, where this is practicable. Active transition of legacy LIBOR bonds is designed to meet the UK authorities' recommendation that legacy sterling LIBOR bonds should be reduced to an irreducible core before the end of 2021.

8 In the case of legacy sterling LIBOR bonds, there are two main factors influencing the size of the irreducible core: (i) some bonds are too difficult to convert (eg the consent thresholds are too high); and (ii) there are too many bonds to convert by the end-2021 deadline as they need to be converted bond by bond, and consent solicitations take around two months' each on average. While over £50 billion (ie roughly one half of the estimated overall total) has been converted by value, this represents under 20% by number. So the bond market will not be able to transition all the outstanding legacy sterling LIBOR bonds by the end of 2021. The bond market cannot solve the legacy LIBOR problem on its own.

How are the UK authorities proposing to help address the problem?

9 To tackle the irreducible core, the UK authorities have introduced legislation under the Financial Services Act, which amends the UK Benchmarks Regulation. This is designed to ensure an orderly wind-down of LIBOR under English law, including in the bond market. Under the legislation, the FCA can exercise its new powers to require continued publication of LIBOR by IBA on a different basis, if and when the FCA decides that panel bank LIBOR is no longer representative of its underlying market. In these circumstances, LIBOR will no longer be intended for use in new contracts. It will be intended for use only in tough legacy contracts.

10 The methodology proposed by the FCA for tough legacy contracts involves a change from panel bank LIBOR to synthetic LIBOR. This change is designed to enable tough legacy contracts to continue to reference a floating rate rather than falling back to a fixed rate.[9] From the end of 2021, synthetic LIBOR is due to apply to tough legacy LIBOR contracts denominated in the most commonly used sterling and Japanese yen settings. In all cases, synthetic LIBOR is due to consist of the relevant term risk-free rate plus a fixed credit adjustment spread, as follows:

- the relevant risk-free rate (ie the ICE Term SONIA Reference Rates provided by ICE Benchmark Administration for sterling, and the Tokyo Term Risk Free Rates (TORF) provided by QUICK Benchmarks Inc., adjusted to be on a 360 day count basis, for Japanese yen);[10] plus
- the respective ISDA fixed spread adjustment (that is published for the purpose of ISDA's IBOR Fallbacks for the six LIBOR settings).[11]

11 During the wind-down period, the FCA has stated that "synthetic LIBOR remains LIBOR and should flow through to allow the continued operation and valuation of outstanding legacy contracts".[12] To support the orderly wind-down of LIBOR, on 8 September 2021 HM Treasury introduced further legislation in the form of a Critical Benchmarks (References and Administrators' Liability) Bill into Parliament on behalf of HM Government. In the case of LIBOR, the Bill "will provide certainty that contractual references to LIBOR should continue to be treated as references to that benchmark where the FCA has directed a change in how LIBOR is calculated: ie synthetic LIBOR."[13]

12 The FCA has stated that "we consider with a high level of confidence that there will be a material amount of legacy contracts, both within and outside the UK, referencing

8. It is important to note that these three types of fallback are used for convenience only and do not describe every case.

9. "Contracts that include fallbacks that operate only when the relevant LIBOR setting ceases permanently are not likely to be triggered at the end of 2021.": FCA CP 21/29 paragraph 1.24, September 2021.

10. A forward-looking term rate has been chosen for synthetic LIBOR because it can be used in a similar way to forward-looking term LIBOR, unlike a compounded risk-free rate, which is a backward-looking overnight rate.

11. FCA announcement on further arrangements for the orderly wind-down of LIBOR at end-2021, 29 September 2021.

12. FCA consultation (CP 21/19).

13. Critical Benchmarks (References and Administrators' Liability) Bill, Explanatory Notes, 8 September 2021.

each of the six LIBOR settings [three in sterling and three in Japanese yen] with maturities beyond end-2021 that contain no fallbacks or inappropriate fallbacks that cannot practicably be amended by the time the relevant LIBOR panels cease. We consider that, without our intervention, these [tough legacy] contracts may not function as intended or could be at risk of frustration beyond end-2021, which would potentially lead to a disorderly cessation. We assess that most of these contracts are in cash markets (ie bonds and securitisations, loans including mortgages and commercial lending) referencing the six sterling and Japanese yen LIBOR settings."[14]

13 There are two questions that are of particular concern in the sterling bond market: first, whether all outstanding legacy LIBOR contracts will be permitted to use synthetic LIBOR, and second, for how long?

- On the first question, the FCA announced on 29 September 2021 that it will decide and specify before the end of 2021 which legacy contracts are permitted to use synthetic LIBOR, and it published a consultation on its proposed decision. At least for the duration of 2022, the FCA is proposing to permit legacy use of synthetic sterling and Japanese yen LIBOR in all contracts except cleared derivatives. Clearing houses plan to transition all cleared sterling, Japanese yen, Swiss franc and euro LIBOR contracts to risk-free rates by end-2021.[15]
- On the second question, in announcing permission for legacy use at least for the duration of 2022 the FCA stated that it must review the use of its power to require publication of a ceasing benchmark at least annually (up to a maximum period of 10 years), and that, for the 3 Japanese yen settings, the FCA does not intend to renew the requirement, and publication will therefore cease at end-2022.[16] The FCA also stated that "users of LIBOR should continue to focus on active transition rather than relying on synthetic LIBOR. Synthetic LIBOR will not be published indefinitely. ... The FCA will also consider progressively restricting continued permission to use synthetic LIBOR in legacy contracts if this would help maintain progress towards an orderly cessation, and thereby support its objectives to protect consumers or market integrity. This may be necessary if, for example, work to reduce the stock of outstanding legacy LIBOR contracts does not continue."[17]

Is tough legacy being addressed in a consistent way internationally?

14 Given the international scope of the bond market, it is important that the wind-down of LIBOR currencies and jurisdictions is internationally aligned. But this does not mean that the timetable and the approach need to be identical. In practice, the timetable for the orderly wind-down in different currencies varies: euro and Swiss franc LIBOR are both due to cease permanently at the end of 2021; Japanese yen LIBOR at the end of 2022; sterling LIBOR in a maximum of ten years, subject to regular review in the meantime. Certain US dollar LIBOR settings will continue to be representative for legacy transactions until the end of June 2023.

15 There are also some international differences in the approach to the wind-down. In particular:

- While the UK is proposing to change the methodology for sterling LIBOR from panel bank LIBOR to synthetic LIBOR, but keeping the same LIBOR benchmark, the US is proposing to replace the US dollar LIBOR benchmark with a commercially reasonable and equivalent substitute. Given the large number of legacy US dollar contracts under English law, it will be important to establish whether the result is consistent. In the case of legacy US dollar contracts under English law, no decision has yet been taken by the authorities on what should happen after 30 June 2023.[18]
- Under English law, synthetic sterling LIBOR is subject to a 10 year time limit, and also subject to regular review in the meantime, while there is no time limit on the replacement benchmark for US dollar LIBOR under New York law.[19]

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14. FCA consultation (CP 21/19).

15. FCA announcement on further arrangements for the orderly wind-down of LIBOR at end-2021. This provides a link to the FCA consultation paper (CP21/29).

16. In the UK, the Financial Services Act specifies that the FCA can compel IBA to continue to publish LIBOR using its Article 21(3) power for a maximum period of 12 months. The FCA will need to review its decision by the end of that period. The period for the review of the FCA's exercise of its Article 23D powers is two years. The FCA must publish a report of the review as soon as reasonably practicable after the end of the two-year review period." (Article 23E).

17. FCA announcement on further arrangements for the orderly wind-down of LIBOR at end-2021, with a link to the FCA consultation paper (CP21/29).

18. Overnight and 12 month US dollar LIBOR settings will cease, and one, three and six month US dollar LIBOR settings will no longer be representative immediately after 30 June 2023. The FCA is continuing to consider the case for using its proposed powers to require continued publication on a synthetic basis of the one month, three month and six month US dollar LIBOR settings for a further period after 30 June 2023, taking account of views and evidence from the US authorities and other stakeholders.

19. Article 23E of the UK Benchmarks Regulation.

- And while the New York legislation abolishes the need for agents to poll reference banks under Type 1 fallbacks, the use of synthetic LIBOR under English law only delays the need for agents to poll reference banks until synthetic LIBOR ceases permanently.[20]

16 But although the timing and approach to the wind-down differ between LIBOR currencies and jurisdictions, the direction of travel away from LIBOR and towards risk-free rates in the different LIBOR currencies and jurisdictions is much the same.[21] And there is global coordination of the transition from LIBOR to risk-free rates through the FSB Official Sector Steering Group. An example of this is the agreement globally in June 2021 that there should be no further use of LIBOR for new transactions, including in US dollars, after the end of 2021. And although tough legacy legislation needs to be introduced separately in each relevant jurisdiction and needs to take account of local factors, the authorities have shown that they are aware of the importance of avoiding a conflict of laws between the UK, the US and the EU.

Contact: Paul Richards
paul.richards@icmagroup.org

20. The fallback provisions in legacy bonds with Type 1 fallbacks often contain provisions to poll reference banks for quotations before the bonds fall back to the previous LIBOR fix for the remaining life of the bond. Although a contractual requirement, polling reference banks is not expected to be feasible in practice or lead to an appropriate outcome.

21. See, for example, the video recording of *The Official Sector Risk-Free Rate Panel,* moderated by ICMA, launched on 2 June 2021 on the RFR webpage on the ICMA website. The panellists were: Edwin Schooling Latter for the FCA; Nate Wuerffel for the Federal Reserve Bank of New York; Roman Baumann for the Swiss National Bank; and Thomas Vlassopoulos for the European Central Bank.

The European Commercial Paper market: a new ICMA white paper

By **Andy Hill**

On 29 September 2021, ICMA published a new white paper on the European Commercial Paper (CP) and Certificates of Deposit (CD) market. The paper, an initiative of ICMA's recently reconstituted Commercial Paper and Certificates of Deposit Committee (CPC) attempts to: (i) map the landscape of the European CP and CD market; (ii) describe how the market performed during the COVID-related turmoil of March-April 2020 and after; and (iii) propose initiatives that could support the development of market structure and enhance resilience, particularly in the event of future shocks.

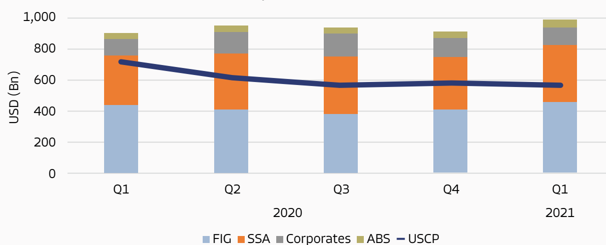
Market structure

When viewing the European CP market, it is important to appreciate that there is no single pan-European market as such, and that the market consists of a number of different markets, each with their own legal frameworks, post-trade structures, participants, and dynamics. This makes the European market highly distinct from the US CP market. The paper describes the landscape along a number of structural dimensions, and looks at the various constituents, including issuers, investors, dealers, and financial market infrastructures (MFIs).

The two main European markets are the Euro Commercial Paper (ECP) market and the Negotiable European Commercial Paper (NEU CP) market, followed by a number of smaller domestic markets.

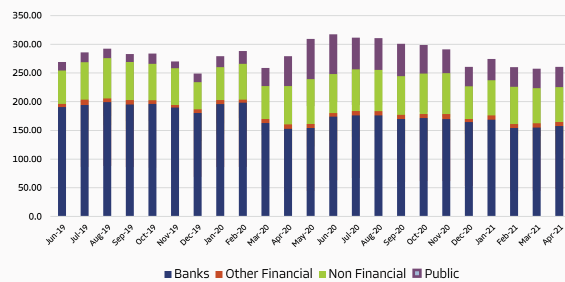
European vs American Outstanding CP/CDs

(As of 31/03/2021) Less then 1 year



Source: 2021 © CMDportal.com

NEU CP Amount Outstanding (EUR bn)



Source: Banque de France

The March-April 2020 market turmoil

The paper describes and examines the "dash for cash" experienced in March and April 2020, from the perspectives of various stakeholders, including issuers, investors, and dealers. In doing so it also looks at the perceived impacts of the different central bank interventions, in particular that of the Eurosystem. What becomes clear is that there is no single consistent viewpoint, although stakeholders point to a breakdown in secondary market liquidity that made it difficult for holders of short-term paper to sell positions to raise liquidity. This was particularly the case for financial paper, noting that the ECB purchase programmes, consistent with the bond purchase criteria, did not include financial issuers, and which is the predominant segment of the overall market.

Recommendations to develop the European CP/CD market

Market participants indicate that they would like to see greater standardisation and harmonisation in terms of legal and regulatory frameworks, documentation, issuer eligibility, maturity and denomination profiles, and settlement cycles. Lower barriers to entry to the market, particularly for corporate issuers, would also be welcomed, which perhaps requires further analysis.

While there are a number of commercial initiatives that are helping to consolidate post-trade data and statistics on issuance and outstandings across the different market segments, a level of fully consolidated publicly available information could play a role in supporting greater confidence for potential issuers, investors, and intermediaries, as well as helping with price formation, particularly in the secondary market.

Perhaps one of the starkest realisations from the March-April 2020 turmoil is how thin and vulnerable the secondary market is for CP in stressed market conditions; noting that this is not unique to CP and that this was observed across a whole range of asset classes, including corporate and sovereign bonds. While CP is generally considered a buy-to-hold instrument, often matching investors' short-term liquidity horizons, its value as a money market instrument also hinges on its liquidity post-issuance, particularly in times of market stress.

While platforms, e-protocols, and new technologies generally develop organically and in response to market participant needs, as well as being driven by technological advances, it is important to encourage initiatives that help to promote standardisation of data representation and processes as well as market interoperability. However, as illustrated by the COVID turmoil, platforms are not a substitute for liquidity, particularly in times of volatility or market stress, and ultimately a CP market requires dealer expertise, intermediation, and capacity to take positions, in order to function as intended.

Conclusion

ICMA intends that this new paper should form a basis for future CPC initiatives and member engagement focused on supporting the development of a more efficient and resilient European short-term credit market. It is further hoped that it will provide a platform for discussions with the European and global authorities, particularly in light of increased attention on the structure and liquidity dynamics of short-term markets, as well as the role of non-bank financial intermediaries, following the March-April 2020 market turmoil.

Contact: Andy Hill
andy.hill@icmagroup.org

Digital representation of transactions: CDM for repo and bonds

By **Gabriel Callsen**

F Digital transformation is a theme that cuts across all ICMA members' activities in primary, secondary, repo and collateral, and sustainability markets. Common standards play a critical role in enabling electronification, fostering innovation, promoting market efficiency and generating cost savings. The Common Domain Model (CDM), as a digital standard for trade processing, enables market participants' IT systems to speak the same language.

In July 2021, ICMA completed the first phase of the CDM for repo and bonds in partnership with REGnosys, a technology firm. The project delivered an extension of ISDA's CDM which enables market participants to process the execution, clearing and settlement of a repo transaction, and capture the key data points required for settlement of a bond transaction consistently in their IT systems.

International capital markets have proved to be resilient during the COVID-19 pandemic, marked by record issuance volumes and further digitisation of processes in the context of working from home. That said, there is always scope to make significant improvements to operational efficiency in a fragmented ecosystem comprising 20 electronic repo trading solutions and more than 200 applications for collateral management, liquidity monitoring, corporate actions and ancillary activities, according to ICMA's latest mapping exercise.

Onboarding technology solutions, connecting the "digital pipes" and normalising transaction data from multiple software vendor firms comes at a cost. Once a repo trade is agreed, the transaction is processed in a number of different IT systems during its lifecycle, from booking and risk management, to reconciliations, settlement and regulatory reporting, amongst others. This increases not only the risk of errors, but requires substantial resources to mitigate those risks.

Transaction details are shared in different shapes and forms between counterparts and infrastructure providers during the lifecycle of a transaction. A widely used electronic messaging protocol for fixed-income trading, and increasingly so for repo, is FIX (Financial Information Exchange). SWIFT is an established standard for post-trade messaging in relation to settlement of securities and payments, while FpML (financial product mark-up language) is predominantly used for OTC derivatives. ISO 20022 is a data standard which is often mandated by regulators for regulatory reporting.

As a standardised data model, the CDM has been designed to capture transaction details in a data structure that is consistent across repo and bonds, securities lending and OTC derivatives. Importantly, the CDM seeks to facilitate the translation of existing messaging protocols and data standards and consolidate the transaction data into a single view, providing the connecting tissue between different applications.

Explanations of repo-specific concepts such as the pricing (repo) rate and margin ratio have been embedded into the CDM to facilitate implementation and promote best practices. As a result, market participants and vendor firms are not required to interpret and programme lifecycle events and processes into their IT systems individually.

Innovation is a key topic on the digitisation agenda. Indeed, in recent years, we have observed a continuous increase in the number of bond transactions based on distributed ledger technology. ICMA's tracker currently references over 80 announcements. A common challenge is the lack of common standards and protocols which is considered a key impediment to the adoption of new technologies and emergence of a new ecosystem, notwithstanding legal and regulatory challenges. The CDM lays the foundation for such applications where, for instance, computer nodes in a DLT network could use the CDM to exchange and validate transaction data based on a standardised model.

CDM: A common language for trade processing

"securityPayout" : [{
  "initialMargin" : {
    "margin" : [{
      "haircut" : -0.04762
    }],
    "marginType" : "CASH"
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  "meta" : {
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  "repoDuration" : "TERM",
  "securityLeg" : [{
    "buyerSeller" : {
      "buyer" : "PARTY_1",
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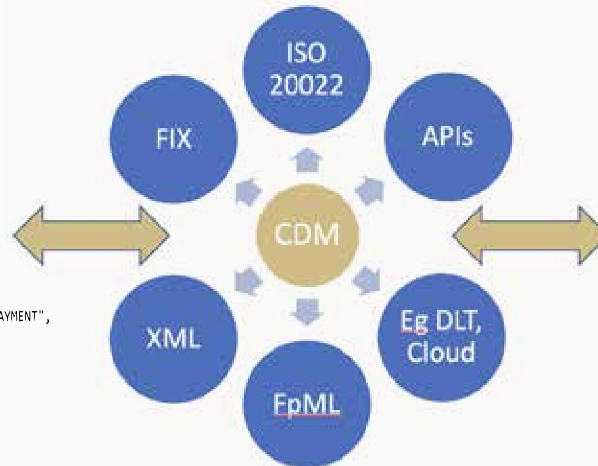

securityPayout" : [{
  "initialMargin" : {
    "margin" : [{
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    }],
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  "securityLeg" : [{
    "buyerSeller" : {
      "buyer" : "PARTY_1",
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      "globalKey" : "c0fc2368"
    },
    "settlementAmount" : {
      "amount" : 1292748.30,
      "currency" : {
        "value" : "USD"

Each party uses the CDM as a "common denominator" or a "common language" to process repo and bond, securities lending and derivatives transactions.

The CDM is a joint initiative between ICMA, ISDA and ISLA. The Memorandum of Understanding (MoU) signed on 2 August between the three associations marks an important milestone. It establishes a framework for closer collaboration as well as a path for joint governance and arrangements for CDM components that are generic and those that pertain to a specific market segment.

The CDM is aimed at market stakeholders, including banks, investors, issuers, market infrastructures and software vendor firms. Upgrading existing systems as part of a digital transformation strategy, building new infrastructure in emerging or frontier markets, or developing new business models and services are some of the implementation scenarios for the CDM.

To realise the benefits of the CDM, adoption is key. Implementation is expected to be a medium-term process embedded in a broader digital transformation strategy.

We would like to invite our members to:

- watch the event recording of the CDM in action;
- encourage colleagues in IT and data modelling functions to register here, contact us for access and explore the CDM;
- share their feedback on CDM functionalities, scope and potential future extensions.

ICMA is considering next steps based on the recent survey amongst the ERCC community and members' desire for interoperability between vendor solutions, notably in primary bond markets. The CDM for repo and bonds marks the beginning of a journey towards further digitisation and we invite our members to shape our digital future jointly.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

China's development in green finance

By **Wang Xin**

A S Green finance is an important component in China's supply-side structural reform and an endogenous driver in high-quality growth of the economy and society. In 2020, China's green finance industry faced both grave challenges from the COVID-19 pandemic and huge opportunities arising from carbon peak and neutrality goals. With supporting green, low-carbon and high-quality growth as its primary task, it strives to improve the policy framework and standard system, enrich products, tools and service models, and deepen local pilot zones reform and international cooperation.

As an important engine of the global economy, China attaches great importance to green recovery and has accelerated low-carbon transformation. The "two new and one major"[1] tasks as outlined in the *Government Work Report*, the "six stability" tasks and "six security" objectives[2] have all stressed green recovery, green industrial upgrading and optimal resource allocation, providing opportunities for green finance development. In particular, at the 75th session of the United Nations General Assembly in September 2020, President Xi Jinping promised that China will "strive to achieve carbon peaking by 2030 and carbon neutrality by 2060". Since then, green finance has entered a new stage of development, and become the choice of local governments and market players. At present, the five pillars of China's green financial system have basically taken shape.

First, the construction of a green financial standard system is accelerating. In 2018, the People's Bank of China established the Working Group on Green Financial Standards under the China Financial Standardization Technical Committee, focusing on financial standards to deal with climate change and support pollution control, energy conservation and emission reduction. Following the principle of "domestic unification and international convergence", it has established and improved a cross-sector and market-oriented green financial standard system covering the whole business process of financial institutions. At the end of 2020, one international standard has been formally established by the International Organization for Standardization Technical Committee on Sustainable Financial Standards (ISO/TC322) and the international expert group has completed consultation; one national standard has been approved by the National Standardization Committee for formal establishment; two industry standards are being prepared for approval; three draft industry standards have been submitted for review; and four draft standards have been submitted for approval in the green finance reform and innovation zones.

Second, information disclosure requirements and regulation of financial institutions have been strengthened. Regulatory authorities continue to enhance the mandatory environmental information disclosure by financial institutions, securities issuers and the public sector, improving the transparency of the green finance market. The UK-China Climate and Environmental Information Disclosure Pilot program continues to make progress, and the number of Chinese participants has increased to fifteen. Financial institutions and some regional organizations went through environmental risk pilot stress tests to explore the integration of climate and environment-related risks into the regulatory framework.

1. "Two new" refers to new infrastructure and new urbanization, and "one major" refers to major projects like transportation and water conservancy.

2. "Six stability" refers to ensuring stability in employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations, and "six security" refers to ensuring security in job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments.

Third, incentives and restraint mechanisms have gradually been improved. On the basis of the Green Credit Performance Evaluation Scheme, the green finance evaluation mechanism has been improved to guide financial institutions to increase green asset allocation, to generate policy space for the central bank to address climate change. The information collection mechanism for environmental law enforcement has improved, and progress has been made in building a social credit system of "rewarding integrity and punishing breach of trust". The pilot zones of green finance reform and innovation have instituted a number of innovations in financial support and supervision policies. Investment in green project increased, measurement standards have become more accurate. A series of policies have been adopted to promote green finance reform and innovation. At the end of 2020, the balance of green loans in the pilot zones was RMB236.833 billion, accounting for 15.14% of all loans, 8.22 percentage points higher than national average.

Fourth, green financial products and market systems have further diversified. Green financial products are designed to serve the real economy. By encouraging product innovation, improving issuance efficiency, regulating the transaction process and enhancing transparency, China has built a multi-level green financial product and market system including loans, bonds, insurance products, funds, trusts, carbon financial products, etc. This has helped diversify financing channels for green projects and is increasing the efficiency of low-carbon development. At the end of 2020, the balance of China's green loans was RMB11.95 trillion, ranking first in the world in terms of stock size; the stock of green bonds was RMB813.2 billion, ranking second in the world. The quality of green financial assets is generally good. At the end of 2020, the NPL ratio of green loans was 0.33%, 1.65 percentage points lower than the NPL ratio of corporate loans in the same period. There are no default cases of green bonds thus far.

