Assessment of Market
Practice & Regulatory Policy
10 October 2024 | Fourth Quarter
Issue 75 | Editor: Paul Richards

ICMA Quarterly Report

Inside this issue:

Full steam ahead

International capital markets 50 years on

Draghi Report: a summary of the recommendations on CMU and financial services

Driving digital transformation in global capital markets

Bond market transparency in Europe

Primary, secondary, and repo and collateral markets

Asset management

Sustainable finance

FinTech and digitalisation

Emerging capital markets

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 around 620 members in almost 70 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 three core areas – primary markets, secondary markets, repo and collateral: with two cross-cutting themes of sustainable finance and FinTech.

This newsletter is presented by the International Capital Market Association (ICMA) as a service. The articles and comment provided through the newsletter are intended for general and informational purposes only. ICMA believes that the information contained in the newsletter is accurate and reliable but makes no representations or warranties, express or implied, as to its accuracy and completeness. ICMA welcomes feedback and comments on the issues raised in the Quarterly Report. Please e-mail: regulatorypolicynews@icmagroup.org or alternatively the ICMA contact whose e-mail address is given at the end of the relevant article. ©International Capital Market Association (ICMA), Zurich, 2024. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means without permission from ICMA.
Published by: Corporate Communications, International Capital Market Association Limited, 110 Cannon Street, London EC4N 6EU Phone: + 44 207 213 0310 info@icmagroup.org

Contents

04 FOREWORD

06 QUARTERLY ASSESSMENT
06 International capital markets 50 years on: a personal perspective

10 THOUGHT LEADERSHIP IN INTERNATIONAL CAPITAL MARKETS
10 Draghi Report: a summary of the recommendations on CMU and financial services
12 F Driving digital transformation in global capital markets
14 Bond market transparency in Europe

16 INTERNATIONAL CAPITAL MARKET PRACTICE AND REGULATION
16 Summary of practical initiatives by ICMA

20 PRIMARY MARKETS
20 FCA consultation on UK prospectus regime
20 EU CSDR cash penalties: impact on primary markets
21 EC workshop on short-term funding markets
22 The cessation of synthetic US dollar LIBOR
23 Transition from JIBAR to ZARONIA in South Africa
23 ICMA Primary Market Handbook amendment

24 SECONDARY MARKETS
24 ESMA consultation on bond transparency deferrals: ICMA response
27 ESMA consultation on consolidated tape providers: ICMA response
28 EU CSDR: ESMA consultation on settlement discipline scope: ICMA response
29 Shortening of the settlement cycle: an ongoing discussion
29 The ICMA Bond Market Liquidity Taskforce

31 REPO AND COLLATERAL MARKETS
31 ICMA's ERCC and GRCF
31 EU NSFR and SFTs
32 EBA Q&A on LCR treatment of open reverse repos
32 US SEC and Treasury clearing
33 UK SFTR validation rules
33 S Repo and sustainability: summary report
33 GMRA Digital Assets Annex

34 ASSET MANAGEMENT
34 AIFM and UCITS Directives: ESMA consultation on LMTs
34 EC consultation on macroprudential policies for NBFI
34 AMIC Forum

35 SUSTAINABLE FINANCE
35 S Sustainable bond market update
35 S Principles priorities for 2024/25
37 S A The Hong Kong Code of Conduct for ESG Ratings and Data Products Providers
37 S Regulatory engagement and developments
39 S Guidance for a nascent SLLB market
41 S Green Enabling Projects eligibility framed by ICMA

43 FINTECH AND DIGITALISATION
43 F FinTech and Digitalisation Forum
43 F MAS Project Guardian fixed income workstream
44 F Common Domain Model
44 F ICMA's new AI in Capital Markets Working Group
44 F EC consultation on AI in the financial sector: ICMA response
44 F AI regulatory developments
45 F Other FinTech regulatory developments

48 EMERGING CAPITAL MARKETS
48 A Global survey of Korean Treasury bond markets
49 A Omnibus Law: a significant reform for Indonesia's financial market
51 Brazil: a growing market

52 ICMA CAPITAL MARKET RESEARCH

53 ICMA EVENTS, EDUCATION AND TRAINING

56 GLOSSARY

S Sustainable Finance **F FinTech** **A Asia**

Speechify, the text to speech platform, is being used in this edition of the QR. Articles which are available in audio format can be identified by this icon. Click on the icon to hear the article read out.

Full steam ahead

by **Bryan Pascoe**

Strong bond market conditions and healthy demand prevail into the last quarter of the year, supported by an increasingly positive rate and inflation outlook, and arguably also by the intensification of concerning geopolitical events. A major ongoing theme underpinning recent developments is the on-going and accelerating change in underlying market structure which, while adding depth to the market overall, often makes resilience harder to read. Non-traditional market players, in particular hedge funds, are playing a bigger role not only acting as end-buyers but also in many cases new providers of liquidity. The surge in fixed income ETFs is also a major feature of market activity, now accounting for a significant percentage of turnover in some asset classes. These developments are positive in providing additional depth and liquidity to the markets but present a new and largely untested dynamic through the interest rate cycle or sudden shocks. Certainly a dynamic to watch in the longer-term and in the nearer term markets will likely be flexed in the course of the next month as we get closer to the US election on 5 November.