Fifth, international cooperation in green finance has deepened. China participates in various multilateral and bilateral platforms and cooperation mechanisms to promote international exchanges in green finance to share experience in green finance policies, standards, products and markets. The Central Banks and Supervisors Network for Greening the Financial System (NGFS), initiated by the People's Bank of China, has expanded to 83 full members and 13 observer institutions. The International Platform on Sustainable Finance (IPSF), jointly launched by China, the European Union and other economies, focuses on promoting global convergence of green finance standards and other efforts. Green finance continues to be a key topic in the China-UK and China-French high-level financial dialogues and the "Belt and Road" construction.

At present, China is in a critical period of accelerating economic recovery and building a moderately prosperous society. It is of great significance to explore a new green recovery path to promote sustainable development. In terms of key tasks for financial industry this year, we focus on promoting a mandatory climate and environmental information disclosure system, improving the green financial performance evaluation system, launching new carbon emission reduction support tools, further improving the green financial standard system based on carbon peak and carbon neutrality, and promoting local green financial pilots and international cooperation.

Looking ahead, the financial industry will continue to focus on the vision of carbon peak and neutrality targets and promote green financial reform and innovation, thus contributing to the national strategy of green low-carbon development and building a community with a shared future for mankind.

Wang Xin, Director-General of the Research Bureau of the People's Bank of China (PBOC)

The road to formulating local guidelines for social bonds in Japan.[1]

By **Yuya Nakase**

A S

Background

In September 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development, which sets out the Sustainable Development Goals (SDGs). Following this, in December 2016, in Japan the SDGs Implementation Guiding Principles were formulated, which recalibrated the goals and targets of the SDGs in the Japanese context and indicated areas of focus specific to Japan, setting forth priority issues in eight areas. Specific measures based on these priority issues have been implemented according to the Japanese Government's SDGs Action Plan, which is periodically updated.

Amid these growing developments in the field of sustainability, the outbreak and spread of COVID-19 has posed a threat to people's lives, livelihoods, and dignity worldwide, which has made it ever more clear that greater efforts are needed in order to achieve the SDGs by 2030 and realize a sustainable economy and society. Under these circumstances, social bonds have received global attention as a potentially effective tool to help ensure the flow of the necessary funds to support and advance the efforts for achieving the SDGs through tackling social issues.

In June 2017, the primary version of the Social Bond Principles (SBP) were published, and they are currently the only internationally recognized set of principles for social bonds. Originally, there were calls from the Japanese business community for the early formulation of guidelines on social bonds tailored to the characteristics of Japan, in accordance with the SBP. In light of this, in March 2021, the Financial Services Agency of Japan (JFSA) set up a Working Group on Social Bonds and, from March to June 2021, the Working Group met four times to conduct intensive discussions about how best to approach this. Based on these discussions, the Social Bond Guidelines (the Guidelines) were created by the JFSA. The public consultation was conducted between July and August 2021. The final guidelines will be published soon. During the public consultation period, ICMA, in its role as Green Bond Principles and Social Bond Principles Secretariat, kindly reviewed the draft and provided comments.

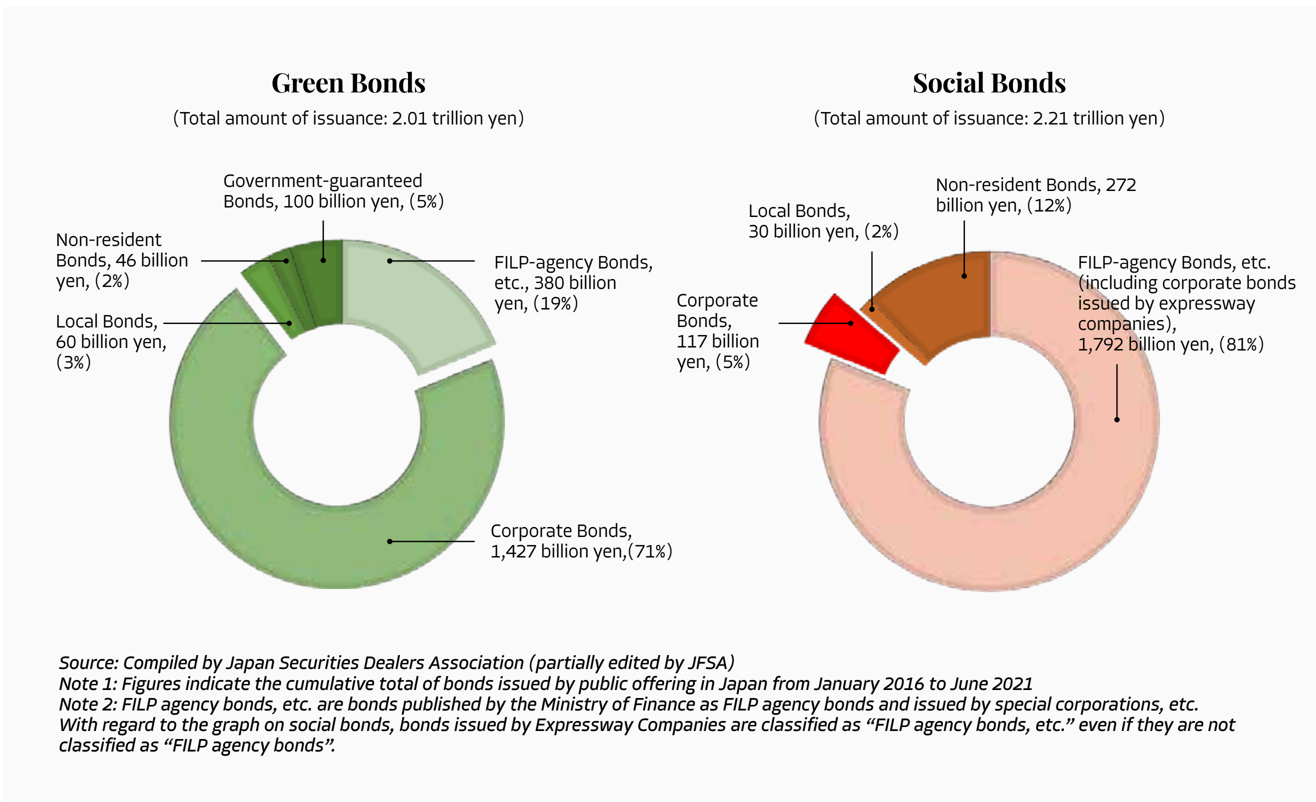
The Guidelines, in accordance with the 2021 version of the SBP, have been developed to provide practical examples and interpretations that are appropriate to the situation in Japan, including many of the challenges common to advanced economies. The purpose of the Guidelines is to promote the wider adoption of social bonds in Japan by ensuring the credibility of the social benefits of social bonds while reducing administrative burden on issuers.

With regard to green bonds, the Ministry of the Environment of Japan formulated the Green Bond Guidelines in 2017 (revised in 2020), in accordance with the GBP. In light of the fact that the Green Bond Guidelines are already being used as practical guidance for issuing green bonds in Japan, the Guidelines shared the same basic structure and procedures adopted in the Green Bond Guidelines.

Social bond markets in Japan and the main scope of the Japanese Guidelines

The issuance of social bonds has been expanding in the global bond market in recent years. 2020 saw a sharp increase globally in the issuance of so-called COVID-19 bonds aimed at supporting countermeasures against COVID-19. In Japan, the issuance of social bonds has increased

1. The ABMF created the ASEAN Social Bond Standards in 2018. Some other bodies are allegedly in the process of creating social bond-related guidance. Amongst developed countries, the Japanese Guidelines are thought to be the first thus far to provide detailed practical guidance tailored to the characteristics of the country.



Source: Compiled by Japan Securities Dealers Association (partially edited by JFSA)
Note 1: Figures indicate the cumulative total of bonds issued by public offering in Japan from January 2016 to June 2021
Note 2: FILP agency bonds, etc. are bonds published by the Ministry of Finance as FILP agency bonds and issued by special corporations, etc. With regard to the graph on social bonds, bonds issued by Expressway Companies are classified as "FILP agency bonds, etc." even if they are not classified as "FILP agency bonds".

significantly as well, and data breakdowns indicate that public sector issuance has taken the lead, accounting for most of the issuance. Issuance by the private sector has just begun to pick up in recent years, with Japan's first social bond issuance by a company in the private sector taking place in 2019.

Naturally, there is a difference between the efforts of the public sector–which contributes to solving social issues by mobilizing public funds and lending funds–and the efforts of the private sector–which contributes to solving social issues while taking healthy profits into consideration. Amid calls for further efforts by the private sector to help tackle social issues, the issuance of social bonds by the private sector is still in its nascent stages in Japan, similar to global markets. As such, the Guidelines are designed especially for corporates to refer to by illustrating examples of the social projects by issuers in the private sector.

Advantages of social bonds

Along with expected elements of social bonds (see the next section for details), the Guidelines attempt to explain some of the expected advantages brought about by social bonds, which are broken into three categories, as illustrated below. While not all listed have been fully agreed upon nor fully proven, the Guidelines are intended to cultivate further awareness and understanding about social bonds amongst relevant parties including potential issuers in Japan by providing some possible advantages of social bonds.

Advantages of Issuance	· Enhancing sustainability management · Acceptance from a wide range of stakeholders by demonstrating willingness to promote social projects · Reinforcement of the funding base by building relationships with investors · Possibility of raising funds on more reasonable terms
Advantages of Investment	· Serving as ESG investments · Achieving both investment returns and social benefits · ESG investments that enable effective engagement
Benefits to Society	· Contribution to solving social issues through social projects · Raising individuals' awareness of social investments

Expected elements of social bonds

Chapter 3 constitutes the core of the Guidelines. This chapter describes the elements that social bonds are expected to possess, in addition to providing examples of the possible approaches. In accordance with the 2021 SBP, they consist of four "core components" (1. Use of Proceeds, 2. Process

for Project Evaluation and Selection, 3. Management of Proceeds, and 4. Reporting) for social bonds, as well as two "key recommendations" ((i) Social Bond Frameworks and (ii) External Reviews) that are recommended to enhance transparency. The individual elements are carefully listed in the chapter, based on the discussions held at the Working Group level, with reference to the 2021 SBP, SBP-related guidance.

Additionally, two annexes were prepared for the Use of Proceeds component. Annex 1 provides examples of social project "*categories*", the details of projects corresponding to each "*category*" (sub-categories), and "*target populations*". The examples consist of those listed in the SBP, as well as some concrete examples with Japanese social issues in mind. Our intention is to provide reference points for Japanese (potential) issuers when thinking about their own social projects to be funded with social bonds. These examples were listed taking into account social issues identified in Japan's "SDGs Action Plan", as well as in consideration of actual cases of social bond issuance by domestic and overseas companies in the private sectors. Annex 2 provides further concrete examples on the use of proceeds. The examples provided are by no means exhaustive, and thereby do not intend to limit or preclude other potential eligible projects. Since social issues are often time-sensitive, various social projects could be implemented out of corporate creativity and innovation, taking into account the social situation at that time.

Future actions and outlook

The Guidelines will continue to be reviewed to ensure that they are responsive to changes in the surrounding circumstances, such as the change in the maturity level of the Japanese market, as well as international developments. To that point, international developments such as revisions to related documents such as the SBP and the formulation of the Social Taxonomy in the EU – the latter of which had a draft report released this July – need to be closely monitored.

Chapter 3 of the Guidelines recommends that the social benefits of social projects be assessed as quantitatively as possible, using appropriate indicators. As the Guidelines currently present only a general framework for evaluating social benefits, they leave the specific indicators to be studied and discussed going forward.

Long before the emergence of modern-day corporate social responsibility and stakeholder capitalism, there was a deep-seated business philosophy of the famous merchants of Omi Province in Japan called the *Sanpo Yoshi*, or "Win-Win-Win"– good for seller, good for buyer, and good for society as a whole. Years on, these principles persist to this day in the Japanese business community, and the international tides have begun to move in the same direction.

One can argue that to some degree, this approach of Japanese companies, at its core, is compatible with the philosophy of social bonds. The Guidelines have been formulated with the hope that, further fostering the Japanese philosophical inclinations toward responsible business practices, facilitates a significant increase in the issuance of such social bonds, thereby promoting market-driven solutions to pressing social issues.

Yuya Nakase is Deputy Director, Financial Markets Division, Financial Services Agency of Japan

Summary of practical initiatives by ICMA

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

Primary markets

1. *Public debt sustainability:* The Public Sector Issuer Forum met on 15 June 2021, with two main items on the agenda. The first was public debt sustainability, introduced by Carmen Reinhart, Vice President and Chief Economist at the World Bank. The second was the European Commission's debt issuance: sovereign or supra? This was introduced by Niall Bohan, Director, Asset and Financial Risk Management at the European Commission.
2. *UK Prospectus Regulation and listing regime:* ICMA responded to the UK Treasury's consultation on the UK Prospectus Regulation. The consultation proposed structural changes to the UK prospectus regime. ICMA members' overarching concern is to ensure that the currently well-functioning and efficient pan-European primary wholesale bond market is not disrupted or subjected to unnecessary additional costs. ICMA also responded to the FCA's Primary Markets Effectiveness Review, focusing primarily on the questions relating to the current structure of the UK listing and admission to trading regime. ICMA also responded to a UK Treasury consultation on a power to block listings on national security grounds.
3. *Retail markets and PRIIPs:* ICMA responded on 3 August 2021 to a European Commission consultation on a retail investment strategy for Europe, on 24 September to the retail aspects of a UK Treasury consultation on its Wholesale Markets Review and on 30 September to a UK FCA consultation on the PRIIPs regime.
4. *New issue processes:* On 7 May 2021, ICMA responded to a Hong Kong Securities and Futures Commission consultation on its potential code on bookbuilding and placing. In Europe, ICMA has been working to help underwriters to transition to a new method for recording allocation justifications in the context of MiFID II/R.
5. *Audit in capital markets:* On 8 July 2021, ICMA responded to a UK Department of Business, Energy and Industrial Strategy (BEIS) consultation on restoring trust in audit and corporate governance.
6. *Post-trade:* ICMA is working on the primary market implications of various emerging post-trade initiatives, including: the ECB AMI-SeCo Collateral Management Harmonisation Task Force consultation on corporate action harmonisation; ECB Debt Issuance Market Contact Group (DIMCG) discussions; and reforms to the ICSD syndicated closing process following CSDR implementation.
7. *ESG disclosure in primary markets:* The ICMA Legal & Documentation Committee (LDC) ESG Working Group contributed to ICMA's response to FCA CP 21/18 on enhancing climate-related disclosures by standard listed companies and seeking views on ESG topics in capital markets. The LDC contribution related specifically to a Task Force on Climate-related Disclosures (TCFD)-aligned disclosure rule for issuers of debt and debt-like securities and specific requirements for use of proceeds bonds in the UK Prospectus Regulation. ICMA's Corporate Issuer Forum also responded to certain aspects of this consultation paper.
8. *ICMA Primary Market Handbook:* ICMA is in the process of updating the ICMA Primary Market Handbook to include its post-Brexit standard language and certain other updates.
9. *Corporate Issuer Forum Newsletter:* The third edition of ICMA's Corporate Issuer Forum (CIF) Newsletter was released in October 2021. The CIF Newsletter provides a periodic snapshot of the CIF's key priorities, initiatives and workstreams, including insights into sustainable finance, primary market activities, FinTech, ICMA Commercial Paper Committee, upcoming meetings and events.
10. *China domestic bond market guides:* On 24 September 2021, ICMA and National Association of Financial Market Institutional Investors (NAFMII) jointly published two publications intended to encourage understanding and participation by international institutions in China's interbank bond market: *Investing in China's Interbank Bond Market: A Handbook* and *Panda Bonds: Raising Finance in China's Bond Market (Case Studies)* The Handbook contains an overview of developments in China's bond market and the case for international investment; descriptions of the market infrastructure and oversight; and details of the process required for international investors to access the market via the three different channels Bond Connect, CIBM Direct and the QFI regime. The panda bond case studies present successful transactions by international issuers in the panda bond market.
11. *Primary markets technology and consultations:* ICMA's directory covers existing and emerging technology solutions in primary markets and was initially launched in December 2018. It is reviewed regularly and the latest amendments were incorporated in July 2021. The aim is to help inform ICMA members and thereby create greater transparency. The directory is available on the ICMA website. On 30 July, ICMA also responded, on English law bearer bonds, to a UK Law Commission consultation on digital assets.

Secondary markets

12 *Consolidated tape for EU bond markets:* Following ICMA's 2020 report into considerations surrounding the establishment of an EU consolidated tape for bond markets, on 20 January 2021 DG FISMA announced that, in conducting a further review of MiFID II/R, this would include plans to design and implement a consolidated tape for corporate bonds. ICMA's MiFID II Working Group submitted a practical proposal for the MiFID II/R bond market transparency regime, with the EU bond consolidated tape as the vehicle for transparency, to the European Commission in early October.

13 *MiFID II/R responses:* Recently, ICMA's MiFID II Working Group has been working on responses to two consultations. first, the response to HMT Wholesale Markets Review and second, the response to ESMA's consultation on RTS 2 review.

14 *ICMA Industry Guide to Definitions and Best Practice for Bond Pricing Distribution:* There is keen market interest in how pre-trade bond pricing information is distributed, because it is a vital source of data for bond traders. The way in which information has been distributed is not uniform and has caused concern among buy-side market participants. ICMA's guide to best practice for bond pricing distribution sets out standards and definitions agreed by ICMA's buy-side, sell-side and trading venue members in the hope that the Guide will be adopted by the market.

15 *CSDR mandatory buy-ins:* In February 2021, ICMA submitted its response to the European Commission's targeted consultation on CSDR. ICMA's response focused primarily on the mandatory buy-in (MBI) element and argued that this should not be implemented as currently designed and scheduled before undertaking a detailed market impact analysis. ICMA also held the pen for a cross-association letter to the European Commission further outlining concerns about the current implementation schedule in light of its CSDR Review. More recently, ICMA has held meetings with a number of public authorities to push the case for a delay to MBIs. ICMA understands that ESMA and the co-legislators are currently exploring such a delay, and in September 2021 ESMA wrote to the European Commission supporting a postponement of the MBI regime and requesting urgent action to clarify that this was being considered. Meanwhile, ICMA continues to work with members and other associations to provide contractual solutions to support compliance with the go-live date of February 2022, in the event that MBIs are not delayed.

16 *ICMA Secondary Market Rules & Recommendations (SMR&Rs):* ICMA is in the process of finalising a member consultation framework for updating its Buy-in and Sell-out Rules (part of the ICMA SMR&Rs) to align with and support implementation of the CSDR mandatory buy-in provisions. The consultation has been put on hold pending the CSDR Review and the possibility of a delay to mandatory buy-ins.

17 *Bond market transparency directory:* ICMA has expanded its bond market transparency directory to include pre-trade reporting obligations, in addition to post-trade obligations, across multiple jurisdictions from Europe, the Americas and Asia-Pacific. The purpose of the mapping is to provide a consolidated view to compare both regulatory rules and best practice guidance on bond trade reporting transparency regimes, as well as details on reporting fields and exceptions.

18 *ETP directory:* ICMA's directory of electronic trading platforms (ETPs) lists electronic trading venues, execution and order management systems (EMS/OMS) and information networks available for cash bonds. It is intended to help market participants compare the capabilities of different solutions to determine which platforms best suit their investment and/or trading strategies. The latest amendments were published in September 2021 and are available on ICMA's website.

19 *Developments and trends in Asian international bond markets:* In March 2021, ICMA published a report that examines the growth and development of the Asia cross-border corporate bond market. The report was produced in collaboration with the Hong Kong Monetary Authority, who approached ICMA with the initiative.

20 *IOSCO-AMCC Bond Market Liquidity Working Party*: ICMA proposed and is now chairing a Bond Market Liquidity Working Party consisting of members of the IOSCO Affiliate Members Consultative Committee. The purpose of the Working Party is to support and complement the work being undertaken by IOSCO, in coordination with the FSB, on global bond market structures. This is part of the broader IOSCO-FSB workstream on non-bank financial intermediaries (NBFIs) following the 2020 COVID-19 market turmoil. The first deliverable of the Working Party was a compendium of AMCC member research covering how COVID-19 impacted global corporate bond markets in March-April 2020. This was submitted to IOSCO in May 2021. In September 2021, the Working Party launched a global survey targeted at market participants to support the second phase of IOSCO's work, which is focused on corporate bond market micro-structures and stakeholder behaviours.

21 *IOSCO FSEG Corporate Bond Market Liquidity Working Group:* The IOSCO Financial Stability Engagement Group (FSEG) is leading a workstream on global corporate bond market liquidity and microstructures. The workstream leaders joined the meeting of the ICMA Secondary Market Practices Committee (SMPC) on 15 September 2021 to update members on this initiative as well as to solicit input from the Committee. A dedicated follow-up session for the SMPC and the IOSCO FSEG is scheduled for 11 October 2021.

22 *CSDR-SD technology directory*: To help market participants prepare for CSDR implementation, ICMA published in July a directory of technology solutions aimed at managing the requirements under CSDR Settlement Discipline. The initial focus of ICMA's CSDR-SD technology directory is on those solutions which help firms to manage cash penalties. The directory is intended to provide a consolidated overview of the functionalities of market solutions, such as calculation, aggregation, reconciliation, invoicing, reporting, and appeals or claims management processes.

Repo and collateral markets

23 *Repo and sustainability:* On 22 April 2021, the ICMA European Repo and Collateral Council (ERCC) published a consultation paper on the role of repo in green and sustainable finance, exploring the sustainability aspects of repo and collateral as well as assessing the existing opportunities and potential risks in this area. The consultation closed on 4 June. Having reviewed the responses, on 20 September ICMA published a summary report of the feedback.

24 *GMRA and CSDR mandatory buy-ins:* ICMA is coordinating with other trade associations on how to progress contractual solutions (covering both repo and cash bonds) for day one compliance, while waiting for clarification of the regulatory implementation schedule.

25 *SFTR implementation:* ICMA continues to work with members of the ERCC's SFTR Task Force to improve the quality of the data reported under SFTR and resolve outstanding issues. ICMA maintains a log of the key reporting issues encountered by firms which is regularly shared with ESMA and the FCA. In parallel, ICMA's extensive best practice guide, the *ICMA Recommendations for Reporting under SFTR,* continues to evolve to reflect the discussion as well as new regulatory guidance.

26 *SFTR public data:* ICMA continues on a weekly basis to collect, aggregate and publish the SFTR public data released by the trade repositories (TRs), covering both UK SFTR and EU SFTR. On 28 September, ICMA published a more detailed report analysing the public data for the first full year of SFTR reporting.

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

28 *Settlement efficiency:* The ERCC is leading an industry effort to explore ways to improve settlement efficiency in Europe. Further to a targeted update of the ERCC *Guide to Best Practice* released in March 2021, the ERCC has held a series of workshops to explore a number of other possible measures to support settlement efficiency, focusing in particular on the use of partial settlement and auto-partialling, shaping of settlement instructions and auto-borrowing functionality. Based on the outcome of the workshops, the ERCC plans to communicate more detailed recommendations on those topics in the autumn.

29 *Operations FinTech directory for repo and cash bonds:* The directory currently lists over 200 solutions across 10 categories comprising collateral management, corporate actions, exposure agreement, intraday liquidity monitoring and reporting, matching, confirmation and allocation, and reconciliations, but also ancillary areas such as static data and SSI workflow and communication and KYC onboarding. The directory is available on ICMA's website. An updated version was published on 6 October.

30 *Repo trading technology directory:* In light of increasing electronification of repo markets, ICMA periodically reviews its directory of electronic trading solutions for repo. The directory is intended to help market participants understand what execution venues and other technology solutions are available for repo trading, product scope, as well as differences in trading protocols, clearing and collateral configurations. The directory is available on ICMA's website. An updated version was published on 6 October.

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

32 *Asia-Pacific Repo Survey*: ICMA, in partnership with ASIFMA, is conducting a survey of G3 currency Asia-Pacific repo markets as of June 2021 using a methodology similar to that of the ICMA ERCC European repo survey. The survey responses are currently being processed and a final report is expected to be published in Q4 2021.

33 *Repo in emerging markets:* ICMA and Frontclear have released a series of webinars on repo market developments in a number of African countries, including Uganda, Nigeria and Ghana. These webinars have been extremely well attended and have provided a great opportunity to showcase to an international audience the success of cross-agency collaboration in promoting regulatory and legislative reform. Future webinars will focus on Kenya and Ethiopia.

34 *ERCC events:* On 13 October 2021, the ERCC will hold its autumn General Meeting as a virtual event. After a break in 2020, this year ICMA will also again hold its annual Professional Repo and Collateral Management Workshop, the repo industry's principal education forum. The course took place over four mornings on 27 and 28 September, and 4 and 5 October.

Short-term markets

35 *ICMA Commercial Paper Committee:* In March 2021, ICMA reconstituted its ECP Committee to include the broader commercial paper market, including financial and corporate issuers, dealers, investors and infrastructures. This initiative follows an ICMA workshop, *The Commercial Paper Market Reimagined,* which was held in November 2020. On 29 September 2021, the ICMA Commercial Paper and Certificates of Deposit Committee (CPC) published a

white paper that maps the current structure of the market, analyses the March-April 2020 market turmoil and provides recommendations for market development.

36 *Meeting with the FSB to discuss short-term markets:* On 1 September 2021, Edwin Schooling Latter of the UK FCA joined a meeting of the CPC to discuss how the short-term European markets performed during the COVID-19 turmoil in 2020. He is co-chairing the FSB's Working Group on Dealer Behaviour.

Sustainable finance

37 *Green Bond Principles 2021 Version*: The Annual General Meeting (AGM) of the Principles was held virtually on 10 June 2021 during which the GBP's 2021 Version was released. It notably features: (i) two key recommendations on the bond frameworks and external reviews designed to increase transparency alongside the four core components; (ii) a recommendation of heightened transparency for issuer-level sustainability strategies and commitments; (iii) encouragement to supply information, if relevant, on the degree of alignment of projects with official or market-based taxonomies; (iv) promotion of transparency on issuer processes to identify and manage perceived and known social and/or environmental risks; (v) links and references to the complementary guidance of the Climate Transition Finance Handbook, the Harmonised Framework for Impact Reporting, the Guidelines for External Reviews, which are supplemented by the Guidance Handbook. Similar revisions were also made to the SBP and the SBG while a number of other additional deliverables were released during the 2021 AGM.

38 *ICMA's response to the US Securities Exchange Commission's Climate Change Disclosures*: On 15 June 2021, ICMA submitted its response to the US SEC consultation on climate-related disclosures, in which ICMA supported SIFMA's letter and emphasised important points relating to a global coordinated approach, principles-based materiality, safe-harbour protection and a handful of other issues.

39 *FCA's consultations on sustainability disclosures:* On 22 June 2021, FCA opened two consultations (CP21/17 on climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers and the CP21/18 on enhancing climate-related disclosures by standard listed companies). ICMA has submitted responses to these two consultations within the deadline of 10 September 2021.

40 *ICMA's analysis of the proposed EuGB Regulation:* On 6 July 2021, the European Commission published its proposal for a Regulation on European green bonds (EuGBs), which will be negotiated in the European Parliament and among Members of the Council of the European Union as part of the co-legislative process. While welcoming the proposed voluntary nature for the EuGB, ICMA noted the areas of concern that are likely to hinder the success of the label. The full ICMA analysis of the draft EuGB Regulation can be found here.

41 *ICMA's analysis & commentary on the EU's Strategy for Financing the Transition to a Sustainable Economy:* On 6 July 2021, the European Commission published its new sustainable finance strategy which aims to support the financing of the transition to a sustainable economy by proposing action in four number of areas: transition finance, inclusiveness, resilience and contribution of the financial system and global ambition. ICMA's analysis and commentary on the new strategy can be accessed here.

42 *EU Platform on Sustainable Finance's Reports on the expansion of the Taxonomy:* On 12 July 2021, the EU PSF published its reports on the potential development of a Social Taxonomy as well as the potential extension of the Taxonomy to Significantly Harmful and No Significant Impact Activities. ICMA submitted its feedback on the Taxonomy's extension on 3 September 2021 and on the Social Taxonomy Report on 6 September 2021.

43 *ICMA AMIC response to IOSCO's Recommendations:* On 13 August 2021, AMIC responded to IOSCO's *Recommendations on Sustainability-Related Practices, Policies and Disclosure in Asset Management.*

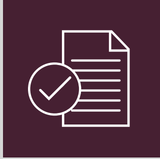
44 *Singapore Exchange consultation:* On 27 September 2021, ICMA responded to the Singapore Exchange's *Consultation Paper on Climate and Diversity*. ICMA's response was limited to issues related to climate-related disclosure addressed in the Green Bond Principles and related guidance.

45 *ICMA appointment to Southeast Asia Industry Advisory Panel:* In southeast Asia, ICMA has been appointed to the Industry Advisory Panel established by the ASEAN Capital Markets Forum and the ASEAN Working Committee on Capital Market Development as their core industry interaction point on the ASEAN sustainable finance agenda and initiatives.

Asset management

46 *AMIC podcasts:* ICMA has continued to stream a series of monthly podcasts in which Robert Parker, Chair of the ICMA Asset Management and Investors Council (AMIC), has reviewed market events in the context of the recovery from the COVID-19 pandemic, with a specific focus on central bank policy measures, economic data and the impact on investors.

47 *AMIC responses to ESMA and FSB consultations on potential reforms for Money Market Funds (MMFs)*: AMIC's responses, published on 30 June and 13 August 2021 respectively, explain that most of the measures envisaged under the ESMA and FSB consultations would either threaten the viability of prime MMFs (eg liquidity exchange facilities, minimum balance at risk, capital buffers, eligible assets) or have a limited effect (eg swing pricing, liquidity fees) during the very short period when investors were searching for liquidity and most markets experienced illiquidity and stress. The AMIC responses therefore call for a focus on measures to enhance the functioning and resilience of underlying markets (such as CP and CD markets), rather than an overhaul of the regulatory framework governing MMFs. Some targeted measures such



as the decoupling of regulatory thresholds from suspensions, gates and fees, which could indeed attenuate the first mover advantages, would however be welcome.

48 *AMIC co-signature of a joint letter on the AIFMD review*: The letter addressed on 15 July 2021 to European Commissioner McGuinness calls for regulatory stability for investment funds in the context of the AIFMD review. In particular, the letter highlights the benefit of preserving the current delegation model and, more broadly, points out the overall resilience of AIFs during the pandemic (eg none had to suspend redemptions, according to an ESMA study); and it also draws attention to the fact that the industry is already focused on key amendments to AIFMD, notably in the context of the sustainable finance action plan and the digital finance agenda.

49 *AMIC response to the IOSCO consultation on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management*: In its response submitted on 13 August 2021, AMIC expressed its support for IOSCO's recommendations and emphasised that the key priority is the need to address the risk of market fragmentation, mitigate data gap challenges and ensure global alignment across jurisdictions.

50 *AMIC response to the UK FCA CP 21/17: Enhancing Climate-Related Disclosures by Asset Managers, Life Insurers and FCA Regulated Pension Providers.* In its response submitted on 10 September, AMIC welcomed the FCA's proposals and noted that the sequencing of the disclosure requirements should be first on the issuer side at international level (upcoming IFRS standard), followed by the buy side, and that in the meantime the proposed approach is applied on a "as far as they are able" approach, with accepted use of proxies and estimated data.

51 *AMIC response to the European Commission Review of the EU Securitisation Regulation (SECR).* In its response submitted on 17 September, AMIC highlighted that the low level of securitisation issuances since the entry into application of the SECR is mainly due to the accommodative monetary policies of central banks, but that there is still merit in introducing amendments to the SECR and related prudential rules measures to grow both the investor and the issuer base and contribute to the CMU's objectives.

FinTech in capital markets

52 *Common Domain Model (CDM) for repo and bonds:* ICMA, together with its CDM Steering Committee and REGnosys, completed the initial phase of the CDM for repo and bonds in July 2021. The project delivered an extension of ISDA's CDM covering execution, clearing and settlement of a fixed-term repo transaction, as well as a bond transaction, in machine-readable and executable form. A showcase event was held on 21 July featuring demonstrations of the CDM in action, as well as a panel discussion with members of ICMA's CDM Steering Committee. The recording, background materials and instructions on how to view and download the CDM are available on ICMA's CDM webpage.

53 *MOU on the CDM:* On 2 August 2021, ICMA, ISDA and ISLA signed a Memorandum of Understanding (MOU) to strengthen collaboration between them on the future development of the CDM, the single, common digital representation of trade events and actions across the lifecycle of financial products. The MOU establishes a framework for closer collaboration between the three Associations on the CDM, providing a path for joint governance and setting out arrangements in relation to the open-source components of the CDM and associated intellectual property for market-specific components.

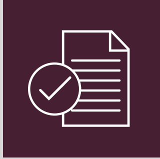
54 *FinTech Advisory Committee (FinAC):* Strategic priorities for 2021 are twofold: (i) promoting common data standards to enable process automation along the securities lifecycle, and (ii) tokenisation of bonds and digital currency, understanding the implications for market practice and adoption challenges. The fifth meeting was held on 23 September and focused on digital currencies, latest developments and implications for the international debt capital markets, as well as FinTech and sustainability.

55 *ECB FinTech Task Force:* The Task Force, a sub-group of the AMI-Pay and AMI-SeCo, published in April 2021 the report, *The Use of DLT in Post-Trade Processes,* to which ICMA contributed. The report concludes that, while there is no clear business case for the use of DLT, interoperability and sound governance are key to realise the benefits of DLT and avoid the risk of further fragmentation. The ECB FinTech Task Force ceased its activities following the publication of the report.

56 *IOSCO FinTech Network*: ICMA continues to participate in the IOSCO FinTech Network. However, membership of the Decentralised Finance (DeFi) workstream is limited to regulators only. ICMA expects to participate through AMCC stakeholder engagement.

57 *ICMA virtual roundtable on data standards in primary markets:* A key take-away from the roundtable held in December 2020 with relevant stakeholders was that a "common data dictionary" or common language would lay the foundation for interoperability, facilitate on-boarding and communication, whilst promoting competition in primary bond markets. ICMA held a follow-up roundtable on 30 March 2021 with relevant law firms to discuss the potential scope of such a "common data dictionary", current market initiatives, and implementation considerations. ICMA is considering next steps, in particular the potential of the CDM to enable interoperability.

58 *ICMA virtual roundtable on FinTech and sustainable bond markets*: Following a roundtable held in December 2020, including issuers, investors, underwriters and technology/ data providers, ICMA published an article in the Quarterly Report Q1 2021 which explores how technology can be leveraged to further sustainability in bond markets, key trends and drivers, but also challenges and opportunities.



59 *DLT regulatory directory:* ICMA's DLT regulatory directory covers new regulatory and legislative developments, national blockchain initiatives, publications and consultation papers. The directory was initially published in December 2019 and seeks to provide a non-exhaustive overview of developments in selected jurisdictions across Europe, North America, and Asia-Pacific. Latest updates were included in September 2021 and are available on ICMA's website.

60 *FinTech Newsletter:* ICMA's FinTech Newsletter, launched in June 2020, provides a summary of ICMA's cross-cutting technology initiatives across its key market areas. It also provides insights into regulatory updates, consultation papers, news and other publications, and upcoming meetings and events. It is published on a 4-6 weekly basis.

61 *FinTech regulatory roadmap:* ICMA has updated its FinTech regulatory roadmap, a compilation of key regulatory, legislative and innovation initiatives relevant to debt capital markets at global, EU and national level. The latest version includes updates from September 2021 and is available on ICMA's website.

62 *FinTech and sustainable finance library*: ICMA has compiled a non-exhaustive list of recent publications on FinTech and sustainable finance, with a focus on bond markets. The library intends to complement ICMA members' resources and help inform broader discussions on this topic. The library aims to highlight the current views from academic, market, and official sector studies on the potential of FinTech to further sustainable debt capital markets. It can be found on ICMA's website.

Transition from LIBOR to risk-free rates

63 *Official sector sponsored working groups:* ICMA continues to participate in the Working Group on Sterling Risk-Free Reference Rates (and to chair the Bond Market Sub-Group), the Working Group on Euro Risk-Free Rates (as an observer) and the National Working Group on Swiss Franc Reference Rates. ICMA is also in regular contact with the ARRC FRN Group in the US and national working groups in Asia.

64 *Tough legacy proposals:* ICMA has continued to engage with various official sector contacts and members in relation to the "tough legacy" proposals put forward by authorities in the US, the UK and the EU. On 16 June, ICMA responded to the UK FCA consultation on the exercise of its new powers related to use of critical benchmarks; and on 25 August, ICMA responded to the UK FCA consultation on the exercise of its new powers related to sterling and yen LIBOR.

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

66 *RFR Webinar*: On 13 September, ICMA held a webinar for the Arab Federation of Exchanges focused on the reasons for the cessation of LIBOR across the main international LIBOR jurisdictions, and the need to transition to risk-free rates, including the relevant timelines.

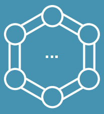
67 *Official sector RFR panel:* ICMA has moderated another official sector panel on the transition from LIBOR to risk-free rates. This was launched by ICMA on 2 June 2021 and involved senior representatives from the UK FCA, the Federal Reserve Bank of New York, the Swiss National Bank and the European Central Bank.

68 *Coordination with other trade associations:* ICMA continues to participate in regular calls of the Joint Trade Association LIBOR Working Party established by the LMA, as well as regular calls of the APAC Benchmark Working Group established jointly by ICMA, ASIFMA, ISDA and APLMA.

Other meetings with central banks and regulators

69 *ICMA Regulatory Policy Committee (RPC):* Jean-Paul Servais, Vice-Chair of IOSCO, joined the virtual meeting of RPC on 3 June for a discussion with members. Natasha Cazenave, the new Executive Director of ESMA, joined the virtual meeting of RPC on 30 September.

70 *Other official groups in Europe:* ICMA continues to be represented, through Martin Scheck, on the ECB Bond Market Contact Group and on the ESMA Securities and Markets Stakeholder Group; through Nicholas Pfaff on the European Commission Platform on Sustainable Finance; through Lee Goss on the ECB Debt Issuance Market Contact Group (DIMCG); through Charlotte Bellamy on the Consultative Working Group on ESMA's Corporate Finance Committee; and through Alexander Westphal on the Consultative Working Group of ESMA's Post-Trading Standing Committee.



Primary Markets

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

The UK prospectus and listings regimes

Following the end of the post-Brexit transition period and the publication of Lord Hill's UK Listings Review, HM Treasury and the FCA have consulted on a wide range of proposals to reform the UK prospectus and listings regimes. In line with the strategy for UK financial services outlined by the Chancellor of the Exchequer in July, the core focus and drive for change seems to be to ensure that the UK's regime is flexible, agile and appropriately calibrated. There appears to be a strong focus on the UK's equity capital markets and listing of shares on the London Stock Exchange. In some ways, this is not surprising given wholesale bond markets are currently functioning efficiently under the current regulatory regime. However, any changes that are made to the UK prospectus and listing regime driven by the needs of the equity capital markets need to be either neutral or positive for the debt capital markets. This message underpins ICMA's responses to the various recent consultations.

UK Prospectus Regulation consultation

In its consultation on the UK Prospectus Regulation, which closed on 24 September, HM Treasury took forward many of the recommendations made in Lord Hill's UK Listings Review. This included a proposed structural change to the UK Prospectus Regulation that would separate the prospectus regime for admission to trading from the prospectus regime for public offers. For the (largely wholesale) international bond market, the proposed new admission to trading regime will be very important. A striking change is the degree of discretion that will be given to the FCA to set rules for this regime, rather than having very detailed requirements set out in primary legislation as is currently the case. The shift away from prescriptive primary legislation and towards FCA rule-making is intended to create a more flexible, agile regime, and is anticipated to be a general trend in the UK's post-Brexit financial services regulation following HM Treasury's Future Regulatory Framework Review and the strategy announced by the Chancellor of the Exchequer in July.

ICMA's response to the consultation highlighted ICMA members' overarching concern to ensure that the currently well-functioning and efficient pan-European primary wholesale bond market is not disrupted or subjected to unnecessary additional or disproportionate costs. Whilst HM Treasury's proposed approach does not give rise to these concerns immediately, much will depend on the precise approach taken with respect to two aspects: first, the exemptions from the public offer regime; and second, the approach taken in relation to "wholesale" disclosure for bonds admitted to trading on UK markets.

In relation to the exemptions from the public offer regime, bond issuers will wish to continue to issue wholesale bonds on a pan-European basis with minimal (or no) additional burdens. As such, it is important that HM Treasury and the FCA consider how any changes to the UK prospectus regime are likely to impact upon issuers that currently rely either on exemptions under the EU Prospectus Regulation or exemptions under the UK Prospectus Regulation. In the bond market, the most heavily used exemption under both the EU and UK Prospectus Regulations is currently the €100,000 minimum denomination exemption. The implications of re-stating the UK threshold in sterling for pan-European bond offerings will therefore require careful consideration.

The future of the "wholesale" disclosure regime would be for the FCA to decide under HM Treasury's proposed new approach. In particular, the FCA would have discretion to decide whether the current approach of allowing wholesale disclosure (including an exemption from the requirement to prepare a prospectus summary) for bonds with a minimum denomination of €100,000 will be retained or not. This is an important issue for bond market participants and an area that ICMA will wish to discuss with the FCA in due course.

ICMA also flagged certain other improvements that could be made to the current regime that would make it work even more efficiently for international bond markets. These include refinements to the "necessary information" test, the definition of "public offer", the rules relating to supplements and withdrawal rights, as well as an ability to incorporate by reference "future" financial information.

The next step is for HM Treasury to consider the responses it received to the consultation before taking forward any changes to the UK Prospectus Regulation. ICMA will continue to monitor developments, engage with the HM Treasury team and keep members informed.

FCA Primary Markets Effectiveness Review

Alongside the review of the UK Prospectus Regulation by HM Treasury, the FCA published a Primary Markets Effectiveness Review in July. The Review was primarily focused on issues related to equity capital markets, but included a discussion of the purpose of the UK listing regime. Whilst this section of the consultation paper was also focused primarily on equity capital markets, the UK listing regime is generally relevant for bonds as well as shares and there were some questions in the consultation paper that related to debt securities.

ICMA's response noted that ICMA is not aware of particular concerns or issues with the current structure of the UK listing framework for debt and debt-like securities that impact upon issuers' choice of listing venue between London and elsewhere. In line with the general message underpinning all of ICMA's recent responses in this area, ICMA noted that any changes made to the UK listing framework would need to be either neutral or positive for debt market participants. In particular, it will be important to ensure the continued availability of the quoted Eurobond exemption from UK withholding tax and the ability for UK and overseas investors to be able to continue to invest in London-listed bonds within the terms of their investment mandates. With these points in mind, ICMA suggested that the FCA explore whether it could streamline the way it regulates admission to listing with the way it regulates admission to trading on a UK regulated market. While the *process* of admitting new bond issues and further bond issues to both the FCA and the London Stock Exchange is generally not considered to be burdensome, the bifurcation of the admission to listing and admission to trading on a UK regulated market and the two different sets of rules could benefit from streamlining in order to make the overall regime more straightforward to understand and apply for debt capital markets participants.

FCA consultation on climate-related disclosures and prospectus requirements for use of proceeds bonds

As reported in the Sustainable Finance section of this Quarterly Report, ICMA also responded to the FCA's CP 21/18 on enhancing climate-related disclosures by standard listed companies and seeking views on ESG topics in capital markets. Of relevance to the UK listing and prospectus regime were the questions in the consultation paper related to the possible extension of a "comply or explain" Listing Rule on TCFD disclosures and a question on whether the UK authorities should consider introducing specific requirements for use of proceeds bond frameworks and their sustainability characteristics in the UK prospectus regime.

The ICMA response acknowledged the importance of TCFD disclosures generally but agreed with the FCA that there are some specific considerations in terms of the extension of the rule to debt issuers. In particular, it is not clear whether the extension of the TCFD-aligned disclosure rule to issuers of standard listed debt (and debt-like) securities would result in a significant increase in the availability of such disclosures because (a) following the extension of the requirements to issuers of standard listed equity and other initiatives, the types of issuers that would be impacted primarily are unlikely to be entities to whom TCFD disclosures are easily applicable and (b) it would be relatively straightforward for debt issuers to choose alternative listing venues should the Listing Rules become more onerous than such alternatives.

On the question of whether changes to the UK Prospectus Regulation are required for use-of-proceeds (UoP) bonds, such changes are not considered to be necessary on the basis that disclosure for UoP bonds that are subject to the UK Prospectus Regulation already follows a relatively consistent approach. Also, absent an appropriately developed and regulated regime for UoP bond framework verification, issuers and underwriters may not feel comfortable with certain disclosure requirements (eg related to UoP bond frameworks) meaning that mandatory disclosure requirements under the UK Prospectus Regulation could be a disincentive to issuing UoP bonds, or at least admitting them to trading on the London Stock Exchange's Main Market. The ICMA response suggested that it may be appropriate to re-visit the question of prospectus requirements for UoP bonds when an appropriate regulatory regime for framework verification is established. Alternatively, a simple requirement for issuers to state in their UoP bond prospectuses whether they intend to comply with a particular market-based standard for such instruments (such as the Green Bond Principles, Social Bond Principles or Sustainability Bond Guidelines) or not and, if so, to specify that market-based standard in the prospectus could be a pragmatic approach.

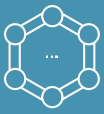
Power to block listings on national security grounds

ICMA also responded to a HM Treasury consultation on a power to block listings on national security grounds in August. The response agreed that HM Government's intention to exclude debt securities from the scope of the blocking power is sensible. This approach seems to be an appropriate reflection of the balance between the risk of harm arising and the importance of ensuring open financial markets with minimal barriers to entry.

Contact: Charlotte Bellamy
charlotte.bellamy@icmagroup.org

A retail investment strategy for Europe: Commission consultation response

On 3 August, ICMA filed its response to the European Commission consultation on a retail investment strategy for Europe. As the response used the required but restrictive



multiple choice response form, the content of ICMA's response has been extracted into a shorter and more reader-friendly format that has been published on the ICMA website.

ICMA's response effectively reiterated prior ICMA positions in the international bond context, which were cross-referenced throughout.

The response generally noted EU regulation has been one incentive behind the reduced availability of international bonds to direct retail investor participation (initially with the introduction of the prospectus regime and then the convoluted retail summary requirements introduced in its 2010 review, and notably recently with the PRIIPs and MiFID II product governance regimes). But as many corporate borrowers have now got used to seeking funding away from EEA retail investors, regulatory alleviations may not necessarily drive a significant resurgence of European retail bond markets. The EU's substantive retail policy focus seems anyway to be more on shares, funds/UCITS and structured products.

The response addressed several specific areas:

(a) *Machine readability:* Any regulation should be flexible in terms of technical formats and not indirectly force standardisation or simplistic (and potentially misleading) labelling.

(b) *Advertising:* MiFID product governance rules do not regulate marketing communications (as suggested by a question on stricter rule enforcement), with advertisements however covered by the Prospectus Regulation.

(c) *Sufficiency of existing disclosure:* Bond offers are already subject to a requirement for a prospectus (including a summary) with the necessary information material to an investment decision.

(d) *Comparability:* Comparison of different products is only meaningful to the extent products have comparable features (and may otherwise be misleading).

(e) *Disclosure language:* Any local language translations should be the responsibility of any entity selling/distributing a product within a particular EEA Member State rather than the product "manufacturer" (bearing in mind bonds trade independently of their issuer, manufacturer responsibility for translation seems more likely to incentivise fragmentation of product availability within Europe).

(f) *Short-form disclosure / PRIIPs KID: concept, length and cost:* A short document like the PRIIPs KID seems highly unlikely (whatever length cap is imposed) to be able to disclose the necessary information material to an investment decision (which was suggested in an ESMA speech) and so risks being intrinsically misleading (KIDs were initially designed for the UCITS fund context, where such disclosure arguably relates more to an investment mandate than to specific investment exposures as for bonds). The purpose of short-form disclosure should rather be (like the prospectus summary) as an initial reference ahead of further consideration, either directly or with an advisor (bearing in mind most retail investors do not read long-form disclosure or misunderstand short-form disclosure), in which case length cap similar to what is currently required under PRIIPs might well be workable (though any specific number of words would still likely be relatively arbitrary). Simplifying the KID by limiting it to purely factual information would also reduce the risk of it being misleading. From a vanilla bond issuer perspective, the challenge is not so much the logistical cost of producing a KID but rather the risk of it being misleading.