Heading into the end of the year and as the new European Commission takes shape we will see the recent Draghi Report influencing many of the priorities, as has already been reflected in the mission letters sent to the new Commissioners. While, as largely reflected by many commentators, there was nothing specifically new in the report, it will provide new momentum in many areas and should spur the debate on important points such as infrastructure consolidation and enhancing the role of securitisation in European capital markets. The significant NBFI consultation under way by the European Commission has broad implications for the market given the current level of regulation that already currently exists for many of these market actors and the growing influence of less well-regulated players. We are working closely with our buy-side members and coordinating on a cross-committee basis to ensure our responses factor in all relevant angles.

In the UK we await clarification on the Smarter Regulatory Framework post the General Election in July, with the general consensus being that the direction of travel will be maintained. Constructively, there appears to be closer engagement between the EU and UK post-elections on a broad range of issues, including financial services regulatory priorities. Our member firms continue to strongly advocate for consistency and alignment where possible and we stress that this is particularly beneficial in areas directly impacting market efficiency such as T+1 and the transparency regime. Such an outcome will best serve liquidity, market depth and efficient market functioning across all European markets.

ICMA's work in our cross-cutting areas of sustainable finance and FinTech and digitalisation continues at pace and recent high-profile initiatives have had a strong Asian angle. Subsequent to the work last year initiated by the UK FCA, ICMA, at the request of the Hong Kong SFC, will now provide the secretariat for the recently launched code of conduct providing a framework of principles for ESG ratings and data product providers operating within Hong Kong. In FinTech and digitalisation ICMA has played the leading role in the fixed income workstream of MAS's Project Guardian, which has the broader objective of driving common asset tokenisation standards across fixed income, foreign exchange and asset and wealth management. The deliverables from Project Guardian are due to be published within Q4. In FinTech we have also kicked off our new AI in Capital Markets Working Group, with the focus in the first instance on working with members to identify business use-cases in capital markets. We have seen an overwhelming response from members to participate in this, reflecting the dynamic and vast opportunities that exist as well as the critical need to identify and assess risks and engage on an industry-wide basis.

Effective 1 July we formalised a new co-head structure of our Market Practice and Regulatory Policy team, led by Andy Hill and Natalie Westerbarkey and replacing Paul Richards, who will be retiring. The combination and complementary skills of Andy and Natalie give us greater senior bandwidth and facilitate a more focused strategic forward-looking position. This will enhance the impact and effectiveness of ICMA's work in promoting capital markets' efficiency and development across all areas of market operation and regions of activity, closely integrated with our sustainable finance and FinTech and digitalisation expertise.

With Paul's retirement upon us, I would like to thank him once again for all the dedication and commitment he has put into the Quarterly Report over the last 18 years, in addition

to all the other significant contributions and achievements he has made with ICMA. Not least among these has been his tireless work and influential role in bringing LIBOR cessation in the bond market to a seemingly successful conclusion. The success and quality of every edition of the Quarterly Report has unquestionably been in large part down to Paul's relentless stewardship and focus on delivering a consistently excellent end-product. They are big shoes to fill, but we will ensure a smooth transition and look forward to evolving and maintaining the quality and relevance of this core document summarising ICMA's broad and varied work, much appreciated and referenced by our membership and stakeholders alike.

Bryan Pascoe, Chief Executive, ICMA
bryan.pascoe@icmagroup.org

International capital markets 50 years on: a personal perspective[1]

by **Paul Richards**

Summary

1 Looking back over the past 50 years both from a pan-European and a UK perspective, there are a number of ways in which international capital markets have changed and a number of other ways in which they have stayed much the same. It is sometimes difficult to identify the changes, taking one year with another. But over a period of 50 years, the changes become much clearer. This assessment provides a personal perspective in the form of a high-level summary, with examples which are inevitably selective. (See the box.)

2 The focus of the assessment is on changes in the working relationship between the international capital markets and the official sector in Europe over the past 50 years, rather than on changes in the geopolitical context, such as the fall of the Berlin Wall or the Russian invasion of Ukraine or the conflict in the Middle East. So the assessment starts by identifying changes in the international monetary system, followed by changes in monetary policy, financial stability and financial regulation; changes in the relationship between the EU and the UK; changes arising from the development of capital markets; climate change; changes resulting in closer cooperation between capital market participants and the official sector; and finally, changes in working methods.

The international monetary system

3 There have been two particularly important changes in the international monetary system. One took place just over 50 years ago, when the US Government suspended US dollar convertibility into gold at a fixed price in 1971. The Bretton Woods regime of fixed but adjustable exchange rates was succeeded by a regime of floating exchange rates managed through foreign exchange intervention, where necessary, by central banks. This regime of managed floating has lasted ever since.

4 The other important change relates to the introduction of the euro in 1999. Instead of managing their exchange rates in an Exchange Rate Mechanism (called "the snake within the tunnel"), an increasing number of Member States in the European Union (EU) – now 20 out of 27 in total – agreed to fix their exchange rates permanently, subject to meeting a set of convergence criteria first. As a result, they replaced their national currencies – like the Deutsche mark and French franc – with the euro as their single currency issued through the Eurosystem and run by the European Central Bank (ECB).