(g) *PRIIPs product scope:* Despite ESMA's helpful step in the right direction to reassure the markets that vanilla bonds are indeed out of scope, differing views as to what may be interpreted as "packaged" have continued (and so uncertainty on PRIIPs product scope), with significant ongoing reluctance to make vanilla bonds directly available to EEA retail investors.

(h) *KID availability:* It may be prudent to await the outcome of the EU's PRIIPs review before including PRIIPs information within the European single access point (ESAP).

(i) *Improvement of target market determination (MiFID product governance):* The issue is rather that MiFID product governance should not apply to commoditised funding products such as Eurobonds, which are not "designed" as a "service" for investor "clients" (being rather a decades-old "product" for corporate and other borrowers to seek market financing).

(j) *Investor categorisation:* If seeking to increase direct market access for retail investors that have some distinct knowledge and means, then it may be simpler (to avoid a significant and potentially disincentivising repapering consequence that might accompany the creation of an entirely new category) to adjust (subject to appropriate grandfathering) the existing threshold tests for professional status on request (including by way of recognised third party certification).

(k) *Inducements:* If an inducement ban prohibited issuers of bonds from retaining underwriting banks from marketing their bonds even where no investor advisory service is being provided, that could have a materially adverse impact on the availability of bonds to European investors (and on the ability of real economy borrowers to fund themselves). Where no advisory or portfolio management services are being provided, characterising underwriter remuneration as banned inducements would also be unnecessary from an investor protection perspective.

The response concluded that, whilst such a consultation that seeks stakeholder views on the *status quo* can be helpful, many stakeholders may rather have stronger views

on future changes – with consultation on the Commission's actual policy proposals best serving the aim of involving stakeholders in the EU decision-making process. (And consulting on legislative drafting intended to give effect to ultimate policy conclusions could also be technically very valuable.)

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

UK Wholesale Markets Review: retail aspects

On 24 September, ICMA responded *inter alia* to the retail questions 103-105 of the UK HMT's Wholesale Markets Review consultation (see the Secondary Markets section of this edition regarding the wholesale questions).

In terms of how companies harness retail investment whilst ensuring investor protection, the response noted regulation as one significant incentive behind the reduced availability of international bonds to direct retail investor participation (initially with the European prospectus regime, but notably then with the PRIIPs and MiFID II product governance regimes). Implementing certain regulatory alleviations might help improve direct retail access over time, but many corporate borrowers have got used to seeking funding away from European retail investors. So administrative burden alleviations may not necessarily cause mass retail bond markets to return. (It is possible that equity markets may have been less affected due to regulatory restrictions having a lower relative impact in the context of equity market dynamics.)

In terms of how companies take advantage of the globalisation of information to reach investors, the response noted retail offerings are very much subject to local regulatory requirements in investor jurisdictions – with compliance being more of a consideration in reaching retail investors than "informational reach".

In terms of any role for UK authorities to play in facilitating retail access to capital markets (while continuing to offer high standards of investor protection), the response noted ICMA is able to provide technical input if desired but that wider market drivers seemed challenging. Ultimately UK authorities may wish to focus on how functional retail participation might operate, and then work to facilitate such participation. ICMA will continue its public engagement on retail access to bond markets to help public authorities understand the technical considerations involved.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

UK PRIIPs consultation response

On 30 September, ICMA responded to the UK FCA's Consultation Paper CP21/23: *PRIIPs: Proposed Scope Rules and Amendments to Regulatory Technical Standards*.

The response welcomed formal, binding comfort on the scope of PRIIPs via the creation of a new FCA *Product Disclosure* sourcebook, "DISC".

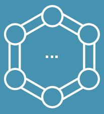
In terms of "product" scope rules, the response welcomed as fundamental the FCA's recognition in paragraph 2.16(a) of the consultation that "To be a PRIP, a debt security must come between the retail investor and an ultimate investment asset which is not purchased by the investor". However, the FCA's proposed list of "neutral features" (that would not make a product a PRIIP) is inconsistent and should be amended to include several notable product features that do not involve a debt security "coming between" a retail investor and an ultimate investment asset (voluntary call options, non-NPV par calls, floating rate coupon steps, event-driven coupon steps including sustainability-linked bonds, and caps and non-zero floors). In passing, the response cited a historic "conceptual" alternative to the "granular" approach to product scope clarification proposed by the FCA (as set out in ICMA September 2018 response to an FCA July 2018 Call for Input on PRIIPs).

In terms of guidance on when a packed product is not being *"made available"* to retail investors, the response noted this should align more closely to minimum denomination and qualified investor exemptions under the UK prospectus regime (which was the subject of a distinct consultation as reported in this edition under the UK prospectus and listings regimes) and should be alternative (rather than cumulative) in the same way that they are under the UK prospectus regime. It should also be clear that third parties illegally selling PRIIPs to retail without a KID does not constitute "making available" by manufacturers.

The response did not address aspects of the consultation relating to KID content, in the absence of indication that historic threshold conceptual concerns relating to the KID (also set out in ICMA's September 2018 response) are likely to be addressed.

ICMA will continue to engage with the UK FCA as it continues its work on reviewing the UK PRIIPs regime.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org



F Digital bearer bonds: UK Law Commission consultation response

On 30 July, ICMA responded, regarding bearer bonds, to the UK Law Commission's consultation paper on *Digital Assets: Electronic Trade Documents*.

In the context of its focus on providing for electronic title (where there is exclusive electronic access) for certain instruments that currently only exist under English law in physical bearer form, the Law Commission had received preliminary feedback that bearer bonds should not be included as their legitimate commercial use has diminished and there was no call for them to be made electronic.

ICMA's response seeks to correct this misperception by flagging that (i) English law bearer bonds are - in their immobilised global form - systematically used in the international bond markets, (ii) the current physical nature of bearer form is becoming increasingly difficult from a custody perspective in these markets and (iii) the Law Commission's focus on enabling electronic title for English law bearer instruments should therefore also include bearer bonds.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

ICMA Corporate Issuer Forum

The ICMA Corporate Issuer Forum (CIF) gathers senior representatives from major corporate issuers covering a wide geographical and industry spread, who over the years have become very much embedded in many of ICMA's activities.

Sustainable finance is high on the CIF's agenda, and ICMA reflects collective CIF views in consultation responses, such as the response to the UK FCA CP21/18, *Enhancing Climate-Related Disclosures by Standard Listed Companies* and *Seeking Views on ESG Topics in Capital Markets,* and the UK Department for Business, Energy and Industrial Strategy *Consultation on Requiring Mandatory Climate-Related Financial Disclosures by Publicly Quoted Companies, Large Private Companies and Limited Liability Partnerships (LLPs)*. A CIF Sustainable Finance Working Group is currently being established, with the specific intention of providing even more inputs on policy/regulatory initiatives, including consultations, and identifying sustainable finance-related concerns/ priorities for CIF members.

The transition to risk-free rates raises myriad issues for corporate treasurers, especially those operating on a global basis across different LIBOR jurisdictions. Most issuers are likely to have some LIBOR exposure in the form of bonds, loans, derivatives, inter-company financings or other commercial arrangements, so it is important to have an understanding of how the different risk-free rates operate in comparison to LIBOR, to determine how they can be adopted and used in financial products and the implications for outstanding legacy LIBOR positions. ICMA has been able to provide guidance on the key issues for corporate treasurers, including the solutions that have developed for new bond issuance and the various options for addressing legacy positions.

Elsewhere, the CIF is engaged in much of ICMA's work on primary markets, and participates in the ICMA FinTech Advisory Committee and the ICMA CPC Committee, most recently feeding in to a special meeting of the CPC with Edwin Schooling Latter (FCA & FSB) on how the commercial paper market performed during and since the COVID-19 turmoil of March-April 2020, and lessons learned.

ICMA also welcomes the participation of CIF members in events, such as the ICMA Primary Market Forum and the ICMA annual conference, and is delighted that Nicole Della Vedova from Enel S.p.A has become an International Steering Committee member for the Italian region of the ICMA Women's Network.

Contact: Katie Kelly
katie.kelly@icmagroup.org

A Hong Kong proposed code of conduct on DCM primary markets

In February 2021, the Hong Kong Securities and Futures Commission issued a *consultation paper on A Proposed Code of Conduct on Bookbuilding and Placing Activities in Equity Capital Market and Debt Capital Market Transactions.*

This is the most significant regulation of debt primary markets in Asia-Pacific in recent years. The new Code will, at minimum, apply to all bond issuances managed primarily from Hong Kong. The reforms would cover a large proportion of cross-border G3 Asian deals and almost all international bonds from Chinese issuers. The new rules may also affect global deals with a Hong Kong connection. Among other things, the Code, as currently proposed, would:

- require syndicates and issuers formally to agree on roles and fee structures early in a transaction;
- prohibit X-orders;
- require syndicates to favour outside orders over proprietary orders (unless advised otherwise by the issuer);
- prohibit syndicates from knowingly accepting inflated orders;
- require book order updates to investors as well as issuers;
- restrict investor rebates;
- create new record-keeping and other compliance requirements.

ICMA responded to the consultation in May 2021, and has continued informal bilateral dialogue with the SFC since June. The Code is expected to be published before the end of 2021.

ICMA's key advocacy messages are:

1. *The SFC's efforts to reform the market are welcomed by ICMA members*. Bookbuilding for new issuance executed out of Hong Kong would benefit from more consistent standards of governance and more rigorous expectations for conduct. For Asia DCM, ICMA strongly supports early appointment of all syndicate members, confirmation of their individual roles, and confirmation of their individual share of the "fixed" element of overall syndicate remuneration before the public announcement of the transaction.
2. *For DCM, but also potentially for the SFC itself, the proposed Code creates real regulatory arbitrage risk and compliance uncertainty.* The proposed Code, as it applies to DCM, could lead to inconsistent practices and avoidance of Hong Kong in international transactions. The proposed Code would apply to any persons licenced by and registered with the SFC, who engage in debt bookbuilding and/or placing activities from Hong Kong. In practice, the Code may capture large multi-national debt offerings where only a modest proportion of the issuance is placed into Hong Kong.
3. *ICMA agrees with a prohibition on X-orders.* ICMA's membership consensus is that that limiting "no-name" investor X-orders (at least for Asia-Pacific transactions) would further the goals of allowing bookrunners to accurately disclose investor demand and to deliver effective allocation and pricing recommendations to their issuer clients.
4. *ICMA supports restrictions on inflated orders.*
5. *ICMA supports restrictions on private bank rebates.*

After the final rules are released, ICMA will remain active in the implementation phase:

- engaging with the SFC to elucidate areas of the Code relating to DCM where the practical interpretation is not clear;
- establishing common practices on procedures and documentation to comply with the Code; and
- bringing together various constituencies (including issuers and investors across the region) to ensure that emerging market practice is fair, efficient and practical.

Contact: Mushtaq Kapasi
mushtaq.kapasi@icmagroup.org

Secondary Markets

by **Andy Hill and Elizabeth Callaghan**

CSDR mandatory buy-ins

On 23 September 2021, Anneli Tuominen, interim Chair of ESMA, wrote to European Commissioner Mairead McGuinness supporting a postponement of the mandatory buy-in regime and requesting urgent action to provide a signal that a modification of the current implementation timeline is being considered. The letter asks for clarification of a delay, ideally by the end of October 2021. Currently, mandatory buy-ins are due to come into force as part of the CSDR settlement discipline (SD) package on 1 February 2022.

This is broadly viewed as a positive outcome following months of engagement by ICMA and others with various EU regulatory authorities and policy makers to push the case for a delay to the implementation of the mandatory buy-in (MBI) regime in order to review the framework and to undertake any necessary revisions. ICMA and the wider industry have consistently pointed to several elements of the MBI framework that could be challenging, if not impossible, to implement in practice. ICMA has also been among the most vocal in highlighting, and evidencing, the potential negative impacts of the regime for bond market liquidity and stability.

The European Commission is currently undertaking a review of the MBI provisions, as part of the CSDR Targeted Review, including an impact assessment. It is widely expected that this will result in substantive changes to the buy-in regime, which in turn will have implications for the industry's implementation efforts, not least the significant contractual remediation required to support its enforcement across multiple transaction types, markets, and global jurisdictions. Any legislative proposals following the review are expected toward the end of 2021 or early 2022 and would most likely come into force sometime in 2022 at the earliest. It is therefore imperative that the current MBI provisions do not go ahead as scheduled, and that sufficient time is given for the industry to implement the revised MBI regime. Better still would be that the MBI regime is suspended indefinitely and that the other components of SD are given adequate time to be implemented, assessed, and refined.

It is now hoped that the European Commission will announce to the industry its intention to delay MBI implementation and give sufficient comfort that current implementation efforts can be put on hold. Meanwhile it is expected that the EU co-legislators will find a way to decouple MBIs from SD, thereby allowing its other components, including cash penalties, to go ahead as scheduled in February 2022.

ICMA has put its implementation efforts on hold in anticipation of imminent clarification from the European Commission. Concurrently, it is spearheading a number of initiatives aimed at improving settlement efficiency in the European bond and repo markets (see Repo and Collateral Markets Section). The ICMA CSDR-SD Working Group will also focus on ensuring the successful implementation of the CSDR cash penalty regime.

Meanwhile, ICMA will continue to ensure that its longstanding buy-in rules, part of the ICMA Rules and Recommendations, remain an effective and efficient contractual remedy for settlement fails in the international bond markets.

Contact: Andy Hill
andy.hill@icmagroup.org

CSDR-SD Technology directory

Article 7 of Chapter III in CSD Regulation (EU) No 909/201 (CSDR) provides for measures to address settlement fails, which include cash penalties for settlement fails and mandatory buy-ins. To assist market participants prepare for CSDR implementation, ICMA has gathered technology solutions aimed at managing the requirements under CSDR settlement discipline. The initial focus of ICMA's CSDR-SD technology directory is toward those solutions assisting firms in the management of cash penalties.

The directory is intended to provide a non-exhaustive overview on the functionalities of market solutions, such as calculation, aggregation, reconciliation, invoicing, reporting, and appeals or claims management processes. The directory also lists supported connectivity and additional services offered by providers and is available for download here.

Contact: Rowan Varrall
rowan.varrall@icmagroup.org

Bond transparency regimes: UK and EU consultation responses

ICMA's MiFID II Working Group (MWG) Transparency Taskforce has been busy this last quarter. The Taskforce responded to the transparency-related sections in the HM Treasury consultation on wholesale markets as well as ESMA's review of RTS 2. Below are the key highlights in regard to both consultation responses covering scope of transparency, views on pre- and post-trade transparency obligations, consolidated tape (CT), and the removal of barriers to entry for tech providers in order to promote innovation.

ICMA considers the best way to determine the scope of transparency is to first aggregate the bond data into one single centralised consolidated tape and see how much transparency the current regime is bringing to the market. Then once there is visibility, the view is that it will be easier to review and analyse the data to determine the most appropriate deferral regime, keeping in mind sensible variables that reflect liquidity status such as amount outstanding and trade size based on high yield (HY) and investment grade (IG) credit ratings.

Balancing simplicity and complexity in a post-trade transparency regime is key to a workable post-trade transparency regime. Over-complicating the transparency regime is unproductive while the same is true for over-simplifying the transparency regime. In other words, "two wrongs don't make a right". ICMA was pleased to see HM Treasury's consultation had split out corporate bonds by high yield and investment grade, indicating that HM Treasury welcomes the fact that instrument classification is an embedded everyday routine concept in bond markets and a key variable in determining liquidity, and thereby any sensible future transparency regime.

In ESMA's consultation paper on the review of RTS 2 (bond transparency regime), ESMA was also looking for stakeholder advice regarding its proposals for amendments to the transparency-related obligations. However, ICMA's understanding is that the Commission is reviewing MiFID II/R and, therefore, most of the changes proposed by ESMA to MiFID II/R could be considered premature, particularly before the Commission has published recommended modifications (which we understand may be considerable). Therefore, ICMA only agreed with ESMA's proposed amendments where the amendments were considered minor and "practical" in nature. For example, ICMA made the practical point that portfolio constituents should be included in the existing "TPAC" flag, to avoid those trades being excluded as technical (non-price forming) trades.

In regard to pre-trade transparency, ICMA members have observed bond market participants are not using "MiFIR" pre-trade transparency data. Instead, buy sides are using "market" pre-trade transparency for price discovery such as axes and inventory. For instance, when trading an illiquid bond, the buy side will search for axes (pre-trade pricing quotes) and inventory and negotiate bilaterally with a counterparty to trade. ICMA considers the focus should be on post-trade transparency and the consolidated tape (CT). As a bonus, bond market participants could benefit from liquidity provider cost savings.

In addition, ICMA Transparency Taskforce members noted they are witnessing fellow bond market participants in varying degrees of adopting the *ICMA Industry Guide to Definitions and Best Practice for Bond Pricing Distribution*. This industry-led initiative to improve practices in the bond trading pre-trade space is a clear indication bond markets are evolving.

ICMA goes further to suggest, since no one is accessing and using pre-trade "MiFIR" quotes and to streamline and improve bond market functioning, removing pre-trade transparency obligations for systematic internalisers (SIs) from MiFIR is the rational and sensible choice for regulators. This will have a positive impact on market participants, saving money and time. It will also provide dealers with greater balance sheet capacity as a result of less operational costs, improving overall service to clients.

While ICMA commented in both consultation responses that MiFIR pre-trade transparency SI obligations should be removed, ICMA went further and suggested the entire SI regime should be removed altogether. It is clear the SI regime in bond markets is complex to implement, understand and certainly has not achieved its original (equity-based) intention.

As an alternative, if regulators decide not to remove the SI regime for bonds, ICMA recommended de-coupling post-trade transparency from the SI regime and adding "Super Reporter", creating greater certainty for buy-side clients (identifying the SI status of their counterparties and whether they will or will not carry out post-trade transparency requirements for them).

The HM Treasury consultation covered several questions on a consolidated tape. ICMA's Transparency Taskforce agreed that HM Treasury should take action to drive forward the development of a CT by reaching out to data providers who have declared an interest in becoming a CT provider in the UK. ICMA also explained that it is essential that the responsibility for data feed provision should be changed, in UK MiFID II/R related legislation, from the CTP's obligation to "obtain" data, to stating that trading venues and APAs have an obligation to "provide" data to the CTP and extend this obligation to self-reporting firms, where applicable.

In addition, ICMA considers that HM Treasury should ensure there is a form of public/private partnership where the FCA has oversight responsibilities but not day-to-day operation of the CT. The key is to have FCA and industry interaction through the "DEAG" (see below).

Regarding innovation and removal of barriers to entry for tech providers, ICMA responded to the HM Treasury Wholesale Markets Review consultation that flexibility is vital when dealing with FinTech regulatory perimeter (registering as a trading venue or not), in order to remove any potential barriers to entry. ICMA further explained how important it is that the FCA considers regulatory "permissioning" for FinTech providers holistically, where the FCA engages with tech providers on a case-by-case basis to ensure they have the right permissions in place.

Finally, both of ICMA's MiFID II Working Group Transparency Taskforce's recent consultation responses regarding transparency were based on a consensus view from a varied group of buy-side and sell-side investment firm bond trading participants with assistance from trading venues and APAs where applicable, representing EU27 countries, the UK, and the US. There is a unique value in conveying to regulators a broad view from across buy-side and sell-side communities.

Contact: Elizabeth Callaghan
elizabeth.callaghan@icmagroup.org

Data Expert Advisory Group (DEAG)

The bond consolidated tape will require a Data Expert Advisory Group (DEAG) to be part of the operating model of the chosen bond consolidated tape provider. The 'DEAG' would consist of buy-side, sell-side, trading venue and APA market participant experts and meet on a semi-annual basis to review and look back at the transparency situation from the previous six months. This expert group will recommend to FCA to either increase/decrease/hold thresholds based on real market experiences.

- *If there are found to be negative market liquidity impacts, perhaps from reduced sell-sides balance sheet risk provision then thresholds could be modified to provide less transparency. If the market is working well with current thresholds and the DEAG agree there would not be any undue risk to increasing transparency, then thresholds could be changed to increase transparency.*
- *This DEAG would also in times of crisis (eg COVID) recommend necessary changes to thresholds/ deferrals.*
- *No transparency threshold modification should be considered, without (analysis-based) agreement from the DEAG.*
- *The DEAG buy-side and sell-side market participant representation should include a balance of natural transparency preferences. APAs and trading venues will advise on data quality and market operator experiences from the last six months.*
- *Recommendations from the DEAG should be considered "actionable".*

IOSCO AMCC Corporate Bond Market Liquidity Working Party

In March 2021, the IOSCO Affiliate Members Consultative Committee (AMCC) established the Bond Market Liquidity Working Party (BML WP). The primary objective of the BML WP is to support and complement the work being undertaken by the IOSCO Financial Stability Engagement Group (FSEG) related to bond market structures and liquidity. The BML WP consists of representatives from a number of AMCC member associations and is chaired by ICMA.

Stemming from the FSB's 2020 *Holistic Review of the March Market Turmoil,* and part of a broader suite of work by global standard setters related to the role of non-bank financial intermediaries (NBFIs), the IOSCO FSEG is undertaking an in-depth analysis of how corporate bond markets performed during early 2020, as well as mapping corporate bond market micro-structures and stakeholder behaviours, particularly in times of stress. The first phase of this work, completed in the first half of 2021, is a quantitative diagnostic analysis of corporate bond market performance across various jurisdictions during the COVID-related market turmoil. In May 2021, the AMCC BML submitted a compendium of relevant market research to the IOSCO FSEG, drawing on the work undertaken by the various WP members.

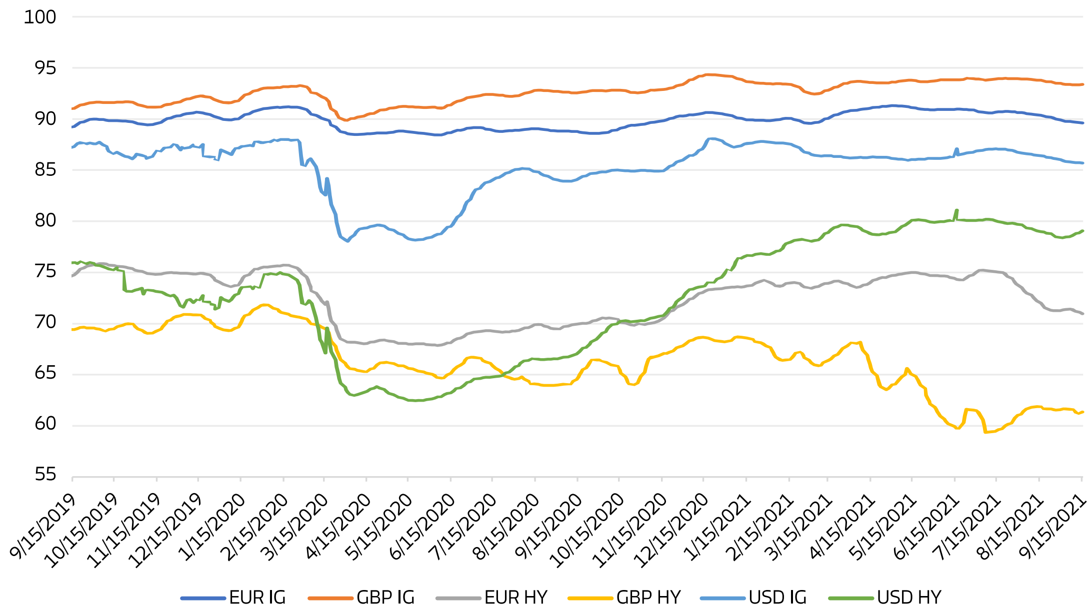
In September 2021, the BML WP launched a survey targeted at sell sides and buy sides active in corporate bond markets that is designed to help build a picture of corporate bond market micro-structures across different regions, as well as to identify different stakeholder behaviours and motivations in times of market stress. This is intended to inform the second phase of the IOSCO FSEG's work. The surveys are being disseminated through the broader AMCC membership, and ICMA members have been encouraged to participate. ICMA members and other stakeholders active in corporate bond markets are still able to respond up until 15 October 2021. There are two separate surveys, one focused on buy-side institutions and another on sell sides, covering all global jurisdictions. A report of the survey results will be made available to the AMCC membership in due course, and ICMA intends to share this with its own members.