5 During its life over the past 25 years, the euro has survived a series of potentially existential threats, in particular during the sovereign debt crisis within the euro area in 2012. In response, the ECB has adapted its role as the euro area's central bank, most significantly when Mario Draghi, then President of the ECB, said during the sovereign debt crisis in the euro area in 2012 that the ECB would do "whatever it takes" to preserve the euro.

6 But the euro's international role has not so far developed as fully as the ECB might have wished. Throughout the past 50 years, the US dollar has retained its role as the most widely used reserve currency in the international monetary system. It is not yet clear whether, and to what extent, the currencies of regional blocs – such as the euro and the renminbi – will play a significantly larger role in future.

1. This assessment is based on a speech given by the author at the ICMA Swiss Regional General Meeting in Zurich in April 2024.

Monetary policy

7 Much the most important change in monetary policy in Europe over the past 50 years has been the grant by governments of operational independence to enable their central banks to set monetary policy with the objective of achieving an inflation target: the Bank of England was granted operational independence in 1997 and the ECB was granted operational independence from the launch of the euro in 1999, when the ECB's objective in practice was to inherit the credibility of the Bundesbank. The introduction of inflation targets of around 2%, and the grant of operational independence to enable central banks to meet them by setting monetary policy through raising or lowering short-term interest rates, were in large part a response to the experience of high inflation during much of the first half of the 50-year period, particularly in the UK.

8 During most of the second half of the 50-year period, operational independence proved very effective in enabling central banks in Europe to keep inflation under control. But its effectiveness was subsequently brought into doubt by the return of inflation in response to a range of factors, including a combination of historically low interest rates and high fiscal deficits, use of quantitative easing (QE) before and during the COVID-19 pandemic, and the impact on food and energy prices from the Russian invasion of Ukraine. The ECB and the Bank of England are well aware that continuing central bank credibility depends not only on their success in returning inflation to target but also on their commitment to keeping close to target in future.

Financial stability

9 The rise in short-term interest rates needed to achieve inflation targets has complicated the other main task of central banks, which is to ensure financial stability. Ensuring financial stability globally has become an increasingly important and challenging task for central banks over the past 50 years, given the huge growth in the size and complexity of international capital markets as a whole and, within the market, the growth of individual banks which have become "too big to fail". Risks to financial stability came to a head in the global financial crisis of 2007/09, when a number of systemically important banks might have failed without emergency financial support from their governments. Re-establishing financial stability and ensuring the resilience of the international financial system have become top priorities for the authorities, who need to work together to achieve them given the interconnections across the system.

Financial regulation

10 To help deliver financial stability, there has been a very substantial increase in the scope of financial regulation, initially in the banking system but more recently across international capital markets in general, covering the sell side, the buy side and market infrastructure. The regulatory world of today would not have been recognisable 50 years ago. Much of the increase in financial regulation of the banking system has taken place in response to the global financial crisis of 2007/09. But regulators' attention has increasingly focused on whether there is a level playing field between banks and non-bank financial intermediaries. And questions have arisen about whether different approaches to regulation in different jurisdictions globally are leading to fragmentation in international capital markets, particularly against a much more threatening international background; and, indeed, whether there is now too much regulation, and the priority should be on improving the quality of regulation rather than simply adding to its quantity.

The EU and the UK

11 An important example of fragmentation in the regulatory framework concerns the recent change in the relationship between the EU and the UK. The UK spent almost all the past 50 years as a member of the EU (and predecessors), which it joined just over 50 years ago. So the UK's decision in 2016, following a referendum, to leave the EU was a very significant change for international capital markets, as well as in the broader political context. Having been one of the pioneers of the EU Single Market in financial services when it was a member of the EU, the British Government subsequently pursued a different regulatory path outside the Single Market, which was designed to meet the needs of UK financial services and markets while recognising that markets operate in a global context. The new Government elected in July is currently committed to remain outside the Single Market, while seeking closer cooperation between the UK and the EU.

12 Within the EU, achieving Banking Union and Capital Markets Union have been common objectives over a long period as a means of improving EU investment, growth and competitiveness. But the objectives have proved difficult to achieve, mainly because the changes needed at EU level would require hard political choices at national level: eg about the need for uniform implementation and enforcement of capital market regulations; common supervision, particularly of large firms operating in capital markets with a pan-European model and with services in a number of different EU Member States; and further tax, insolvency and pension reform, as well as education to improve financial literacy. Within the EU, a single market for capital is particularly important for the Eurosystem, where there is a single currency.[2] The question of how to achieve EU Capital Markets Union is a subject of intense debate following the elections to the European Parliament in June.

2. See Paul Richards, *The Debate About EU Policy on Capital Markets Union*, ICMA Quarterly Report Third Quarter 2024

The development of international capital markets

13 Over the past 50 years, two particular developments in international capital markets in Europe stand out. One was the development of the Euromarkets, both denominated in US dollars and in other currencies, which made a major contribution to the internationalisation of the bond and loan markets across national borders, starting in 1963 when the Interest Equalisation Tax was imposed in the US.[3] The subsequent abolition of exchange controls across Europe, including the UK, also helped.

14 The other was "Big Bang" in 1986, which opened up the structure of capital markets in the City of London to greater international competition. In response to this change, many merchant banks and brokers based in London were subsequently bought by foreign firms.[4] The British Government also had a pioneering role in developing international capital markets in the 1980s by undertaking the privatisation of several state-owned businesses, which set an international trend, at least for a time.

Climate change

15 The current focus in international capital markets on climate change is a very significant – but relatively recent – development. 50 years ago, there were a few experts with foresight, such as the then Prince of Wales, who drew attention to the need to address climate change. But it is only in the past 15 years or so that participants in international capital markets have realised how urgent this task has become and how important is the role that they need to play in addressing it.

Cooperation between the market and the official sector

16 As the financial system has become much larger and more complex over the past 50 years, the official sector has increasingly recognised the need to work in cooperation with the private sector in international capital markets to meet challenges which affect them both. Two examples stand out. One was the introduction of the euro in wholesale financial markets in London in 1999 with the UK "out" of Economic and Monetary Union, where the Bank of England was in the lead.[5]

17 The other, where the UK FCA was in the lead in conjunction with the Bank of England and the Federal Reserve Bank of New York, was the transition away from LIBOR to near risk-free rates. It is nearly 50 years since LIBOR became widely used as a reference rate in the Euromarkets. But, from the global financial crisis onwards, the authorities became increasingly convinced that LIBOR posed risks to global financial stability, as the market for unsecured wholesale term lending between banks was no longer sufficiently active to support such a widely used reference rate. Instead, the authorities encouraged the market to adopt near risk-free rates. That process was completed in the bond market under English law with the cessation of synthetic US dollar LIBOR for legacy transactions at the end of September this year.[6]

Working methods

18 The recent development of digitalisation makes the conduct of capital markets business radically different from 50 years ago. And the administrative side of City offices has also changed radically in the past 50 years: from the use of cash and cheques to the use of electronic payments; and from dependence on manual typewriters which print paper, often with carbon copies, delivered by telex, messenger or post 50 years ago, to dependence on the use of personal computers, access to broadband and instant electronic communication internationally now. (Only the QWERTY keyboard remains unchanged.) But international capital market firms still need offices, even though in many cases they have not been used full-time since the COVID-19 pandemic. And personal contact is as important now as 50 years ago.

Contact: Paul Richards
paul.richards@icmagroup.org

3. "A tax levied on the purchase price of a foreign bond or equity investment made by a US citizen": Chris O'Malley, *Bonds Without Borders,* ICMA and Wiley, 2015.

4. See David Kynaston, *The City of London Volume IV, A Club No More,* 1945-2000: Chatto & Windus, 2001.

5. See successive editions of *Practical Initiatives Arising from the Introduction of the Euro,* Bank of England.

6. See Paul Richards, *Lessons from LIBOR Transition in the Bond Market under English Law,* ICMA Quarterly Report Second Quarter 2024.

Working in the international capital markets with the official sector

Paul Richards joined the merchant bank Samuel Montagu in 1972 after Oxford University and was appointed a Director in 1980. In the early 1980s, he led the Samuel Montagu teams advising several governments and central banks in emerging markets on their foreign currency debt, and in the later 1980s he led the Samuel Montagu privatisation teams advising the British Government on the franchising of the Royal Dockyards, the flotation of British Steel and the trade sale of ECGD Insurance Services. He put forward and worked with HM Treasury and the Bank of England on the proposal for the Hard ECU, which was adopted by the British Government in 1990 for use as a common European currency in wholesale financial markets before deciding whether or not to adopt a single currency.[7] He acted as Specialist Adviser to the European Select Committee of the House of Lords on its enquiries into EU economic reform and Economic and Monetary Union in Europe. He worked on EU financial regulation on secondment part-time to the predecessor of DG FISMA in the European Commission; and he joined the Bank of England in 1997, first on secondment part-time and subsequently full time, as Special Adviser on Europe to help the City of London prepare for the introduction of the euro in 1999 in wholesale financial markets in London with the UK "out" of Economic and Monetary Union. After joining ICMA in 2005, he was Head of Market Practice and Regulatory Policy at ICMA from 2007 until June 2024, when the key issues faced by ICMA's members included the global financial crisis and Brexit. At the invitation of the FCA and the Bank of England, he chaired the working group in London overseeing the sterling and US dollar LIBOR transition to risk-free rates in the bond market from 2018 until completion in September 2024. He started and has edited the first 75 editions of the ICMA Quarterly Report. After 52 years working in international capital markets and with the official sector, he is due to retire from ICMA at the end of 2024.

7. See Kenneth Dyson and Kevin Featherstone, *The Road to Maastricht: Negotiating Economic and Monetary Union:* Oxford University Press, 1999.

Draghi Report: a summary of the recommendations on CMU and financial services

Introduction

This article summarises the recommendations on Capital Markets Union (CMU) and financial services in the Draghi Report,[1] published by the European Commission on 9 September 2024. The report of about 400 pages explores strategic actions to promote growth in the EU. Financial services are addressed as part of ten sectoral policies and five horizontal policies, and are included in some specifically dedicated chapters, which build on previous official sector reports published earlier this year (eg by the ECB, ESMA and Letta).[2]

CMU and financial services

1 The objective of the report is to propose a growth strategy for Europe. To meet this objective, the report estimates that a minimum annual additional investment of €750 to €800 billion is needed.

2 The report argues that a key question that arises is how the EU should finance the substantial investment needs that transforming the economy will entail. Two key conclusions can be drawn for the EU. First, while Europe must advance with its CMU, the private sector will not be able to bear the lion's share of financing investment without public sector support. Second, the more willing the EU is to reform itself to generate an increase in productivity, the more fiscal space will increase, and the easier it will be for the public sector to provide this support.