The IOSCO FSEG also joined the meeting of the Secondary Market Practices Committee (SMPC) held on 15 September 2021 to update the Committee on its work as well as to solicit feedback and input from ICMA members. A dedicated follow-up session with the SMPC was scheduled for 11 October.

Contact: Andy Hill
andy.hill@icmagroup.org

Corporate Bond Market Liquidity Indicators™

Tracker indicates moderate decline in credit market liquidity



Source: ICE Data Services

Commentary

In Q3 2021, IG credit market liquidity initially remained stable and declined moderately towards the end of the quarter. HY liquidity followed a similar pattern, with the exception of EUR HY which was marked by a more accentuated drop. Generally, the tracker shows a continued steady improvement in liquidity conditions from the middle of 2020 for most credit markets. In most cases, the liquidity index scores are back to or above levels last seen in 2018, with the notable exception of the High Yield sterling market, which has been in serial decline for the best part of four years.

Much of these improved market conditions can perhaps be attributed to ongoing central bank corporate bond purchases, which have not only driven credit spreads close to pre-pandemic levels, but have markedly reduced spread volatility as discussed in the previous edition of the Quarterly Report. The Federal Reserve's announcement in September to start tapering asset purchase marks a shift in the direction of monetary policy, which seems to reflect the economic recovery post-COVID 19 lockdowns and rising inflation expectations. It will be interesting to see to what extent these factors coupled with diverging regional dynamics will impact credit market liquidity going forward.

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

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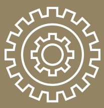


Repo and Collateral Markets

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

SFTR implementation and public data reports

ESMA updates Level 3 guidance

On 29 July 2021, ESMA published a set of important updates to the SFTR Level 3 guidance, including an updated version of the EU SFTR validation rules as well as updated XML reporting schemas. ICMA has reviewed the changes with members of the European Repo and Collateral Council (ERCC) SFTR Task Force and incorporated them in the various best practice documents, including the detailed *ICMA Recommendations for Reporting under SFTR*. The changes are due to apply on 31 January 2022, but this has raised some concerns among trade repositories (TRs) and reporting firms, who felt that this implementation timeline is too ambitious. Given the amount of IT build and testing required, the Task Force agreed that more time would be needed to ensure a smooth process and avoid undermining data quality, considering also additional challenges around UnaVista's recent decision to withdraw their TR services by the end of January and the looming go-live of CSDR settlement discipline in February. On 30 September, ICMA and ISLA therefore sent a joint letter to ESMA to ask for an extension of the implementation timeline to mid-April.

HM Treasury Wholesale Markets Review

On 24 September, ICMA submitted a detailed response to the HM Treasury Wholesale Markets Review. The ERCC contributed to ICMA's wider response with specific comments on the reporting of SFTs concluded with EU central banks (question 94), which are currently reported under MiFIR. As part of the response, ICMA argues that MiFIR is not the appropriate framework for the reporting of SFTs and asks UK authorities to review the current approach to exclude all types of SFTs from MiFIR reporting. This would include SFTs concluded with EU central banks but also those transacted with the Bank of England.

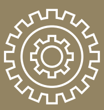
The first year of SFTR public data on repo

On 28 September, ICMA published a report reflecting on the first full year of SFTR reporting since the initial go-live in July 2020. The report analyses the key features and trends in the European repo market, relying on the summary statistics that authorised TRs are required to provide under SFTR on a weekly basis. Since the start of reporting, ICMA has been collecting this data from the TRs, consolidating it and publishing the information in an aggregated form on the ICMA website. The first part of the report looks at the initial six months of reporting for the whole EU28 repo market, while part two focuses on the time period between January and July 2021, distinguishing between the EU27 and the UK market segments. This reflects the split of SFTR reporting into separate EU and UK regimes following the end of the post-Brexit transition period. In addition, the report also reflects on some of the remaining issues with the quality of the SFTR public data, which are highlighted in the final chapter.

Contact: Alexander Westphal and Zhan Chen
alexander.westphal@icmagroup.org
zhan.chen@icmagroup.org

ERCC initiative on settlement efficiency

On 10 September, the ERCC hosted the third in a series of workshops intended to explore opportunities to support and improve settlement efficiency in Europe, in view of the upcoming go-live of CSDR settlement discipline. The objective of this latest workshop was to discuss the usage of auto-borrowing programmes offered by CSDs in order to help avoid and resolve settlement fails. Previous workshops in May and July had focused on partial settlement and the shaping of



settlement instructions respectively. Based on the outcome of the three workshops and relevant follow-up discussions, ICMA is working on a short white paper to reflect on the work to date and to set out a way forward for the industry. The aim is to publish the white paper by the end of October. The topic will also feature at the upcoming ERCC General Meeting on 13 October where a panel of market practitioners will discuss the challenges around settlement efficiency and the broader preparations for CSDR settlement discipline.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org

Repo and sustainability

On 20 September, ICMA's ERCC published a summary report to reflect feedback received in response to a market consultation on the role of repo in sustainable finance which took place earlier this year. The consultation paper, issued in April 2021, was intended to serve as a starting point for promoting a broader discussion in the repo community on sustainability, as well as to explore the existing opportunities and potential risks in this area.

The report summarises the consultation feedback, highlighting the key themes raised in the 20 responses submitted. Building on the consultation results, ICMA is considering with the ERCC next steps regarding potential guidance on repo and sustainability in close coordination with the Executive Committee of the Green and Social Bond Principles.

The summary report only considers responses received during the consultation period. However, the discussion on the topic is ongoing and further feedback is welcome. If you have any additional comments or questions, please reach out to us.

Contact: Zhan Chen
zhan.chen@icmagroup.org

Other repo and collateral market developments

Basel haircut floors for SFTs: On 1 July, the Basel Committee published two technical amendments to the minimum haircut floors for securities financing transactions. The amendments consist of: (i) rewording the restrictions on collateral re-use in the case of collateral upgrade transactions (CRE56.5); and (ii) amending the formula for SFT netting sets (CRE56.10).

The evolution of European financial market infrastructure: On 23 July, the ECB released the book, *Payments and Market Infrastructure Two Decades after the Start of the European Central Bank*, edited by Daniela Russo, with contributions by various eminent figures in the field, including ERCC Senior Adviser Godfried De Vidts.

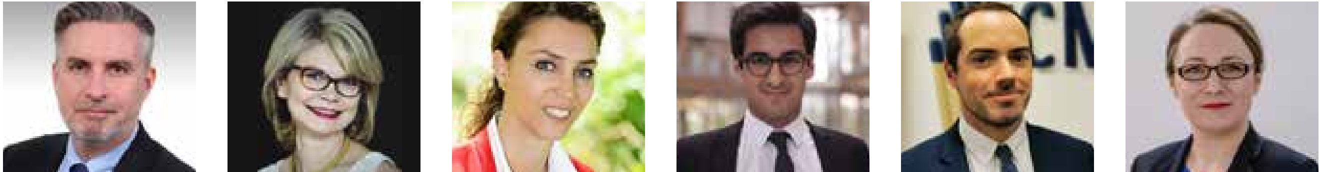
Contact: Alexander Westphal
alexander.westphal@icmagroup.org

ERCC General Meeting

On 13 October, the ERCC will hold its next General Meeting. The two-hour livestreamed event will feature discussions on the role of repo in sustainable finance, as well as the ongoing industry work on settlement efficiency and the preparations for CSDR settlement discipline. In addition to the live-streamed event, participants will have access to a series of pre-recorded updates on other important ERCC initiatives and topics, including a preview of the results of the upcoming 41st European Repo Market Survey. For further details on the agenda and to register for the event please visit the ICMA website.

Sustainable Finance

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

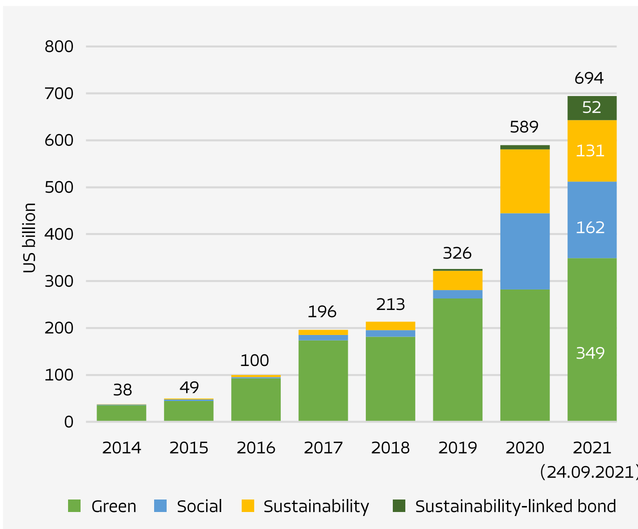


Introduction

We focus in this update on highly significant developments in the European Union over the last quarter with the Commission publishing its *Strategy for Financing the Transition to a Sustainable Economy*, as well as releasing its draft Regulation for European Green Bonds. The Commission also called for market feedback through several important consultations relating to possible expansion in different areas of the EU Taxonomy. Finally, it announced an issuance programme for green bonds aligned with the Green Bond Principles that would make the Commission the single largest issuer in this segment of the international capital market. We also report on our wider regulatory work.

Progress in the sustainable bond market

The combined volume of sustainable bonds in 2021 has reached USD694 billion as of 24 September 2021, representing more than an 80% increase over the same period in 2020. While the market is on track for another record year, some even predict that it could reach the landmark of USD1 trillion by end-2021.



ICMA analysis based on Environmental Finance Database (as of 24.09.2021) (EF data contact: phil.manley@fieldgibsonmedia.com)

The issuance from sovereigns continues to bring further scale to the market. In September, Spain issued its inaugural green bond of EUR5 billion 20-year where eligible use-of-proceeds include climate adaptation projects. Also, in September, the UK issued its inaugural green bond of GBP10 billion 12-year, the largest single sovereign green bond to date. Both transactions were oversubscribed by a factor of at least 10. Serbia also issued its inaugural green bond of EUR1 billion 7-year while Slovenia issued its inaugural EUR1 billion 10-year sustainability bond in June. Sovereign green bond issuances in 2021 amounted to USD74 billion as of 24 September (vs. a yearly total of USD41 billion in 2020).

Accordingly, the sovereign, supranational, and agency (SSA) category of issuers continues to dominate sustainable bond issuance in 2021 with USD304 billion of issuance (representing 44% of the total). This is followed by corporates (USD240 billion, 34%) and financial institutions (FIs) (USD109.63 billion, 16%). Geographically, Europe leads the market with 47% of all sustainable bond issuances this year, followed by supranationals (17%), US (15%), Asia (13%).

Notable transactions in the international sustainable bond market over the last quarter include:

- EDF's EUR1.25 billion social hybrid bond in June 2021.
- Xiaomi's USD400 million 30-year inaugural green bond issued in July 2021.
- Repsol's EUR1.25 billion (8-year and 12-year) sustainability-linked bond (SLB) linked to its decarbonisation targets (ie 12% reduction in Scope 1, 2, 3 emissions by 2025 and 25% by 2030, vs. a 2016 baseline) in June 2021. Repsol's Transition Financing Framework follows the guidance of ICMA's Climate Transition Finance Handbook.
- Walmart's inaugural green bond of USD2 billion 10-year in September 2021.

S EU to issue up to EUR250 billion of green bonds

On 7 September 2021, the European Commission (EC) adopted its *NextGeneration EU Green Bond Framework* aligned with the Green Bond Principles. It will govern the EC's (up to) EUR250 billion issuance over the coming years, making the Commission most likely the largest single green bond issuer. The proceeds of the bonds will be used to (re)finance the climate and wider environmental expenditures under the National Recovery and Resilience Plans of the Member States.

Amongst other, the eligibility for allocation is based on the EC's revised climate coefficients methodology (which now incorporates some elements of the EU Taxonomy) as well as the "do no significant harm" principle as specified under the DNSH Technical Guidance Notice C(2021). Nevertheless, the EU's Green Bond Framework acknowledges that investments which do not comply with the technical screening criteria of the EU Taxonomy can still make a substantive contribution towards EU climate mitigation and adaptation objectives, thus leaving the door open for their inclusion.

The initial issuance is expected to take place in October subject to market conditions.

S Major developments in sustainable finance in the European Union

The Strategy for Financing the Transition to a Sustainable Economy of the European Commission

On 6 July 2021, the European Commission (EC) published its *Strategy for Financing the Transition to a Sustainable Economy*. On 15 July, ICMA published an extensive commentary that we summarise here. ICMA expressed support for the overall ambition and key objectives of the new strategy: (1) financing the transition, (2) inclusiveness, (3) financial sector resilience and contribution to the EU Green Deal target and (4) global ambition. We agreed that the capital markets can help the EU deliver on these key objectives, especially through the growth and further development of sustainable finance that the strategy aims in turn to foster.

We welcomed the strategy's emphasis on transition that echoes the recommendations of the *Transition Finance Report* of the Commission's Platform on Sustainable Finance of which ICMA is a member. We also strongly supported the priority given to adopt a delegated act under the EU Taxonomy covering the remaining four environmental goals, ie water, biodiversity, pollution prevention and circular economy by Q2 2022.

We expressed concern, however, that other initiatives relating to the Taxonomy in the strategy focus essentially on widening its scope as a classification tool rather than enabling it as a transition financing resource. We cautioned that expanding the Taxonomy to defining economic activities that "do not have a significant impact on environmental sustainability" and to those "that significantly harm environmental sustainability" are unlikely to stimulate the supply of transition finance.

We commented on the proposed EU Green Bond Standard summarising the points we have made in a separate publication (see below). We identified a risk of duplication of market initiatives in the strategy's proposal to launch official labels for sustainability-linked or transition bonds. Conversely, we agreed that European labels for sustainable fund products can address the emerging risk of fragmentation in this area in the EU.

We otherwise commented on other initiatives in the strategy relating to disclosures. We welcomed the review of the Non-financial Reporting Directive (NFRD) which in April resulted in the proposed Corporate Sustainability Reporting Directive (CSRD). This new Directive contributes to the completion of the Capital Markets Union (CMU) and is a further step in connecting the dots with other EU Regulations that resulted from the EU Action Plan such as the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy Regulation and the amended Benchmark Regulation, all of which can only fully meet their disclosure objectives if relevant non-financial information is available from investee companies.

We supported a dialogue on the proposed mandatory EU sustainability reporting standards to be developed and drafted by the European Financial Reporting Advisory Group (EFRAG) with the aim of addressing the perceived shortcomings of the NFRD for both users and preparers relating to, among other things, a lack of comparability, reliability, and relevance of data.

We noted that the *Strategy* aims to introduce "targeted prospectus disclosures" to create "minimum requirements for the comparability, transparency and harmonisation of information available for all ESG securities". This will entail proposed amendments to the EU Prospectus Regulation in 2022. As a reminder, when ICMA's Legal and Documentation Committee and Corporate Issuer Forum considered this topic in 2020, they did not consider such specific requirements necessary or desirable at the time and should be assessed following the introduction of an appropriate regulatory regime for green, social and sustainability bond framework verification. Nevertheless, we confirmed that ICMA stands ready to engage with the proposed review of the EU Prospectus Regulation regime in this area.

The European Commission's proposal for a Regulation on European Green Bonds (EuGB)

On the same day as the Commission released the strategy described above, it published its proposal for a Regulation on European green bonds ("the Proposal") which is now being negotiated in the European Parliament and among Members of the Council of the European Union as part of the co-legislative process. We summarise here the detailed analysis of the Proposal released by ICMA on 8 July.

The proposed Regulation establishes a voluntary label for green bonds. The requirements of the label are generally consistent with the recommendations of the Technical Expert Group (TEG). These are:

- mandatory alignment of the use of proceeds with the EU Taxonomy;
- requirement to draw up and publish a factsheet document (equivalent to a green bond framework) and obtain a pre-issuance external review on it, both of which need to be published on the issuer's website prior to public offering;
- annual allocation reporting until the full allocation and reporting on impact at least once after the full allocation and before maturity;
- post-issuance external review on the final allocation report.

Also, and very importantly, the Proposal introduces the concept of "forward-looking taxonomy alignment" that could position the label as a conduit for financing potential transition-enabling projects.

Nevertheless, there exist some important issues that may impede the success and uptake of the label, if not fixed during the legislative process. First, the Proposal does not incorporate the flexibility recommended by the TEG on the alignment of the use of proceeds with the EU Taxonomy. Also, the lack of full grandfathering of the label – necessary as the Taxonomy criteria will be regularly updated and may change during the life of a bond – is identified as a potential source of uncertainty for issuers and investors and a deterrent against the use of the label.

Extension of the Taxonomy to "Significantly Harmful" and "No Significant Impact" activities

On 3 September 2021, ICMA submitted its feedback on the draft report of the EU Platform on Sustainable Finance for an extended taxonomy to support economic transition.

ICMA indicated that, while a Taxonomy on Significantly Harmful activities could be a complementary tool to the existing Taxonomy, it could negatively impact the ability of hard-to-abate companies to raise finance for transition. It is therefore important to ensure a "Significantly Harmful" Taxonomy provides transition pathways over time to allow companies a transition period and reduce risk of disorderly transition or stranding. Requirement of an associated entity level transition strategy is also supported since it would enhance the credibility of "intermediate transitions". ICMA also argued for the calibration of reporting obligations to avoid burdening companies further.

ICMA also did not find any advantage in developing a "No Significant Impact" Taxonomy and underlined that it would further increase the complexities and could introduce burdensome reporting obligations.

Creating a Social Taxonomy

On 6 September 2021, ICMA responded to the call for feedback on the EU Platform on Sustainable Finance's (EU PSF) draft report on a Social Taxonomy. The response was submitted as a letter which concentrated especially on assessing the potential of the proposed Social Taxonomy as a resource for participants in the sustainable bond market based on feedback from the Executive Committee of the Green & Social Principles and its Social Bond Working Group.

Overall, we expressed the view that a well-conceived and usable Social Taxonomy could become a useful and complementary tool in the sustainable bond market, specifically aiding investors in their due diligence and helping to connect the dots with other EU regulation. The response emphasized the importance of usability of a Social Taxonomy by making social themes investible through a clear definition of what constitutes a substantial contribution (eg by deploying the concept of a target population as used for social bonds) as well as relevant do no significant harm (DNSH) criteria for social activities.

The letter also underlined the usability challenge that would result from a Social Taxonomy being based on economic activities, as the sustainable bonds market is based on

projects rather than activities which is already a challenge with the current EU Taxonomy. Relatedly, we questioned the value of using NACE codes and repeat the point made in other consultations that DNSH criteria in the existing EU Taxonomy raise usability issues notably because of unproven methodologies, data shortfalls and concerns on potential liability issues which could lead to similar conundrums in a Social Taxonomy.

Given these challenges, we cautioned against seeking to integrate fully a new Social Taxonomy into the existing EU Taxonomy although this could make sense at a later stage. Especially when it comes to DNSH and minimum safeguards, we recommended flexibility to account for activities that are financed outside of the EU and for a Social Taxonomy to being open and compatible to existing international frameworks like those from multilateral development banks.

Other regulatory dialogue and publications

S *Exclusion of green bonds from sovereign and supranational issuers from EU Taxonomy ratios*

On 6 July 2021, the EC adopted a draft Delegated Act supplementing Article 8 of the Taxonomy Regulation, which is now being scrutinised by the European Parliament and the Council of the EU. After the scrutiny period of the European Parliament and the Council, the disclosures of the Delegated Act should come into application from 1 January 2022, based on a phased approach and starting with disclosures on "Taxonomy eligibility".

This Delegated Act specifies the content, methodology and presentation of information to be disclosed by financial and non-financial market participants concerning the proportion of environmentally sustainable economic activities in their business, investments or lending activities. For financial undertakings it specifies the assets that are eligible for the so-called Green Asset Ratio (GAR) and the Green Investment Ratio (GIR).

One of the provisions under the Delegated Act is the exclusion of sovereign bonds, including green bonds (GB) and sustainability bonds (SB) issued by sovereign and supranational entities, from these taxonomy ratios. This exclusion would entail exposure to green bonds issued under the COVID recovery package (Next Generation EU) or by Member States under the European Green Bond Standard, which will not be able to contribute to the GARs and GIRs of financial undertakings.

This also raises questions regarding the upcoming Delegated Acts supplementing Article 5 and 6 (disclosures at product level) of the Taxonomy Regulation and whether it could potentially mirror the Article 8 proposal (disclosures at entity level) and exclude green and sustainability sovereign bonds from the Taxonomy ratios of financial products.

Another consequence is that bond funds would not be able to account for potential Taxonomy alignment of their green sovereign bond holdings when, based on recent amendments to MiFID, distributors will be required to assess the sustainability preferences of clients and ask them whether they would like to opt for a product with a certain level of Taxonomy alignment.

While the entity and product Taxonomy reporting and MiFID requirements are expected to start applying in 2022, the Commission will only assess at a later stage whether and how to develop a methodology for assessing the environmental performance of sovereign exposures. This potential sovereign methodology may not be available until at least 2025-2026.

ICMA is in dialogue with the Commission and its co-legislators on the issues raised by the current Delegated Act, and the potential market impact if similar exclusions are proposed to be extended to the upcoming Delegated Acts for Article 5 and 6 of the Taxonomy Regulation.

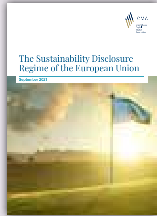
Responses to the UK's Financial Conduct Authority

On 10 September 2021, ICMA responded to the UK Financial Conduct Authority's (FCA) consultation on *Climate-related Disclosures and ESG Topics*. The joint response which focused on the debt-related aspects of the consultation is based on feedback from key ICMA constituencies such as the Executive Committee of the Principles (GBP SBP SLBP), the Legal and Documentation Committee (LDC), the Corporate Issuer Forum (CIF) and the Asset Manager and Investor Council (AMIC).

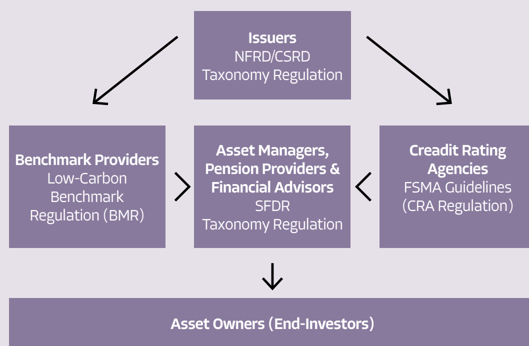
On the extension of a "comply or explain" Listing Rule on Taskforce on Climate-related Financial Disclosures (TCFD), ICMA acknowledged the importance of TCFD disclosures generally but agreed with the FCA that there are some specific considerations in terms of the extension of the rule to debt issuers and queried whether such an extension would result in a significant increase in the availability of such disclosures.

On the questions related to use of proceeds bonds, ICMA welcomed a dialogue with the FCA on recognition of the Green and Social Bond Principles and supervision of second party opinion providers and verifiers; but queried the need for a UK Green Bond Standard, changes to the UK Prospectus Regulation, or other more ambitious measures such as requiring the central elements of use of proceeds bonds to be contractual in nature and set out in the prospectus.

ICMA's paper on the Sustainability Disclosure Regime of the European Union



On 22 September, 2021 ICMA published a comprehensive paper on *The Sustainability Disclosure Regime of the European Union*. This publication follows ICMA's initial memorandum from April 2020 and aims to provide the market with a practical overview of new developments and their implications for ICMA constituencies such as issuers and investors.



One of the building blocks of the Commission's *Strategy for Financing the Transition to a Sustainable Economy* is a mandatory disclosure regime created by the combined requirements of the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (SFDR) and the newly proposed Corporate Sustainability Reporting Directive (CSRD). CSRD will replace the current Non-Financial Reporting Directive (NFRD) and introduce mandatory sustainability reporting standards to be drafted by the European Financial Reporting Advisory Group (EFRAG) which will apply from 2024 for FY2023.