3 The report states that a key reason for less efficient financial intermediation in Europe is that capital markets remain fragmented and flows of savings into capital markets are lower. Europe is faced with an unprecedented need to raise investment at both massive scale and rapid speed. The key objectives in the report for the EU and concrete policy proposals relating to CMU and financial services include the following:

Reducing capital market fragmentation

4 The first key objective is to reduce fragmentation of the EU Single Market by removing barriers for innovation, company growth and large infrastructure projects in Europe, thereby increasing demand for risk capital and for higher volumes of finance through capital markets.

5 To help achieve this objective, the report proposes to introduce a European Security Exchange Commission. ESMA should transition from a body that coordinates national regulators into the single common regulator for all EU security markets, similar to the US SEC. For this purpose, ESMA should be entrusted with exclusive supervision over: (i) large multinational issuers; (ii) major regulated markets with trading platforms in various jurisdictions; and (iii) CCPs. ESMA's governance and decision-making processes should be modified along similar lines as those of the ECB Governing Council so as to detach them as far as possible from the national interests of EU Member States. To overcome likely opposition, the EU regulator will have to share supervision with national regulators and elicit their cooperation along lines similar to euro area banking supervision.

6 The report also proposes to reduce regulatory fragmentation so as to deepen the CMU:

- Harmonising insolvency frameworks will be critical to remove fragmentation created by differing creditor hierarchies, while the EU should continue to eliminate taxation obstacles to cross-border investing.
- These measures would in turn make it easier to foster centralisation in clearing and settlement. Ultimately, the EU should aim to create a single CCP and a single CSD for all securities trades, starting by consolidating the largest CCPs and CSDs.

7 The report also argues that the EU must better channel households' savings to productive investments. The easiest and most efficient way to do so is via long-term savings products (pensions). To increase the flow of funds into capital markets, the EU should encourage retail investors through the offer of second pillar pension schemes, replicating the successful examples of some EU Member States.

8 Finally, the report recommends that the Commission should assess whether further changes to the capital requirements under Solvency II are warranted by further reducing the capital charges on equity investments held for the long term.

1. *EU Competitiveness: Looking Ahead - European Commission (europa.eu)*, 9 September 2024.
2. See: *The Debate about EU Policy on Capital Markets Union,* ICMA Quarterly Report Third Quarter 2024, pages 6-12.

Increasing the financing capacity of the banking sector

9 A second key objective is to expand bank finance by overcoming excessively restrictive regulation on securitisation and, where necessary, by revisiting prudential regulation so as to have a strong and competitive banking system.

10 The report recommends that the Commission makes a proposal to adjust prudential requirements for securitised assets. In parallel, the EU should review transparency and attractiveness. Setting up a dedicated securitisation platform, as other economies have done, would help to deepen the securitisation market, especially if backed by targeted public support (for example, well-designed public guarantees for the first-loss tranche).

11 To complete the Banking Union, the report recommends that the EU should assess whether current prudential regulation, also in the light of the possible upcoming implementation of Basel III, is adequate to have a strong and internationally competitive banking system in the EU. The report recommends that a minimal step towards completing the Banking Union would be to create a separate jurisdiction for European banks with substantial cross-border operations that would be "country blind" from the regulatory, supervisory and crisis management viewpoints.

Increasing the financing of corporates through capital markets

12 The report states that, at least since the 1960s, Europe has relied much more on banks than on securities markets to fund its companies. Even though the role of non-bank finance has increased over time – with "a rising ratio of bonds to loans in external finance" – companies in the EU continue to rely much more on bank lending. Within Europe, reliance on capital markets is much greater in some Member States, such as Scandinavian countries and the Netherlands, than in others, including Germany, Italy and Spain.[3]

13 The report concludes that, generally, banks "are not best placed to finance innovation, which requires a greater presence of patient and risk-tolerant equity investors", as banks typically operate under a heavy burden of prudential regulation and lack the expertise to screen and monitor innovative companies. The report recommends that, at a minimum, a financial structure that favours innovation "should be at least partly equity-financed and/or have long-term debt financing".[4]

Deploying the EU budget more effectively

14 A third key objective is to make more effective use of the EU budget by focusing funding on strategic priorities, simplifying the administrative burden, improving the leverage of the EU budget and of the overall EU financial architecture to support investment.

15 Examples include: leveraging of the EU budget by substantially increasing the use of guarantees, in particular, loans, blending instruments and other types of financial instruments in support of strategic sectors of the economy across the policy priorities supported by the EU budget; and enabling the EIB Group to take on more and larger high-risk projects, focusing on innovative projects, start-ups and scale-ups, making greater use of EIB Group's own financial firepower.

Issuing a common safe asset to finance joint investment projects

16 A fourth key objective is the introduction of regular and sizeable issuance by the EU of a common safe and liquid asset to enable joint investment projects among Member States and help integrate capital markets.

17 Building on the model of the NGEU, the report recommends that, if the political and institutional conditions are in place, the EU should issue common debt instruments to finance joint investment projects that will increase the EU's competitiveness and security. As several of these projects are longer-term in nature, such as financing R&I and defence procurement, common issuance should over time produce a deeper and more liquid market in EU bonds, allowing this market to progressively support the integration of Europe's capital markets.

Strengthening governance and simplifying rules

18 The report's proposals on governance and simplifying rules are also relevant to CMU and financial services.

19 On strengthening governance, the report recommends that Council votes subject to qualified majority voting (QMV) should be extended to more areas, and if action at the EU level is blocked, a differentiated approach to integration should be pursued.

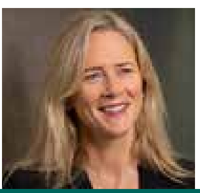
20 On simplifying rules, the report argues that the regulatory burden on European companies is high and continues to grow, but the EU lacks a common methodology to assess it. To start lowering the "stock" of regulation, the report recommends appointing a new Commission Vice President for Simplification to streamline the *acquis*, while adopting a single, clear methodology to quantify the cost of the new regulatory "flow". The EU should fully implement a cut by 25% of reporting obligations and commit to achieving a further reduction for SMEs by up to 50%, upholding proportionality for SMEs in EU law and extending it to small mid-caps.

---

3. Page 285, 286 of the Annex [link].
4. Page 286, 287 of the Annex [link].

Driving digital transformation in global capital markets

ICMA's work on FinTech and Digitalisation initiatives



by **Georgina Jarratt**

The global capital markets are undergoing a transformative shift, driven by digitalisation and the adoption of innovative new technologies. As the global financial system continues to embrace the digital era, debt issuance, trading and settlement processes are becoming increasingly automated and efficient, creating new opportunities for all market participants. The integration of distributed ledger technology (DLT), artificial intelligence (AI) and data standardisation models is driving this revolution, and should, over time, fundamentally alter how bonds are issued, traded and managed through all events in their lifecycle.

The rise of the digital bond ecosystem

One of the most significant trends is the rise of the digital bond ecosystem. This is very much still in its "teenage" years, but progress is being made, and in some jurisdictions more than others. Year on year we are seeing significant evolution around the world and across our membership, with a growing number of firms appointing heads of digital assets into their workforce. Investment, particularly on the sell side, continues and the world is moving from experimentation to real world transactions.

SSA issuers are also active. Of note was the landmark transaction made by the Hong Kong Monetary Authority (HKMA) on 7 February this year which issued the second digital green bond (using ICMA's Bond Data Taxonomy (BDT)). This was a significant milestone in the digitalisation and sustainability efforts within capital markets and combined the benefits of DLT with green finance, aligning with global trends towards digitalisation and environmental responsibility.

The proceeds from the bond were allocated to finance environmentally sustainable projects, consistent with green finance principles. The issuance demonstrated how digital bonds could be aligned with ESG objectives, offering an innovative solution to address climate change while also enhancing capital market efficiency.

Digital bonds also provide enhanced transparency and security. Using DLT, all transactions are recorded on an immutable ledger, reducing the risk of fraud and error. Moreover, the potential for instant settlement mitigates counterparty risk and increases liquidity. Earlier examples, such as the European Investment Bank's issuance of digital bonds on the Ethereum blockchain in April 2021, signal a broader industry trend towards adopting DLT for debt instruments.

The adoption of DLT is still lacking in terms of scale on a global basis. This is a complex dance, with many actors responsible for driving forward different parts of the ecosystem in order to fully embrace the power that the technology offers. The legal and regulatory frameworks need to evolve to support its adoption, the central banks must continue to step forward to consider how best to support "cash on chain" – via central bank digital currencies, for example – and the many jurisdictions need to work together globally to share learning and experiments and trials to help the transformation to succeed.

Data standardisation underpinning the drive to automation

The introduction of frameworks such as ICMA's BDT – which standardises key economic terms, dates, and other relevant information typically included in a bond term sheet – ensures that bond-related data is structured in a consistent and machine-readable format. This standardisation enables automation in the reporting, monitoring and settlement processes, reducing operational inefficiencies and errors associated with manual handling of data.

The Common Domain Model (CDM) – a standardised, machine-readable and machine-executable data and process model for how repos and bonds are traded and managed across the transaction lifecycle – not only enhances operational efficiency but also facilitates better risk management. Automated data analysis can help identify discrepancies or settlement risks before they materialise, allowing for quicker resolution.

As these standards gain wider acceptance, they will play a critical role in reducing the costs and complexities of issuing and managing debt instruments. Our focus on actively encouraging market participants to adopt these models is key. The more they are adopted, the easier the digitalisation journey will be.

AI: enhancing analytics and decision-making

Artificial intelligence (AI) is emerging as a powerful tool offering significant enhancements in areas like credit analysis, market forecasting and decision-making. AI algorithms can process vast amounts of data more efficiently than traditional models, providing issuers and investors with real-time insights into market trends, issuer creditworthiness and pricing strategies.

In primary markets, AI is being used to optimise pricing models, ensuring that issuances are more aligned with current market conditions and investor demand. In secondary markets, AI-driven trading algorithms can enhance liquidity by automating trades based on predictive analytics, minimising market friction and maximising returns for investors. Furthermore, AI-powered tools for regulatory compliance, such as automated monitoring of financial transactions, can help market participants reduce costs associated with compliance and reporting.

The future: CBDCs and the new settlement paradigm

Central bank digital currencies (CBDCs) represent the next frontier and a critical building block in the process of digitalising the market. The introduction of CBDCs could fundamentally alter how bond transactions are settled by enabling real-time, cross-border settlement on a secure digital platform.