Our paper focuses especially on Article 8 of the Taxonomy Regulation which puts disclosure obligations on both companies and financial market participants such as asset managers. While non-financial companies have to disclose their turnover, CapEx and potentially OpEx that is aligned to the Taxonomy, the Delegated Act adopted on 6 July 2021 specifies that the key performance indicators (KPIs) for credit institutions such as banks should be the Green Asset Ratio (GAR) and for asset managers the Green Investment Ratio (GIR). On a product level, asset managers under the scope of SFDR, are furthermore facing disclosure requirements under Articles 5, 6 and 7 of the TR for so called "dark green" and "light green" funds.

Asset managers have additional disclosure obligations under SFDR. The paper gives an update on the Regulatory Technical Standards (RTS) which define the content, methodologies and presentation of these disclosures, the KPIs proposed by the European Supervisory Authorities (ESAs) as well as changes to the expected timeline for implementation of these so-called Level 2 measures.

@ **Contacts: Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck, Ozgur Altun, Arthur Carabia and Julia Rodkiewicz / nicholas.pfaff@icmagroup.org / valerie.guillaumin@icmagroup.org simone.utermarck@icmagroup.org / ozgur.altun@icmagroup.org / arthur.carabia@icmagroup.org julia.rodkiewicz@icmagroup.org**

The green transition, finance and biodiversity

The European Capital Markets Institute (ECMI) published on 14 September a report on *The Green Transition, Finance and Biodiversity: Aim High, Shoot Higher*. The report is by René Karsenti, Senior Adviser and former President of ICMA, and Apostolos Thomadakis, a Researcher at ECMI and CEPS.

The report argues that the urgency to succeed in financing the energy transition and reorienting private capital to sustainable investments requires a comprehensive shift in how the financial system works. The role of major market participants, investors, and policy makers in facilitating this shift is essential. To develop more green and sustainable economic growth, there is a need to:

- broaden access to the market through innovation and diversification;
- further develop global standards and taxonomies;
- enhance disclosure and reporting;
- fully incorporate FinTech and digitisation;
- fully address biodiversity and nature-related risks.

Beyond its quasi-moral obligation, mobilising finance for the energy transition is a historic opportunity, especially for the EU to act and lead as a true pioneer, that should not be missed.

@ **Contact: René Karsenti**
rene.karsenti@icmagroup.org

Asset Management

by **Arthur Carabia and Irene Rey**

Sustainable finance: buy-side regulatory developments

Sustainable Finance Disclosure Regulation (SFDR)

Implementation measures postponed to 1 July 2022: After the first wave of implementation of the high-level principles of SFDR on 10 March 2021, the buy side is still waiting for the finalisation and adoption of the implementation measures. These upcoming provisions are expected to set more granular sustainability-related reporting requirements for ESG/impact products (eg investment funds, mandates, pension fund/products and certain insurance products) and those who issue them (asset managers, asset owners and financial advisers). In a letter on 8 July 2021, the European Commission (EC) informed the European Parliament and Council of the postponement of the SFDR Level 2 implementation and that it planned to bundle all of the draft RTS into a single Delegated Act and defer the dates of application by six months to 1 July 2022. These provisions are yet to be finalised by the ESAs, before being endorsed or amended by the EC.

Under the ESAs' proposal for implementation measures, asset managers will have to report at entity level their ESG footprint by assessing all their investments against 18 mandatory environmental and social KPIs and two other ones to be chosen among a list of 46 optional indicators. Reporting against this granular regime will be particularly challenging given that the quantity and the quality of ESG data is not optimal at the moment and these KPIs are also not universally applicable to all asset classes and investee companies (eg commodities, ABS, non-EU and private companies). Beyond the entity disclosures against these mandatory KPIs, which is the most striking novelty introduced by the draft implementation measures, the text proposed by the ESAs introduces mandatory templates to disclose the sustainability characteristics or objectives of financial products at pre-contractual level and via periodic reports. With these templates, financial market participants will have to disclose (among others) if the product promotes ESG characteristics and/or has a sustainable investment objective, and the share of investments aligned with the EU Taxonomy (calculation methodology yet to be defined).

We understand that one of the pending questions slowing down the finalisation of the implementation measures relates to whether or not to include sovereign bonds for the purpose of product taxonomy reporting. Initially expected for the autumn the final proposal from the ESAs may be again delayed.

EC's Q&As on the Level 1 interpretation: The EC also issued, on 26 July 2021, a Q&A on SFDR Level 1 interpretation answering questions raised by the ESAs in a letter issued on 7 January 2021. The Q&A, covers the scope of Article 8 and 9 products, the derogation regime for FMPs with less than 500 employees, and the application to non-EU AIFMs, which is not always straightforward and is unfortunately sometimes subject to interpretation. It indicates for instance that SFDR does not prescribe a minimum share of investments for products to qualify as Article 8 or 9 products, but that the "neutral investments" under an Article 9 product (eg for hedging and liquidity purposes) are subject to "meet minimum environmental or social safeguards". But these safeguards are not defined by SFDR.

The lack of minimum investments to meet the ESG characteristics or sustainable objective of the product has led national regulators to issue or consider local rules to fill this void. In Germany, for instance, the BaFin is consulting on the possibility to require among other things that funds labelled as or marketed as a sustainable investment fund ensure that at least (i) 75% is invested in "sustainable assets" (with a significant contribution made to the realisation of one or more environmental or social objectives), (ii) other environmental or social objectives are not significantly

harmed, (iii) good governance aspects are taken into account, and (iv) portfolio companies may not generate certain percentage of revenue from fossil fuels. The BaFin also considers as an alternative to this minimum investment quota approach, that funds can also pursue a sustainable investment strategy, for example in the form of a best-in-class approach or when replicating a sustainability index. It is unclear to us how a best-in-class approach would qualify.

In any case, these diverging approaches are a great source of concern for asset managers as they could cause market fragmentation. We therefore seize the opportunity of the IOSCO and FCA CPs mentioned below to call securities regulators in Europe and across the globe to better coordinate their approaches.

IOSCO's consultation on Recommendations for Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management

In August 2021, AMIC responded to *IOSCO's Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management.* In this consultation paper, IOSCO recognised the diversity in the sustainability frameworks and standards across jurisdictions, the lack of common definitions of sustainable activities as well as the emerging investor protection challenges. Based on their analysis, IOSCO came up with five recommendations for securities regulators and policy makers to consider when setting their regulatory expectations and obligations for asset managers.

AMIC identified several priority areas for IOSCO to consider:

- *Addressing the risk for market fragmentation:* The most urgent risk to address is the risk of fragmentation caused by potentially divergent regulatory approaches which needs to be tackled at an international level. We are already seeing this fragmentation with SFDR in the EU where some national regulators have or are considering setting local interpretations for ESG/sustainable products in the context or in parallel to the application of EU rules. These divergent approaches and multiple interpretations are problematic for asset managers as they will have to comply with all local requirements when selling products on a cross-border basis. There is the risk of local requirements contradicting each other and asset managers having to tailor products to meet these local requirements thus preventing end-investors from benefiting from economies of scale.
- *Favouring a globally recognised framework:* From the buy-side perspective, global alignment is critical to ensure consistent transparency across the entity and product level disclosures across jurisdictions. The TCFD framework is the globally recognised standard where jurisdictions such as the UK, New Zealand, Hong Kong, Switzerland and Japan have already indicated that they will require TCFD disclosures. The EU also put in place voluntary climate-related guidelines largely inspired by the TCFD but has also mandated some regulation where it opted to develop its own methodology (core metrics in SFDR) which leads to market fragmentation. AMIC thus encouraged IOSCO to incentivise all jurisdictions mandating climate-related financial disclosures to refer to TCFD recommendations.
- *Recognising and mitigating data gap challenges:* A critical problem for the buy side is the lack of reliable data due to the absence of mandatory, standardised, and audited reporting for issuers. This leaves investors in a difficult position to comply with the requirements as they cannot rely on audited data to report against mandatory sustainability KPIs at either product or entity level. AMIC welcomed that the IFRS is already working towards a global sustainability reporting standard but, until this work is finalised and adopted locally, AMIC recommended for supervisors to acknowledge the data challenges and thus to limit mandatory reporting requirements for the buy side allowing them to perform these new disclosures on a voluntary basis or on a reasonable efforts basis.

FCA CP 21/17: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers

AMIC has also responded to FCA CP 21/17: *Enhancing Climate-Related Disclosures* by asset managers, life insurers and FCA-regulated pension providers.

As AMIC members are global asset allocators working with international client bases, it is critical for them that regulators work towards a coordinated approach that works for investors across jurisdictions. AMIC therefore welcomed the fact the FCA proposals were being based on the TCFD recommendations, which form part of a globally recognised standard. Our main expressed concern, which is also the most difficult SFDR implementation challenge, is that the implementation timing requires the buy side to disclose on metrics which are not yet required from issuers.

FCA CP extract: proposed core metrics for climate-related product disclosure

Table 1: Core metrics

Metric	Proposal
Scope 1and 2 Greenhouse gas (GHG) emissions	These metrics are widely used in the market, including as part of disclosure regimes inthe UK and internationally. We propose to mandate this metric from when our proposed rules enter into force.
Scope 3 GHG emissions	Although this is a widely recognised metr ic,we acknowledge that methodologies differ and there may be significant data ga ps among investee companies at least in the short term until the implementation of further disclosure requirements in the UK and internationally. We are therefore proposing that firms should disclose Scope 3 emissions from no later than 30 June 2024. This is 1 year later thanthe deadline for the first disclosures in accordance with the rest of our proposa ls.
*Total carbon emissions	As total carbon emissions are the sum of the GHG emissions referenced above, we consider it appropriate to mandate that this metric be disclosed to the same timeframes. Scope 3 emissions would therefore need to be included in the totalfigure from 30 June 2024.
*Carbon footprint	This is a widely used metric in the market. We propose that this be disclosed on a mandatory basis fromwhen our proposed rules enter into force
*Weighted average carbon intensity (WACI)	In its final report, the TCFD acknowledged limitations with this form of carbon footprinting due to data availability. As such the TCFD is currently proposing that asset managers and owners should disclose a financed emissions metric based on WACI and the Partnership for Carbon Accounting Financials (PCAF) methodology, if relevant, or a comparable methodology. The PCAF provides methodologies for asset managers, asset owners and banks to measure or estimate financed emissions for different asset classes. It also provides for alternative solutions when data is not available.

From an investor's perspective, the sequencing proposed by the FCA is far from ideal as it is both costly and approximate. There are currently important discrepancies between assessments performed by ESG data providers, precisely due to the absence of mandatory, standardised, and audited reporting for issuers. This heterogeneity of information forces asset managers to work with several ESG data providers in order to work out the credible average performance of an issuer against the most basic KPIs (such as carbon emissions).

We also highlighted that for some asset classes/products, like sovereign bonds, calculating the core KPIs such as GHG emissions will be subject to methodological choices, biases and therefore approximations. The FCA proposal and implementation phases would result in an ongoing data coverage issue and significant reliance on proxies and estimates with disclosures that will not always be comparable and sometimes difficult to explain to the end-investors. Requiring UK listed issuers to disclose against the core metrics first would be conceptually the right order to follow but in practice it would only partially help asset managers given that they also invest across the globe and in non-listed assets (private debt/equity).

The key message in our response was thus that the sequencing of the disclosure requirements should be first on the issuer side at international level (upcoming IFRS standard), followed by the buy side, and that in the meantime the proposed approach is applied on a "as far as they are able" approach, as adopted by the DWP and The Pensions Regulator, with accepted use of proxies and estimated data.

FCA Guiding Principles on Design, Delivery and Disclosure of ESG and Sustainable Investment Funds

In July 2021, the FCA also sent a letter to the chairs of authorised fund managers setting out their expectations on the design, delivery and disclosure of environmental, social and governance (ESG) and sustainable investment funds. The FCA receives a high volume of applications for authorisation of funds with a sustainable focus. It has found that many of these applications are poor-quality and fall below its expectations.

Contacts: Arthur Carabia and Irene Rey
arthur.carabia@icmagroup.org
irene.rey@icmagroup.org

Lessons from COVID-19: fund liquidity

MMFs

Building on the AMIC response to the ESMA consultation (covered in our last ICMA Quarterly Report), AMIC responded on 13 August 2021 to the FSB consultation on potential reforms for Money Market Funds (MMFs). In our response, we explained that most measures envisaged under this consultation (very similar to ESMA's options) would either threaten the viability of prime MMFs (eg Minimum Balance at Risk, capital buffers, eligible assets) or have a limited effect (eg swing pricing, liquidity fee) during the very short period when investors were looking for liquidity and most markets experienced stress and illiquidity (even safe-havens assets).

We warned in particular against the policy option to restrict the capacity of MMFs to hold CPs and CDs. We fear this measure would force issuers to revert to more concentrated products (which could be problematic from a financial stability perspective). It could also further concentrate liquidity needs on short-term government debt which actually experienced significant volatility and illiquidity during March 2020 (eg T-bills) and further compromise the secondary liquidity of CP markets.

However, some targeted measures such as the decoupling of regulatory thresholds from suspensions/gates/fees, which could indeed attenuate the first mover advantage, would be welcome. This could also contribute to lower selling pressure on CP markets generated by the protection of liquidity buffers of MMFs. It would also allow to preserve the viability of MMFs which act as an alternative source of liquidity (on top of other products/institutions like banks) and therefore contribute to financial stability.

We also call for a focus on measures to enhance the functioning and resiliency of underlying markets (such as CP and CD markets), rather than an overhaul of the regulatory framework governing MMFs. In that respect we would like to refer to recommendations made under our recent ICMA white paper.

AMIC will continue to monitor this debate and engage appropriately. ESMA is expected to publish its opinion on the review of the MMF Regulation in H2 2021 and FSB is to publish its final report in October 2021. The EC is required to undertake a review of the MMFR by 21 July 2022.

Bond ETFs

AMIC has responded to an IOSCO survey on bond ETFs in the context of the March-April 2020 market turmoil (covered in a previous ICMA Quarterly Report). ICMA's response involved members representing issuers, investors and authorised participants and market makers and argued that the recent crisis showed that overall the ETF ecosystem functioned well despite extreme circumstances, but that there is a need to continue improving the resilience and liquidity of corporate bond markets via its further electronification and appropriately calibrated regulation. We were pleased to see that IOSCO issued on 12 August 2021 the following conclusions: "The COVID-19 volatility was a significant stress test for ETF structures and operations. Based on the findings set out in this report, no imminent risks associated with these observations have been identified from a regulatory or financial stability perspective. In fact, empirical evidence and stakeholder feedback tend to suggest that the ETF structure was relatively resilient throughout."

AMIC will continue to monitor this debate and engage approriately. IOSCO is expected to continue its broader analysis of the ETF market in 2021. As part of this, it will consult on ETF policy proposals in late 2021/H1 2022.

AIFMD review

AMIC co-signed a joint trade association letter calling for regulatory stability for investment funds in the context of the AIFMD review. The letter addressed on 15 July 2021 to Commissioner Mairead McGuinness calls for regulatory stability for investment funds in the context of the AIFMD review. In particular, the letter highlights the benefit of preserving the current delegation model and more broadly points out the overall resilience of AIFs during the pandemic (eg none had to suspend redemptions according to an ESMA study) and the fact that the industry is already focused on key amendments to AIFMD notably in context of the sustainable finance action plan and the digital finance agenda.

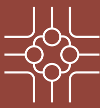
The scope of the review is still unclear, but the publication of the EC's legislative proposal is expected in November 2021. The proposal to review the ELTIF Regulation should be published at the same time. To further explore our position on these two files: AMIC responses to the AIFMD review CP and to the ELTIF review CP.

Contacts: Arthur Carabia and Irene Rey
arthur.carabia@icmagroup.org
irene.rey@icmagroup.org

Securitisation

AMIC responded to the EC consultation to review the EU Securitisation Regulation (SECR). The response highlights that the low level of securitisation issuances since the entry into application of the SECR is mainly due to the accommodative monetary policies of central banks, but that there is still merit in introducing amendments to the SECR and related prudential rules measures (such as in Solvency II, LCR) to grow both the investor and the issuer base and contribute to the CMU's objectives. When it comes to cross-jurisdictional issues, the AMIC response points out the challenges related to the application of the 5% retention rules for CLOs managers and the need to preserve the ability of EU investors to invest in UK securitisations. Finally, it calls to retain the level of information currently made available to investors and to add on top of that, further ESG transparency with the adoption of KPIs adapted to each relevant sub-asset class (ie auto-loans, RMBS, CMBS). The EC is expected to issue a report by 1 January 2022. Meanwhile AMIC members had the opportunity to engage with ESAs on ESG transparency for securitised markets during a dedicated meeting on 5 October 2021.

Contacts: Arthur Carabia and Irene Rey
arthur.carabia@icmagroup.org
irene.rey@icmagroup.org



FinTech in International Capital Markets

by **Gabriel Callsen and Rowan Varrall**

FinTech Advisory Committee

ICMA's FinTech Advisory Committee (FinAC) held further meetings on 27 May, 15 July and 23 September 2021. The meeting in May focused on global regulatory developments, bond issuance based on blockchain, as well as artificial intelligence (AI) and machine learning (ML)-related market developments in capital markets.

The FSB provided an update on its FinTech priorities in 2021 and ongoing work in relation to regulatory and supervisory issues associated with the use of AI/ML, RegTech/SupTech and BigTech, as well as implications for international debt capital markets. The FSB published two reports in 2020: *The Use of Supervisory and Regulatory Technology by Authorities and Regulated Institutions* and *BigTech Firms in Finance in Emerging Market and Developing Economies.* Amongst other topics, the FSB is focusing in 2021 on digital currencies and digital identity in the context of cross-border payments.

The EIB presented its recent issuance of a digital bond (FR0014003521, 0%, due 28 April 2023) on the Ethereum blockchain. The instrument was issued under French law, which enables the registration of securities on a distributed ledger (in French, Dispositif d'Enregistrement Electronique Partagé, or DEEP). The transaction involved three joint lead managers who transferred the issue amount in a representation of central bank digital currency provided by Banque de France in the context of the EIB project, while investors purchased security tokens using traditional fiat currency. The principal is expected to be repaid in commercial fiat currency at maturity.

Furthermore, members exchanged views on AI/ML applications in bond markets and more broadly. In terms of price discovery, AI models for bond pricing analytics are technically feasible, but data quality remains a challenge which adversely impacts the accuracy of predictions. Other solutions focus on natural language processing to gauge potential demand in individual instruments. From a post-trade perspective, robotics applications are being explored to replace trade support functions, for instance, in relation to valuation or settlement.

In July, members of the FinAC discussed the CDM project for repo and bonds, how to promote adoption as well as strategic considerations going forward, amongst other topics. In September, the meeting agenda included latest developments in relation to digital currencies and implications for the international debt capital markets, as well as FinTech and sustainability.

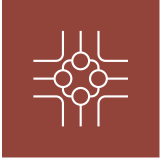
Further information on the FinAC is available on ICMA's dedicated FinTech webpage.

@ **Contact: Gabriel Callsen**
gabriel.callsen@icmagroup.org

FinTech regulatory developments

BIS Innovation Hub: executive summary and reports on CBDC

On 30 September 2021, the BIS Innovation Hub, in collaboration with seven central banks (Bank of Canada, Bank of England, Bank of Japan, European Central Bank, Federal Reserve, Sveriges Riksbank and Swiss National Bank) published an executive summary and three reports relating to CBDC: *System Design and Interoperability, User Needs and Adoption*, and *Financial Stability Implications*. The central banks contributing to the reports anticipate any CBDC ecosystem would involve the public and private sectors in a balance, in order to deliver the desired policy outcome and enable innovation that meets users' evolving payment needs. For CBDC systems, domestic interoperability would need to be sufficient to achieve an easy flow of funds to and from other payment systems and arrangements. Regardless of the design, developing and running a CBDC system would be a major undertaking for a central bank. The group will continue to collaborate on exploring how CBDCs could enhance any future system.



BIS FSI: Big tech regulation: what is going on?

On 29 September 2021, the BIS Financial Stability Institute (FSI) published its insights paper *Big Tech Regulation: What Is Going On?*. Several regulatory initiatives have emerged in China, the European Union and the United States to address new challenges presented by big techs. While each of these jurisdictions has focused on different policy areas, the greatest number of initiatives have been conducted in the area of competition. While recent initiatives constitute important steps in addressing risks posed by big techs, additional regulatory responses might be needed. This paper reviews various regulatory initiatives developed in China, the European Union and the United States. It offers a typology of regulatory actions and focuses on five policy domains: competition, data, business conduct, operational resilience and financial stability.

BIS Innovation Hub: mBridge project report on a multi CBDC platform

On 28 September 2021, the BIS Innovation Hub Hong Kong Centre, in cooperation with the Hong Kong Monetary Authority, Bank of Thailand, the Digital Currency Institute of the People's Bank of China, and the Central Bank of the United Arab Emirates, published its report *Inthanon-LionRock to mBridge: Building a Multi CBDC Platform for International Payments*. The report sets out the take-aways of Project Inthanon-LionRock Phase 2 and CBDC Bridge project (mBridge) Phase 3. Phase 2 demonstrated a substantial increase in cross-border transfer speed from days to seconds, as well as the potential to reduce several of the core cost components of correspondent banking. Phase 3 involved further experimentation with design choices and technology trade-offs and a future roadmap from prototype to a production-ready network that can serve the broader central banking community as a public good through open-sourcing. To achieve this, collaboration with the public and private sector will continue and trials will be conducted in a safe environment.

ESMA: 2022 work programme focusing on sustainable finance, digitalisation and the CMU

On 28 September 2021, ESMA published its 2022 Annual Work Programme (AWP), setting out its priority work areas for the next 12 months. ESMA will focus on contributing to the EU's priorities including: (i) Capital Markets Union – contributing to developments in the regulatory and supervisory framework supporting the development of European capital markets, notably through its work on the European single access point (ESAP); (ii) Sustainable finance – developing rules on environmental, social and governance (ESG) disclosures and risk identification methodology for ESG factors; and (iii) Innovation and digitalisation – contributing to the implementation of the Digital Operational Resilience Act (DORA), the Markets in Crypto Assets Regulation (MiCA) and the regulation on a pilot regime for market infrastructures based on distributed ledger technology. This will further our understanding of the impact of financial innovation on capital markets and foster a coordinated approach, and work with NCAs and market participants to counter cyberthreats and other operational risks.

ECB: paper on digitalisation: channels, impacts and monetary policy implications

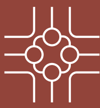
On 23 September 2021, the ECB published its occasional paper series, *Digitalisation: Channels, Impacts and Implications for Monetary Policy in the Euro Area*. Digitalisation can be viewed as a major supply/technology shock affecting many macroeconomic variables that are important for monetary policy, such as productivity, the labour market and inflation, as well as the measurement of various macroeconomic aggregates. The digitalisation workstream report reviews the implications of digitalisation for price measurement, productivity, labour markets and inflation, while also describing more recent developments in digitalisation during the COVID-19 shock as well as their implications. Analysis of these key issues and variables is aimed at improving our understanding of the implications of digitalisation for monetary policy and its transmission.

IOSCO: guidance for intermediaries and asset managers using AI and ML

On 7 September 2021, IOSCO published its final report, *The Use of Artificial Intelligence and Machine Learning by Market Intermediaries and Asset Managers*. The use of Artificial Intelligence (AI) and Machine Learning (ML) by market intermediaries and asset managers may create significant efficiencies and benefits for firms and investors, including increasing execution speed and reducing the cost of investment services. However, this use may also create or amplify certain risks, which could potentially have an impact on the efficiency of financial markets and could result in consumer harm. Based on the responses received to the consultation report, this final report provides guidance to assist IOSCO members in supervising market intermediaries and asset managers that utilise AI and ML. The guidance consists of six measures that reflect expected standards of conduct by market intermediaries and asset managers using AI and ML.

BIS Innovation Hub: Project Dunbar testing use of CBDC for international settlements

On 2 September 2021**,** BIS Innovation Hub announced it will join forces with the Reserve Bank of Australia, Bank Negara Malaysia, Monetary Authority of Singapore, and South



African Reserve Bank to test the use of central bank digital currencies (CBDCs) for international settlements as part of Project Dunbar. Led by the Innovation Hub's Singapore Centre, Project Dunbar aims to develop prototype shared platforms for cross-border transactions using multiple CBDCs. These multi-CBDC platforms will allow financial institutions to transact directly with each other in the digital currencies issued by participating central banks, eliminating the need for intermediaries and cutting the time and cost of transactions. Project Dunbar's work will explore the international dimension of CBDC design and support the efforts of the G20 roadmap for enhancing cross-border payments. Its results, expected to be published in early 2022, will inform the development of future platforms for global and regional settlements.