Their introduction would also potentially significantly change the roles of the traditional clearing systems, altering their business models in a drastic way, whilst also reducing transaction times and counterparty risk.

Collaborative projects, such as Project Guardian by the Monetary Authority of Singapore (MAS) and the European Central Bank's work on wholesale CBDCs – both of which we have actively supported on behalf of ICMA's members – are exploring how these digital currencies could be integrated into the wider infrastructure. If successful, CBDCs could pave the way for an entirely digital settlement framework, transforming the way capital is raised and managed today.

Conclusion: embracing the digital future

The digitalisation of the market is not just a technological upgrade; it is a paradigm shift that will redefine how the industry operates. Through innovations such as digital bonds, generative AI and data standardisation, market participants are beginning to experience unprecedented levels of efficiency, transparency and security. As these technologies continue to evolve, they will play a central role in shaping a more resilient, accessible and efficient debt capital market for the future. The industry's ability to adapt and harness these innovations will be critical in maintaining its relevance and competitiveness in the global financial ecosystem.

Contact: Georgina Jarratt
georgina.jarratt@icmagroup.org

Georgina Jarratt is Managing Director, Global Head of FinTech and Digitalisation, ICMA

Bond market transparency in Europe

by **Andy Hill**

Europe gets two consolidated tapes

The recent MiFIR Review has finally paved the way for the establishment of a consolidated tape for secondary bond market activity in the EU. Along with the creation of a UK consolidated tape, this creates an exciting opportunity for greater transparency and increased data for European bond markets.

This is expected to give rise to a number of potential benefits for both investors and issuers, not least in underpinning confidence when it comes to price discovery as well as gauging liquidity. In turn, this should help with fund valuations, and also more accurate price determination in the primary process. Additionally, the increase in available data should support the capacity for richer market analytics as well as algorithmic-based processes such as sell-side auto-quoting or buy-side smart order routing. Evidence from the US market, where TRACE[1] has been providing post-trade reporting for corporate bond activity for more than two decades, suggests that increased transparency has resulted in improved competition amongst dealers and decreased transaction costs for investors.[2]

ICMA has long supported the introduction of a European consolidated tape for bond markets. This is likely to play an important role in the development and internationalisation of both the EU and UK capital markets, enhancing their profiles as globally competitive and attractive centres for both issuance and investment. However, the success of both consolidated tapes will likely be dependent on how they are calibrated with respect to deferrals. In other words, the framework for determining which transactions are reported relatively immediately, and those where it is deemed necessary to apply an appropriate time delay before some or all of the details hit the tape.

Transparency is a balancing act

The bond market encompasses a vast array of acutely heterogeneous classes and sub-classes, with very different liquidity and risk profiles, and varying sensitivities to information leakage. Unlike other markets, such as equities or exchange-traded derivatives, the ability to access liquidity is very much dependent on market makers, or other principal trading firms, who are willing to assume market risk by taking the other side of an investor's buy or sell order, hedging as best as they can, before looking to trade out of the position over time. In the case of many bonds, particularly when the trade is in very large size, information leakage can lead to an immediate repricing of the market to the detriment of the liquidity provider. Disseminating details of such trades too quickly will not serve investors or the wider market well and would likely degrade liquidity in some bond classes and market segments. This becomes even more material in times of stress, where the ability and willingness of market makers to provide liquidity and immediacy forms the basis for market stability and resilience.

Accordingly, deferring the publication of the details of certain trades is not only beneficial for general market functioning and liquidity provision, but it is critical. The challenge for regulators is to design a transparency framework that systematically identifies potentially market sensitive trades and automatically applies the appropriate deferral. In doing so, this also needs to balance relative simplicity with a high degree of accuracy.

Art or science

The UK's FCA publicly consulted on its proposed revised transparency deferral framework for bonds between December 2023 and March 2024, while in the EU, ESMA consulted on its proposal to update the regime between May and August 2024. ICMA, on behalf of its members, responded to both.

In drafting its respective responses, and working with its members, ICMA took a data-driven approach, employing extensive statistical analysis, in order to assess both regulatory proposals and to put forward counterproposals from the perspective of certain design features as well as the calibrations. The starting point for this work has been to select an easily quantifiable proxy measure for liquidity which can be determined for all bonds (in this case based on the historical aggregated MiFIR post-trade data sets for 2023, for bonds traded in both the UK and the EU).[3] For this, ICMA settled on traded average daily volume (or ADV). By using ADV

1. FINRA's Trade Reporting and Compliance Engine.

2. Bessembinder, Hendrik (Hank) and Maxwell, William F. and Venkataraman, Kumar, *Market Transparency, Liquidity Externalities, and Institutional Trading Costs in Corporate Bonds,* October 2005.

3. ICMA used Propellant Digital software to source and aggregate this data set.

analysis, it is possible to compare and contrast the liquidity profiles of various bond classes and sub-classes. By mapping the relative liquidity of different bonds, it can be determined which bond types can best be grouped together in order for the best deferral treatment to be applied. ADV also allows for the estimation of how long it would take, on average, to trade out of a risk position of a given size.[4] This forms the basis for establishing the appropriate trade size thresholds for applying a deferral for a given bond type, as well as how long the deferral needs to be.