BIS Innovation Hub and HKMA: Project Genesis to build prototype green investment digital infrastructure

On 24 August 2021, the BIS Innovation Hub Hong Kong and HKMA announced they joined forces with the technology industry on Project Genesis to build a prototype digital infrastructure that enables green investments, improves transparency on the use of proceeds, and thereby helps meet regional and global environmental and sustainability goals. The project will explore the tokenisation of green bonds enabling investment in small denominations, combined with real-time tracking of environmental outputs. With Genesis, the BIS Innovation Hub seeks to show the green art of the possible through combining blockchain, smart contracts, internet-of-things, and digital assets. The prototypes will allow policy makers and stakeholders to explore innovative approaches to green bond distribution and transparency. After starting with design thinking workshops, the development teams are now working in iterative sprints to build the prototypes, collaborating with key stakeholders in the Hong Kong financial ecosystem.

IMF: report on the impact of FinTech on central bank governance

On 24 August 2021, the IMF published its report, *The Impact of FinTech on Central Bank Governance*. The purpose of the report is to discuss preliminary views on how, from a legal perspective, central banks can best deal with the impact of FinTech on their governance. Today, central banks are facing new and unprecedented challenges: distributed ledger technology, new data analytics (artificial intelligence and machine learning), and cloud computing, along with a wider spread of mobile access and increased internet speed and bandwidth. The preliminary views are based on a review of central banks' reaction thus far to the challenges posed by FinTech to the legal foundations of their governance.

OECD: report on artificial intelligence, machine learning and big data in finance

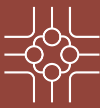
On 11 August 2021, the OECD published its report, *Artificial Intelligence, Machine Learning and Big Data in Finance - Opportunities, Challenges and Implications for Policy Makers*. Artificial Intelligence (AI) techniques are being increasingly deployed in finance, in areas such as asset management, algorithmic trading, credit underwriting or blockchain-based finance, enabled by the abundance of available data and by affordable computing capacity. Machine learning (ML) models use big data to learn and improve predictability and performance automatically through experience and data, without being programmed to do so by humans. The report can help policy makers to assess the implications of these new technologies and to identify the benefits and risks related to their use. It suggests policy responses that that are intended to support AI innovation in finance while ensuring that its use is consistent with promoting financial stability, market integrity and competition, while protecting financial consumers.

BIS FSI: paper on humans keeping AI in check

On 3 August 2021, the BIS Financial Stability Institute published its paper, *Humans Keeping AI in Check – Emerging Regulatory Expectations in the Financial Sector*. Several financial authorities have recently begun developing frameworks for expectations on AI governance and use by financial institutions. In general, existing high-level governance, risk management and modelling requirements for traditional models already cover AI principles of reliability, accountability, transparency, fairness and ethics. While emerging AI principles are useful, there are growing calls for financial regulators to provide more concrete practical guidance given the challenges in implementing these principles. Challenges include the speed and scale of AI adoption by financial institutions, greater touchpoints with ethical and fairness issues, technical construct of AI algorithms and lack of model explainability. These challenges also call for a proportional and coordinated regulatory and supervisory response. As more specific regulatory approaches and supervisory practices emerge, global standard-setting bodies might be in a better position to develop standards in this area.

BIS: bulletin on regulating big techs in finance

On 2 August 2021, the BIS published its bulletin, *Regulating Big Techs in Finance*. Big tech firms entering financial services can scale up rapidly with user data from their existing business lines in e-commerce and social media, and by harnessing the inherent network effects in digital services. In addition to traditional policy concerns such as financial risks, consumer protection and operational resilience, the



entry of big techs into financial services gives rise to new challenges surrounding the concentration of market power and data governance. The current framework for regulating financial services follows an activities-based approach where providers must hold licences for specific business lines. There is scope to address the new policy challenges by developing specific entity-based rules, as proposed in several key jurisdictions – notably the European Union, China and the United States.

ESMA SMSG: response to EC request for technical advice on digital finance and related issues

On 30 July 2021, the Securities and Markets Stakeholder Group published its Advice to ESMA in response to the European Commission's request to EBA, EIOPA and ESMA for technical advice on digital finance and related issues. The SMSG is of the view that the digitalisation of financial services should follow the principle of "same activity, same risk, same regulation". This principle should be applied evenly to preserve, or restore, a "level playing field" in all relevant markets, stimulate competition, and avoid granting unfair competitive advantages to individual market participants or groups of participants. The SMSG is aware that high degrees of concentration already exist in some financial market segments, and that digitalisation frequently favours the emergence of a small number of dominant platforms. Competition policies, supervision and enforcement need to be adapted, and further enhanced, to better meet these challenges.

ECB: paper on a unified framework for CBDC design

On 30 July 2021, the ECB published its working paper *A Unified Framework for CBDC Design: Remuneration, Collateral Haircuts and Quantity Constraints*. The paper studies the macroeconomic effects of central bank digital currency (CBDC) in a dynamic general equilibrium model. Timing and information frictions create a need for inside (bank deposits) and outside money (CBDC) to finance production. To steer the quantity of CBDC, the central bank can set the lending and deposit rates for CBDC as well as collateral and quantity requirements. Less restrictive provision of CBDC reduces bank deposits. A positive interest spread on CBDC or stricter collateral or quantity constraints reduce welfare but can contain bank disintermediation, especially if the elasticity of substitution between bank deposits and CBDC is small.

IMF: paper on the rise of public and private digital money

On 29 July 2021, the IMF published its paper, *The Rise of Public and Private Digital Money – A Strategy to Continue Delivering on the IMF's Mandate*. The paper lays out an operational strategy for the IMF to continue to deliver on its mandate, given the rapidly changing developments stemming from the rise of public and private digital money. The paper begins by summarising the forces driving the adoption of digital forms of money, and the new policy questions that emerge. It then focuses on how the IMF's core activities and output will need to evolve, including surveillance, capacity development, and analytical foundations. It ends by discussing how the IMF intends to partner with other organisations and coordinate internal resources to fulfil this vision.

ECB: digital euro project

On 14 July 2021, the ECB announced it will commence a project to investigate a digital euro. The investigation phase will start in October 2021 and last for about two years. During the project's investigation phase, the Eurosystem will focus on a possible functional design that is based on users' needs. It will involve focus groups, prototyping and conceptual work. The investigation phase will examine the use cases that a digital euro should provide as a matter of priority to meet its objectives: a riskless, accessible, and efficient form of digital central bank money. The project will also shed light on the changes to the EU legislative framework which might be needed and that will be discussed with, and decided by, European co-legislators. The technical work on the digital euro with the European Commission will also be intensified.

BIS: paper on FinTech and the digital transformation of financial services

On 13 July 2021, the BIS published its paper, *FinTech and the Digital Transformation of Financial Services: Implications for Market Structure and Public Policy*. The paper examines the implications of digital innovation for market structure and attendant policies, including financial and competition regulation. There have been a number of surveys of regulatory responses. This paper takes a step back, to look at what the economic theory of banking and financial intermediation can tell us about how technology may drive industrial organization in the sector, and how that might inform further policy responses. The paper roots the impact of the digital transformation of finance in how innovation has enabled providers to address long-standing challenges of financial intermediation – including asymmetric information, uncertainty, incomplete markets, and fixed and variable costs of production. The paper describes how digital innovation affects these key economic frictions in finance and alters the financial services value chain and industrial organization.

BIS, IMF, World Bank: joint report on CBDCs for cross-border payments

On 9 July 2021, the BIS Committee on Payments and Market Infrastructures (CPMI), BIS Innovation Hub, International Monetary Fund (IMF) and World Bank published a joint report, *Central Bank Digital Currencies for Cross-Border Payments* to the G20, analysing how CBDCs could facilitate enhanced cross-border payments, and how practical efforts are taking these considerations forward. The report analyses how CBDCs could facilitate enhanced cross-border payments, and how practical efforts are taking these considerations forward. Facilitating international payments with CBDCs can be achieved through different degrees of integration and cooperation, ranging from basic compatibility with common standards to the establishment of international payment infrastructures. The analysis highlights both the need for multilateral collaboration on macro-financial consequences as well as the importance of interoperability between CBDCs.

Contact: Rowan Varrall
rowan.varrall@icmagroup.org

Technology directory reviews

ICMA has conducted a review of both its Repo trading technology directory and Operations FinTech directory for repo and cash bonds (previously "FinTech mapping directory") in the last quarter. In parallel with the review, ICMA gathered the views of ERCC members on current market trends and developments, challenges and opportunities for post-trade repo solutions – we thank those members involved with this review. Additional commentary on the reviews can be found here (under ICMA Resources tab).

Operations FinTech directory

The Operations FinTech directory now includes over 200 solutions, compared to 165 solutions from the June 2020 review and 87 solutions when first launched in November 2017. It is divided into 10 categories comprising collateral management, corporate actions, exposure agreement, intraday liquidity monitoring and reporting, matching, confirmation & allocation, reconciliations but also ancillary areas such as static data and SSI, workflow and communication and KYC onboarding.

The 47 new solutions listed since last publication correspond to offerings from 9 providers, including 7 newly listed vendors. The highest category increases, as seen from newly listed solutions, were for collateral lifecycle & margin management (10 additions, 50 in total), and intraday liquidity monitoring & reporting (8 additions, 24 in total). Solutions for exposure agreements (6 additions, 23 in total) and matching, confirmation & allocation (5 additions, 19 in total) saw moderate increases. The review also captured 6 additional workflow and communication offerings, bringing the total to 25 in this category.

The post-trade environment has recently seen multiple mergers, acquisitions, and collaborative ventures. These developments appear to be driven by demand for cross-asset expansion, extending capabilities to buy-side participants, and leveraging data management and communication capabilities.

We have observed acquisitions of several firms with expertise in regulatory technology, portfolio management, matching and confirmations, and FIX connectivity solutions for buy-side and sell-side firms spanning equities, derivatives and fixed income. As regards workflow and communications, we have observed a voice and electronic communications company has been recently acquired to develop natural language processing (NLP) and leverage data analytics and data management expertise. Additionally, we noted the announcement of a partnership to further leverage a workflow and communication solution's data management and network workflow capabilities.

Regarding potential benefits and challenges of vendor firms, members remarked that each provider would need to reach critical mass for continued development and to be a viable industry solution – it remains to be seen how many providers the market can maintain in a fragmented ecosystem. One key factor for platform usefulness and viability is the quantity and quality of data collected, and how this is normalized and shared.

The challenges in the adoption of post-trade solutions most consistently noted by ERCC members relate to onboarding, integration and connectivity. Given the quantity of post-trade vendor providers, firms must determine those solutions most suitable to their own needs and look at time spent onboarding – simplicity and ease of onboarding is a key consideration for selecting vendor firms. Additionally, the level of connectivity between the vendor and the market ecosystem is of equal importance. This is a potential opportunity for a connector or market intermediaries to act as a translation layer to promote interoperability between participants.

Members also noted the increasing importance of understanding available tools used to mitigate settlement failures, especially in light of CSDR settlement discipline requirements. ICMA maintains a separate CSDR-SD technology directory, referencing various solutions to manage cash penalties.

Repo trading technology directory

The Repo trading technology directory now includes a total of 20 platforms, compared to 9 trading venues upon launch in April 2020. The scope was first revised in June 2020 to include other front-office trading tools and now includes details for 6 order and/or execution management systems (O/EMS) providing connectivity to multiple repo trading venues.

There has been evidence of acquisitions and partnerships within the industry, providing additional market coverage across European and US products, and improved capabilities for users. Other developments include OMS/EMS partnerships with specialist IT providers to develop platform connectivity and integration with financial market participants.

Given the importance of platform connectivity and interoperability with current financial market infrastructure, the updated technology directories include information on supported electronic communication protocols and standards. Unsurprisingly, the majority of trade platforms support FIX and API connectivity. Similarly, post-trade solutions mostly support FIX and API connectivity, in addition to Swift and additional protocols such as SFTP, Flat Files, with several providers supporting blockchain protocols.

The directories do not constitute an exhaustive list of providers in the market. Relevant providers that are not yet included and wish to join are very welcome to do so.

Contact: Rowan Varrall
rowan.varrall@icmagroup.org

DLT regulatory directory

Globally, policy makers continue to adjust legal frameworks to enable the adoption of DLT in capital markets. ICMA continues to monitor international and EU developments relating to regulations, legislation and guidance on the use of DLT in capital markets in its DLT Regulatory directory. Selected examples include:

At the EU level, the European Parliament Committee on Economic and Monetary Affairs (ECON) published its report on 5 August 2021 on the EU Commission's proposed regulation for a pilot regime for market infrastructures based on DLT, following its adoption on 13 July 2021. The report proposes several amendments to the text, including (i) an increased threshold of total market value of new financial instruments recorded for DLT operators from EUR2.5 to 5 billion, (ii) inclusion of sovereign bonds with an issuance size of less than EUR500 million, (iii) expanded definition of DLT market infrastructures to include DLT trade and settlement system (DLT TSS) – those which perform services normally performed by both Multilateral Trading Facilities and Securities Settlement Systems, and (iv) additional provisions to strengthen investor protection, among other items. The pilot regime was initially published in the European Commission's Digital Finance Package and is currently within the trialogue process, starting from the end of September.

On 6 August 2021, ESMA published its report to the European Commission on *Use of FinTech by CSDs*, including Section 5 on potential regulatory clarification or amendments of CSDR to allow for the deployment of DLT. ESMA recommended clarification in the form a Q&A could be provided for (i) whether data recorded in a DLT platform can be considered credits or debits, (ii) whether digital addresses are considered "securities accounts", (iii) whether reconciliation measures under CSDR is satisfied with real-time DLT sharing, (iv) whether segregation recording requirements in Article 38 of CSDR are respected with use of DLT, and (v) regarding settlement of cash and securities on DLT, whether a token transfer mechanism meets the meaning of settlement per Article 2(1)(7) and Article 40 of CSDR. ESMA also recommended the amendment of Article 35 of CSDR to allow CSDs to deploy DLT solutions due to current requirements on the use of internationally accepted standards.

In Germany, the Federal Ministry of Finance published (in German) its joint draft Bill on 5 August 2021 with the Federal Ministry of Justice and Consumer Protection for an ordinance on electronic securities registers (eWpRV). The ordinance specifies requirements for the management of electronic securities registers according to the electronic securities Act (eWpG) which entered into force 10 June 2021. The eWpG Act enables electronic bearer bonds to be issued and registered at a centralised or decentralised electronic securities register, as opposed to the previous mandate to issue by means of a paper certificate.

In Switzerland, the remaining elements of the Federal Act on the Adaptation of Federal Law to Developments in Distributed Ledger Technology (DLT Bill) entered into force on 1 August 2021, alongside the associated blanket ordinance. The blanket ordinance represented amendments to 10 Federal ordinances, including updates to the Financial Market Infrastructure Ordinance to allow for innovative DLT trading facilities and updates to the Ordinance on Procedures for Bankruptcy Offices which increase legal certainty of the handling of crypto-based assets in the event of bankruptcy. Previous elements of the DLT bill came into force on 1 February 2021, enabling the introduction of ledger-based securities that are represented on a blockchain.

The Arab Monetary Fund (AMF) published on 17 August 2021 the Arab Regional Fintech Working Group's policy guide *Strategies for Adopting DLT/ Blockchain Technologies in Arab Countries*. The guide (i) highlights DLT governance and regulatory challenges, (ii) promotes the use of common protocols and standards where available, and (ii) for national DLT strategies to explore legal hurdles and incorporate relevant amendments into their national laws, among other considerations.

ICMA's DLT regulatory directory with additional information is available here.

Contact: Rowan Varrall
rowan.varrall@icmagroup.org

FinTech Newsletter

ICMA's September *FinTech Newsletter* noted updates to ICMA's FinTech regulatory roadmap, highlighting relevant developments over the coming years, and New FinTech applications in bond markets, monitoring applications of DLT and other innovative technologies. The European Commission is expected to present its strategy on supervisory data collection in EU financial services by the end of 2021. The strategy aims to improve access to data and data sharing within the EU and proposes to set up common European data spaces and is a contributor to both the European Data strategy and digital finance strategy. The latest edition of the FinTech Newsletter is available here.

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

Contact: Rowan Varrall
rowan.varrall@icmagroup.org

Transition from LIBOR to Risk-Free Rates

by **Katie Kelly and Charlotte Bellamy**

Synthetic sterling and yen LIBOR

In June 2021, the FCA published a consultation paper on its proposal to require the administrator of LIBOR, ICE Benchmark Administration, to change the way one month, three month and six month sterling and Japanese yen LIBOR settings are determined after 2021 to secure an orderly wind-down. This would be the first exercise of the FCA's new powers introduced through amendments to the UK Benchmarks Regulation (UK BMR) under the Financial Services Act 2021. The exercise of these powers will transition the six identified sterling and yen LIBOR settings from their current "waterfall methodology" based on panel-bank submissions to an alternative methodology. LIBOR based on this alternative methodology is commonly referred to as "synthetic LIBOR".

ICMA responded to the FCA's consultation in August noting and elaborating upon the following points.

- Following the announcement by the FCA on 5 March 2021 that the six identified sterling and yen LIBOR settings will no longer be representative and representativeness will not be restored immediately after 31 December 2021, ICMA supports the exercise by the FCA of its powers under Article 23D(2) in order to introduce "synthetic LIBOR" for the six identified LIBOR settings.
- In order for synthetic LIBOR to meet its aim of supporting an orderly wind-down of LIBOR, all parties will need to take the same view as the FCA that "synthetic LIBOR remains LIBOR". The legislation that HM Treasury is expected to introduce (and has since introduced) in order to support contract continuity further will therefore be very important.
- It will also be very important for synthetic LIBOR to be published in the same manner (using the same screens and at the same time) as LIBOR.

Following the consultation, the FCA announced that it had published notices confirming its decisions to compel the continued publication of the six identified sterling and Japanese yen LIBOR settings for a limited time period after end-2021 using a "synthetic" methodology. This is intended to help ensure an orderly wind-down.

The FCA announcement also confirmed that the FCA will decide and specify before year-end which legacy contracts are permitted to use these synthetic LIBOR rates. This is needed because UK supervised entities will be prohibited from using synthetic LIBOR (within the meaning of the UK BMR), unless the FCA permits some or all legacy use. The FCA published a consultation on its proposed decision, which closes on 20 October.

For further information on the context of these announcements and key issues for the bond market, please see the Quarterly Assessment in this Quarterly Report.

Contact: Charlotte Bellamy
charlotte.bellamy@icmagroup.org

The role of Independent Advisers in LIBOR-referencing bonds

In LIBOR-referencing bond documentation, Type 2 fallbacks (for which the trigger events are typically the permanent cessation of LIBOR and certain other events such as a prohibition on use of LIBOR) and Type 3 fallbacks[1] (for which the trigger events are typically the same as Type 2 fallbacks but also include an announcement of the non-representativeness of LIBOR by the supervisor of the administrator of LIBOR) often require the appointment by the issuer of an Independent Adviser to make certain determinations.

1. See further Fallbacks for LIBOR floating rate notes.

The role of Independent Adviser is situation-specific with clearly defined responsibilities, as set out in the fallbacks; very broadly, this includes assisting the Issuer in determining (a) the appropriate successor rate or alternative rate, (b) the inclusion of any adjustment spread, and (c) any other required amendments to the documents to reflect the use of the successor rate or alternative rate or the adjustment spread (such as amendments to the definitions of the day count fraction, business day or relevant screen page). The Issuer should appoint the Independent Adviser as soon as possible in advance of the Independent Adviser having to make the relevant determinations for the relevant bond.

It is however important to check the terms and conditions of the relevant bond, as the *extent* of the Independent Adviser's involvement varies; in some cases, the *Issuer* determines the appropriate successor rate or alternative rate, the adjustment spread and any further required amendments, but the Issuer may have an obligation to *consult* with the Independent Adviser.

Typically, the terms and conditions of bonds also provide that if, despite using its reasonable endeavours, the Issuer is unable to appoint an Independent Adviser (or the Independent Adviser is unable to make the relevant determination), the Issuer can determine the appropriate successor rate or alternative rate, adjustment spread and any further required amendments itself. In the absence of such a fallback provision, if the Issuer is unable to appoint an Independent Adviser, it would not be possible to adopt a successor rate or alternative rate without bondholder consent.

Both a successor rate for GBP LIBOR and a credit adjustment spread for use in cash products have been recommended by the Sterling Risk-Free Rate Working Group. As it is generally expected that these successor rate and credit adjustment spread recommendations will be applied to all GBP LIBOR bonds which anticipate their use, this should minimise the associated discretions on the part of an Independent Adviser who would therefore not have to make the relevant determinations.

As a matter of practice, in advance of making its formal determinations as described above, the Independent Adviser should consult with the Calculation Agent, the Principal Paying Agent or any other party responsible for determining the rate of interest to ensure that the proposed methodology and timings are workable in practice and accepted, as they will be the parties required to make the necessary calculations and payments. Once the determinations have been formally made, the Issuer is required to notify them to these parties promptly or within a sufficient time frame to enable the Calculation Agent to update its systems in order to carry out the new calculation (and for the clearing systems' records to be updated).

According to ICMSA Bulletin 210510/56 on *The role of Calculation Agents and Benchmark Agents/Independent Advisers*, the Independent Adviser is "typically required to be an *independent financial institution* of international repute or an *independent financial adviser* with *appropriate expertise* in the international debt capital markets". In addition, the ICMSA Bulletin states that "It is not expected that either the Calculation Agent or Principal Paying Agent would take on such role". This is because the Calculation Agent and Principal Paying Agent have been employed by the issuer to discharge a particular function which is purely mechanical in nature and non-discretionary. The role of Independent Adviser is an additional function that would not have been within the original remit, or foreseen in the relevant bond documentation, although the *overall institution* which performs the Calculation Agent and Principal Paying Agent roles may have a separate function enabling it to serve as an Independent Adviser.

It is therefore important that issuers familiarise themselves with the precise language contained in their documentation in advance of the possible triggering of these fallbacks in LIBOR bonds before the end of 2021 and consider whether the input of an Independent Adviser is required.

Contact: Katie Kelly
katie.kelly@icmagroup.org

Developments in SARON

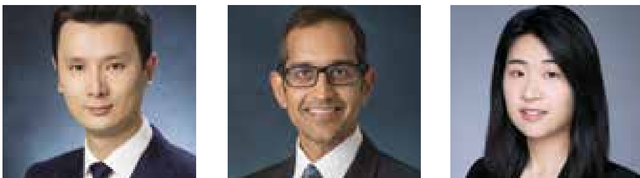
At the meeting of the National Working Group (NWG) on Swiss Franc Reference Rates on 1 July 2021, the NWG recommended start dates for using only SARON as a single price reference and benchmark in derivative markets. It recommended that all market participants (investors and issuers) switch to the SARON swap curve as the only pricing reference starting from 1 September 2021 at the latest, and that only SARON-based derivatives should be used for new transactions starting from 1 July 2021 (excluding transactions that reduce or hedge LIBOR exposures).

The ICMA Swiss Syndicate Managers Group, which comprises the heads and senior members of the syndicate desks of member firms active in lead-managing syndicated bond issues in Switzerland, agreed at its meeting on 13 July 2021 to disseminate an announcement that, starting from 1 September 2021, Swiss franc new issues will be priced referencing the SARON Mid-Swap Rate (Bloomberg Ticker: SFSNT). This was followed-up by a subsequent announcement on 20 August, which also stated that to support the transition, syndicate banks will continue to publish the spread vs LIBOR Mid-Swap on a purely indicative and non-binding basis until 31 December 2021.

Elsewhere, the Swiss Financial Market Supervisory Authority (FINMA) has provided additional clarification relating to derivative trading obligations where adjustments are made solely to address LIBOR replacement or are justified by the corresponding reference rate reform. FINMA also called on the market participants to continue their preparations for the LIBOR replacement as a matter of the highest priority.

Contact: Katie Kelly
katie.kelly@icmagroup.org

Capital Market Developments in China



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

A Capital market regulatory developments in China

Two market guides by ICMA and NAFMII

On 24 September 2021, ICMA and NAFMII launched two publications intended to encourage understanding and participation by international institutions in China's interbank bond market. Investing in China's Interbank Bond Market: A Handbook and Panda Bonds: Raising Finance in China's Bond Market (Case Studies) provide guidance for international investors and issuers on investing and on raising finance in China's interbank bond market.

Southbound Bond Connect

On 24 September, southbound trading under the Bond Connect initiative was officially launched. Under Southbound Bond Connect, mainland investors that meet PBOC's requirements may invest in bonds issued overseas and traded in the Hong Kong bond market. Counterparties are tentatively limited to market makers designated by the HKMA. The annual aggregate quota for Southbound Bond Connect is currently set at RMB500 billion or the equivalent, and the daily quota is currently RMB20 billion or the equivalent.

Wealth Management Connect

On 10 September, the Cross-boundary Wealth Management Connect (WMC) Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area was launched. Individual investors in the three regions will be able to make use of the streamlined channel provided by the Cross-boundary WMC to invest in more diversified wealth management products across the border.

Cryptocurrency

On 24 September, various authorities in China issued a notice (only in Chinese) to deem activities related to cryptocurrency as illegal. Financial institutions must not provide services for cryptocurrency related activities, including account opening, fund transfer and settlement for *cryptocurrencies.*

Corporate credit bond market

On 18 August 2021, PBOC, NDRC, MOF, CBIRC, CSRC and SAFE jointly issued high-level Guiding Opinions on Advancing the Reform, Opening-Up and High-Quality Development of the Corporate Credit Bond Market, setting out a general policy to unify the different rules for various types of credit bonds, promote clearer understanding of the different credit risks of governments and government-related entities, and continue promoting the internationalisation of the interbank and exchange-traded bond markets.

Credit rating reform

On 6 August 2021, PBOC, NDRC, MOF, CBIRC and CSRC published a notice (only in Chinese) setting out requirements for credit rating agencies to strengthen their rating methodologies and systems, improve corporate governance and internal control mechanisms, and strengthen information disclosure. PBOC subsequently announced on 11 August that it has decided to pilot the repeal of requirements on credit rating for debt financing instruments issued by non-financial enterprises in *the interbank market.*

RMB internationalisation

PBOC published its 2021 report on RMB internationalisation (only in Chinese).

Competition in bond underwriting

On 11 August 2021, NAFMII issued a notice (only in Chinese) requiring lead underwriters to report quarterly and annually on their quotations for bond underwriting services.

Bond lending businesses

On 9 July 2021, PBOC published (only in Chinese) a consultation draft of the Administrative Measures for Bond Lending in the Interbank Bond Market.

Contact: Yanqing Jia
yanqing.jia@icmagroup.org

Opening up China's bond market

by **Dr. Xu Zhong**

A In recent years, China has implemented policies to open up its financial industry, with positive results. The limits on foreign ownership in Chinese banks, securities companies, fund management firms, futures companies and other institutions have been removed; Chinese bonds and stocks have gradually been included in international flagship indexes; Bond Connect's south-bound investment channel was officially launched on 24 September 2021. As of the end of June this year, overseas investors held more than 10 trillion yuan (USD1.2 trillion) in domestic RMB financial assets (including equities, bond, loans and deposits), of which the net increase in holdings in the first half of this year was 1.27 trillion yuan (USD200 billion).

NAFMII, as a self-regulatory organization in China's institutional investor market, has actively promoted the opening-up of the bond market under the guidance of the People's Bank of China. NAFMII has supported 47 overseas institutions to issue panda bonds with a total value of more than 320 billion yuan, and formulated panda bond rules that are in line with international standards, introduced international banks to underwrite debt financing instruments in China, and promoted the participation of international rating agencies in the inter-bank bond market. NAFMII also has continuously improved the self-discipline in the bond market, launched innovative green financing products such as carbon neutral bonds and sustainability-linked bonds, brought domestic green bond standards more in line with international standards, maintained order in the secondary market, strengthened the resolution mechanism of corporate bond defaults, and strengthened investor protection mechanisms. In general, the channels available for overseas institutions to participate in China's financial market have become smoother and the regulatory environment has become more friendly. To encourage understanding and participation by international institutions in China's interbank bond market, NAFMII and ICMA jointly released two market guides, *Investing in China's Interbank Bond Market: A Handbook* and *Panda Bonds: Raising Finance in China's Bond Market (Case Studies)*, on 24 September, providing guidance for international investors and issuers.

The opening-up of China's financial market has further broadened and deepened institutional participation. First, as the "water fresh from the source" of China's financial system, overseas institutions play a role in diversifying investment and financing preferences, driving financial innovation, improving market liquidity and enriching asset allocation of China's investors.

Second, the entry of overseas intermediaries will promote high-level competition and improvement of China's financial system. The entry of overseas intermediaries will encourage China's financial intermediaries to continuously improve their professional capabilities, service quality and compliance awareness, and management of reputational risk. In addition, overseas institutions will also bring some mature and effective international mechanisms and best practice into China to improve market efficiency. In the process of financial opening-up, overseas institutions will also bring high professional standards to China's financial system, such as transparency of information disclosure, market-based pricing of financial products, credibility of credit ratings, connectivity of financial infrastructure, completeness and the robustness of the legal system. This presents an opportunity for anticipated deepening reform of China's financial system as well as adjustments to the existing market structure and the institutional rules of China's financial industry.

Third, high-level opening-up of the financial markets will serve the development and high-level opening-up of the broader economy, attracting more international ESG investors and GSS bond issuers to participate in China's financial market, introducing sustainable investing and financing concepts, and supporting the economy's transition to green, social responsibility and sustainable development.

From the international viewpoint, currently the major developed economies are still implementing quantitative easing, with a zero or even negative interest rate policy. At the same time, China as the world's second largest economy adheres to the road of high-quality development, and its economy has achieved continuous and stable growth. The green transformation is being accelerated, and normal monetary policy has been implemented. Opening up enables international institutions to better share the fruits of China's stable and high-quality development.

Recently, the Financial Commission of the State Council proposed to "continue to expand high-level financial opening-up", and the People's Bank of China and five other ministries issued a joint statement, explicitly proposing to "promote high-level opening-up of the bond market". At the same time, China formally proposed to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Bond Connect southbound segment has also been officially launched. NAFMII will further improve the relevant institutional mechanisms and in particular facilitate overseas institutions' participation in China's financial market. We should enrich financial risk hedging tools, promote international convergence of accounting and auditing standards, increase flexibility in the use of proceeds, and provide a more friendly foreign exchange management system and tax regime.

In promoting further opening-up policies, NAFMII will continue to make our best efforts to serve the market.

Dr. Xu Zhong is Vice President, Deputy Secretary-General, National Association of Financial Market Institutional Investors (NAFMII)

2021

ICMA Capital Market Research

ICMA Capital Market Research

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

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

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

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

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

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

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

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

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

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

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

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

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

ICMA ETC Paper: Axe Distribution Best Practice Standards
Published: 3 November 2020
Author: Elizabeth Callaghan, ICMA

Transparency and Liquidity in the European Bond Markets
Published: 29 September 2020
Author: Andy Hill, ICMA

ICMA SMPC Market Report: The European Investment Grade Corporate Bond Secondary Market & the COVID-19 Crisis
Published: 28 May 2020
Author: Andy Hill, ICMA

Sustainable Finance: High-level Definitions
Published: 11 May 2020
Author: Simone Utermarck, ICMA

EU Consolidated Tape for Bond Markets: Final Report for the European Commission
Published: 29 April 2020
Author: Elizabeth Callaghan, ICMA

ICMA ERCC Market Report: The European Repo Market and the COVID-19 Crisis
Published: 21 April 2020
Author: Andy Hill, ICMA

Time to Act: ICMA's Third Study into the State and Evolution of the European Investment Grade Corporate Bond Secondary Market
Published: 4 March 2020
Author: Andy Hill, ICMA

A Quick Guide to the Transition to Risk-Free Rates in the International Bond Market
Published: 24 February 2020
Author: Charlotte Bellamy and Katie Kelly, ICMA

Sustainable Finance: Compendium of International Policy Initiatives & Best Market Practice
Published: 20 February 2020
Author: Nicholas Pfaff, ICMA

Managing Fund Liquidity Risk in Europe: Recent Regulatory Enhancements & Proposals for Further Improvements
Published: 22 January 2020 (update to the original 2016 report)
Authors: ICMA/EFAMA Joint Report

ICMA ERCC Briefing Note: The European Repo Market at 2019 Year-end
Published: 14 January 2020
Author: Andy Hill, ICMA

ICMA Media Library

Through the ICMA Media Library you can access recordings of all our events and also listen to our popular ICMA podcast series. We feature current issues and themes relating to capital markets, including sustainable finance, the transition to risk-free rates, repo & collateral and the effect of COVID-19 on markets. We also have "in conversation" pieces with influential industry figures and look at some broader themes relating to career development and inclusion.

Recent virtual events

EU Green Bond Standard: a big leap forward, or too high a bar? Organised with vdp and The Covered Bond Report, to look in detail at the latest Commission proposals for the EU Green Bond Standard (GBS).

ICMA & NAFMII: The opening-up of China's bond market – the perspectives of issuers and investors International and Chinese market participants and experts look at the potential benefits of accessing China's onshore bond markets, and the regulatory environment and operational channels enabling investment and issuance into these markets.

Annual bwf and ICMA Capital Markets Conference Features two key topics: market data, transparency and a consolidated tape for the EU bond markets and the new prudential regime for investment firms in the Investment Firm Directive and Investment Firm Regulation (IFD/IFR) that was implemented in the EU last June.

The sustainable bond markets in Latin America - in collaboration with IFC GB-TAP The first in a series focused on the Latin American sustainable bond markets, this webinar discussed developments in the green, social and sustainable (GSS) bond markets in the overall Latin American region.

The changing face of ESG Finance in international capital markets – the Irish perspective The ICMA Ireland region hosted a webinar focused on key considerations that will shape the future of ESG Debt Capital Markets, featuring speakers from prominent issuers in the region together with international advisor banks, regulatory experts and other stakeholders.

ICMA virtual event: Common Domain Model (CDM) for repo and bonds An introduction to the CDM project for repo and bonds and a demonstration of the CDM in action, with a discussion on progress made to date, expected benefits, and the path to implementation from industry participants involved in the ICMA CDM Steering Committee.

DCM primary market practices in Asia-Pacific: an ICMA conversation How DCM differs from ECM, how bond syndication works and why, the role and operation of the ICMA Primary Market Handbook in this respect, the cross-border nature of bond syndication and also certain specific aspects relating to rebates, X orders and prop orders.

Register now for these ICMA events in virtual format

Primary markets

ICMA Primary Market Forum

21 October

The ICMA Primary Market Forum brings together issuers, syndicate banks, law firms and investors to discuss market trends and practices, regulatory developments and the overall outlook for the primary debt capital markets.

This year's Forum will feature a panel of speakers discussing recent developments in sustainable finance, and a range of other themes shaping the global market for new bond issues.

Sustainable Finance

How can Japanese capital markets contribute to a sustainable society?

12 November

The 5th annual sustainable finance conference from the International Capital Market Association (ICMA) and the Japan Securities Dealers Association (JSDA) will focus on the role of climate transition bonds, social bonds, and sustainability-linked bonds in encouraging ESG themed bond market.

This event will look at the benefits of issuing these bonds, introducing case studies from global and Japanese markets, and consider the conditions needed to encourage growth in the market, including recent initiatives from the Japanese government.

Market update

LIBOR transition: the end of 2021 approaches

17 November

As this important date approaches, this ICMA webinar will take stock of progress in the adoption of alternative risk-free rates in the bond market and active transition of legacy bonds; consider the various legislative solutions designed to address the issue of "tough legacy" bonds; and discuss how LIBOR transition is progressing in Asia Pacific.

ICMA Women's Network

ICMA Women's Network: Carrières au féminin, surmontez les obstacles

23 November

Recent podcasts

ICMA Women's Network

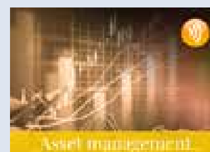
Addressing workplace inequality Rebekah Bray of ICMA Women's Network Nordic region speaks with Alexis Cousins of SEB's Debt Capital Markets team to discuss workplace inequality. As a PhD candidate at the Stockholm School of Economics, Alexis' research focuses on workplace inequality and the struggles of under-represented populations.

Sustainable Finance

Environmental Disclosure & Impact Reporting ICMA's Mushtaq Kapasi speaks with Pratima Divgi, CDP Regional Director, on the topic of environmental disclosure & impact reporting. Pratima provides a brief introduction on CDP's role in sustainable finance and discusses how CDP relates to other disclosure regimes, the methodology for investor benchmarking, and how sustainability reporting may continue to evolve in the future.

Sustainable Finance

The New Development Bank - building a sustainable future ICMA's President Martin Scheck speaks to Leslie Maasdorp, Vice President & Chief Financial Officer of the New Development Bank, about the rationale and purpose behind the bank, its funding model and governance structure and the focus on infrastructure and sustainable development projects in the BRICS countries and other emerging economies.


Asset management

Monthly Market update: ICMA Asset Management & Investors Council (27 September 2021) Robert Parker, Chair of ICMA's Asset Management and Investors Council, reviews the market events of the past weeks, including the Evergrande debt situation and potential contagion risk, the Fed economic outlook and review of their monetary policy guidance, as well as the German election results.

Sustainable Finance

Sustainable sukuk ICMA's Mushtaq Kapasi speaks with Zalina Shamsudin, General Manager, Capital Markets Malaysia, about green and social sukuk in the context of the global sustainable and Islamic capital markets. The discussion covers how Islamic finance principles interact with conventional sustainable finance, the investor base for green sukuk, and Malaysia's efforts to grow the market and facilitate further positive investment in south-east Asia.

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International Capital Market Association

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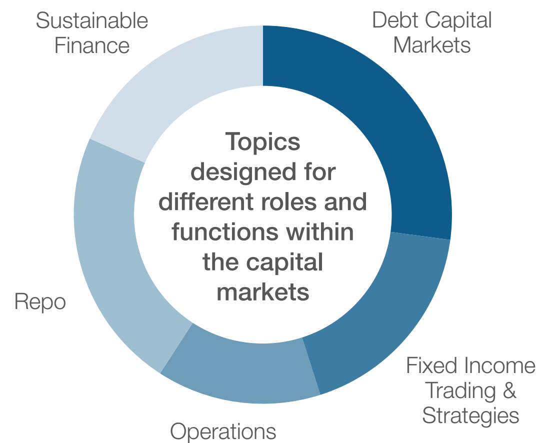
- Central Banks
- Infrastructure Providers
- Vendors
- Buy Side
- Other (incl. no organisation)



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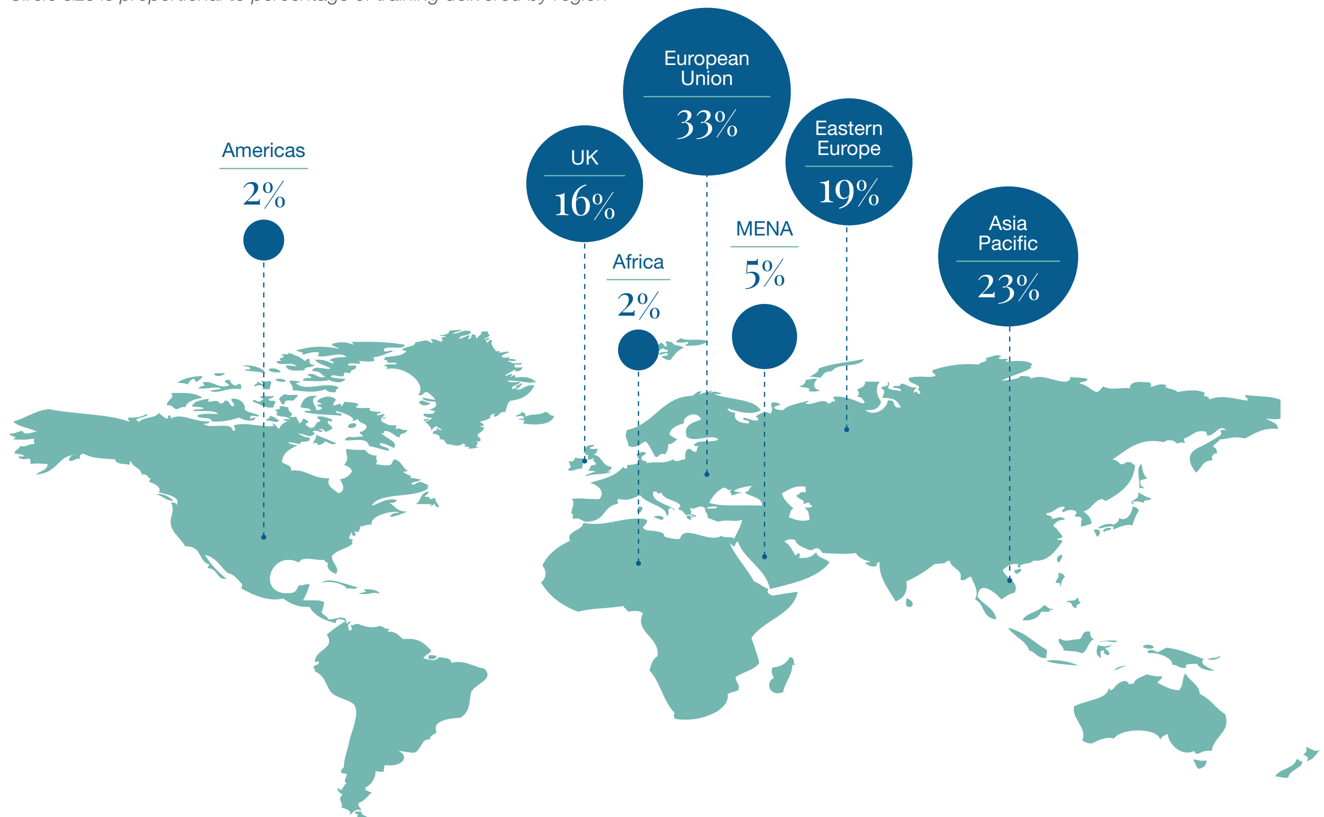

ICMA Education

Our courses are designed and delivered by industry professionals and fallinto the following categories: Debt Capital Markets; Fixed Income Trading & Strategies; Financial Markets Operations; Repo & Collateral Markets;and Sustainable Finance.

In addition to covering the breadth of capital market content, we offerprofessional development training for participants at every stage of theircareer and our courses are delivered at the following levels:

- Foundation level – assessed courses designed to provide an overview ofvarious sectors of the capital markets.
- Advanced level – assessed courses designed for those with five years ormore experience in the field.
- Specialist level – non-assessed courses designed as deep dives intospecific topics and ICMA documentation.

2021 livestreamed course schedule

Financial Markets Foundation Qualification, October 18 – 26

Collateral Management, October 21 – 29

Bond Syndication for Compliance & Middle Office, October 25 – 26

Inflation-Linked Bonds & Derivatives, November 1 – 9

Introduction to Primary Markets Qualification, November 2 – 11

Introduction to Repo, November 3 – 11

Assessing the Credit Risk of Corporate Bonds, November 8 – 16

Understanding the GMRA, November 17 – 25

Primary Market Certificate, November 17 – December 8

Securities Lending, November 22 – 30

Corporate Actions: Operational Challenges, November 29 – December 7

Fixed Income Portfolio Management & Construction, December 6 – 15

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Glossary

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AI	Artificial intelligence
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
AMI-SeCo	Advisory Group on Market Infrastructure for Securities and Collateral
APA	Approved publication arrangements
APP	ECB Asset Purchase Programme
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BMR	EU Benchmarks Regulation
bp	Basis points
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBDC	Central bank digital currency
CBIC	ICMA Covered Bond Investor Council
CBIRC	China Banking and Insurance Regulatory Commission
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDM'	Common Domain Model
CDS	Credit default swap
CFTC	US Commodity Futures Trading Commission
CGFS	Committee on the Global Financial System
CIF	ICMA Corporate Issuer Forum
CMU	Capital Markets Union
CoCo	Contingent convertible
COP21	Paris Climate Conference
COREPER	Committee of Permanent Representatives (in the EU)
CPC	ICMA Commercial Paper Committee
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payments and Settlement Systems
CRA	Credit rating agency
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
CSPP	Corporate Sector Purchase Programme
CSRC	China Securities Regulatory Commission
DCM	Debt Capital Markets
DLT	Distributed ledger technology
DMO	Debt Management Office
DVP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council (of the EU)
ECON	Economic and Monetary Affairs Committee of the European Parliament
ECP	Euro Commercial Paper
EDDI	European Distribution of Debt Instruments
EDGAR	US Electronic Data Gathering, Analysis and Retrieval
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFC	Economic and Financial Committee (of the EU)
EFTA	European Free Trade Area
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMDE	Emerging market and developing economies
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	Environmental, social and governance
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
ETP	Electronic trading platform
EU27	European Union minus the UK
ESTER	Euro Short-Term Rate
ETD	Exchange-traded derivatives
EURIBOR	Euro Interbank Offered Rate
Eurosystem	ECB and participating national central banks in the euro area
FAQ	Frequently Asked Question
FASB	Financial Accounting Standards Board
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 Markets Standards Board
FPC	UK Financial Policy Committee
FRN	Floating-rate note
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FSC	Financial Services Committee (of the EU)
FSOC	Financial Stability Oversight Council (of the US)
FTT	Financial Transaction Tax
G20	Group of Twenty
GBP	Green Bond Principles
GDP	Gross Domestic Product
GFMA	Global Financial Markets Association
GHOS	Group of Central Bank Governors and Heads of Supervision
GMRA	Global Master Repurchase Agreement
G-SIBs	Global systemically important banks
G-SIFIs	Global systemically important financial institutions
G-SIIs	Global systemically important insurers
HFT	High frequency trading
HKMA	Hong Kong Monetary Authority
HMRC	HM Revenue and Customs
HMT	HM Treasury
HQLA	High Quality Liquid Assets
HY	High yield
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositories
IFRS	International Financial Reporting Standards
IG	Investment grade
IIF	Institute of International Finance
IMMFA	International Money Market Funds Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
ITS	Implementing Technical Standards
KID	Key information document
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio (or Requirement)
L&DC	ICMA Legal & Documentation Committee
LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
LTRO	Longer-Term Refinancing Operation
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II/R	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
ML	Machine learning
MMF	Money market fund
MOU	Memorandum of Understanding
MREL	Minimum requirement for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NAFMII	National Association of Financial Market Institutional Investors
NAV	Net asset value
NCA	National competent authority
NCB	National central bank
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio (or Requirement)
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
OTC	Over-the-counter
OTF	Organised Trading Facility
PBOC	People's Bank of China
PCS	Prime Collateralised Securities
PEPP	Pandemic Emergency Purchase Programme
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RFRs	Near risk-free rates
RM	Regulated Market
RMB	Chinese renminbi
RMO	Recognised Market Operator (in Singapore)
RPC	ICMA Regulatory Policy Committee
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted asset
SAFE	State Administration of Foreign Exchange
SBBS	Sovereign bond-backed securities
SEC	US Securities and Exchange Commission
SFC	Securities and Futures Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SARON	Swiss Average Rate Overnight
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
STS	Simple, transparent and standardised
T+2	Trade date plus two business days
T2S	TARGET2-Securities
TCFD	Task Force on Climate-related Disclosures
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TONA	Tokyo Overnight Average rate
TR	Trade repository
VNAV	Variable net asset value

ICMA

International Capital Market Association

ICMA Zurich
T: +41 44 363 4222
Dreikönigstrasse 8
CH-8002 Zurich

ICMA London
T: +44 20 7213 0310
110 Cannon Street
London EC4N 6EU

ICMA Paris
T: +33 1 70 17 64 72
62 rue la Boétie
75008 Paris

ICMA Brussels
T: +32 2 801 13 88
Avenue des Arts 56
1000 Brussels

ICMA Hong Kong
T: +852 2531 6592
Unit 3603, Tower 2,
Lippo Centre
89 Queensway Admiralty
Hong Kong