Both the UK and EU proposals rely on a determination of whether a particular bond is liquid or illiquid, with liquid bonds being afforded less protection from deferred publication, and illiquid bonds more. Both utilise underlying issue size as the basis for liquidity determination, with bonds above a certain size threshold being classified as liquid.[5] ICMA uses ADV analysis to determine what these appropriate size thresholds should be. It does this by identifying the point at which the spread of the ADV of liquid and illiquid bonds, for a given bond type, is widest. The same methodology can be applied for using other bond features as liquidity determinants, such as credit rating or time to maturity.[6]

Is there a simpler way?

It could be argued that the frameworks proposed by the FCA and ESMA are already overly complicated, even if recalibrated to reflect better the liquidity profiles and information sensitivities of the underlying market. TRACE, for instance, works on the basis of the price of all in-scope bond transactions hitting the tape within 15 minutes, but with the publication of the size being subject to a cap. Could this not work in Europe?

The overarching view, including that of many regulators, is that the European bond markets are not as deep or commoditised as those of the US, and are likely to be more sensitive to information leakage. Accordingly, the market needs more protection than a mere size cap.

Furthermore, it is regularly pointed out that, in markets that rely heavily on market makers and other principal liquidity providers, a lot of useful information can be extrapolated from the price alone. By comparing an actual print to where the (pre-trade) market was being quoted at the time, it is relatively easy to determine whether the trade was a risk trade, if the risk taker bought long or sold short, and even a fairly good estimate of the relative size. The impact of real time price dissemination with size masking would accordingly create worse outcomes for investors in the case of larger than average ("block") trades, either due to wider dealer bid-ask spreads or the result of slicing orders into smaller, "social" sizes, taking longer to transact. While not all would agree, there is however some academic literature to suggest that this has not been the experience of TRACE.[7]

Another difference with the US that probably warrants some consideration is that there the road to bond transparency has been more than a two-decade journey, and still has some way to go. Only this year did TRACE start publishing individual US Treasury trades, and then only for on-the-run bonds.[8] When the UK and EU consolidated tapes eventually go live, pretty much all bonds traded in those jurisdictions will be affected. Somewhat ironically, there will be more transparency for US Treasury trades executed in Europe than in the US.

Follow the data

An overview of ICMA's response to the ESMA consultation can be found in the Secondary Markets section of this Quarterly Report, along with a link to the actual response, containing much of the supporting data analysis. And while ICMA puts forward what is in effect a counterproposal, the message to ESMA (and implicitly the FCA) is not to adopt the "ICMA framework", but rather take inspiration from the approach. This recommendation is not unique to ICMA but is being roundly advanced by a number of European industry associations in a joint statement to ESMA, of which ICMA is a co-signatory. Essentially the ask is that ESMA, in consultation with the industry, revise its proposed deferral framework based on a more scientific, data-driven methodology.

The hope is that both the EU and UK launch consolidated tapes with well-designed and appropriately calibrated transparency frameworks that are aligned with the market they are intended to serve. The benefits of deeper, more efficient, and competitive capital markets would be felt by investors and savers, as well as issuers and their employees.

It looks as if Europe will be getting two consolidated tapes, but it may have only one shot at getting it right.

Contact: Andy Hill
andy.hill@imcagroup.org

Andy Hill is Managing Director and Co-Head of Market Practice and Regulatory Policy, ICMA

4. This is done by dividing trade size by ADV and making an assumption of how much of the daily volume can be traded by a single liquidity provider.

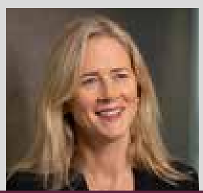
5. Regression modelling undertaken by ICMA suggests that after time since issuance, outstanding issuance size is the next most important feature in determining a bond's relative liquidity.

6. The FCA proposal also uses credit rating, currency denomination, and time to maturity as liquidity determinants, whereas the ESMA proposal relies solely on issuance size.

7. Jacobson, Stacey, and Venkataraman, Kumar, *Receiving Investors in the Block Market for Corporate Bonds*, November 2023

8. ICMA analysis also observes a meaningful difference in the liquidity profiles of on-the-run and off-the-run European government bonds.

Summary of practical initiatives by ICMA



by **Andy Hill, Natalie Westerbarkey, Nicholas Pfaff** and **Georgina Jarratt**

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

1 Following ICMA's announcement of a new co-head structure for its Market Practice and Regulatory Policy team on 14 May 2024, Andy Hill and Natalie Westerbarkey became Managing Directors and Co-Heads of ICMA Market Practice and Regulatory Policy on 1 July in place of Paul Richards, who will be retiring from ICMA at the end of 2024.

Regulatory policy

2 *ICMA RPC:* ICMA's Regulatory Policy Committee (RPC) met the Trésor and the AMF in Paris for a discussion on 27 June. Julia Rodkiewicz is Secretary of the RPC.

3 *EU Capital Markets Union:* Following the publication of ICMA's paper on *Bond Markets to Meet EU Investment Challenges* in March, ICMA held a series of bilateral meetings with EU Finance Ministries. The meetings helped convey ICMA's views on the role of the bond markets as means of making progress towards Capital Markets Union (CMU).

4 The long-awaited Draghi Report, *EU Competitiveness: Looking Ahead*, published on 9 September, represents the foundation of the new European Commission's policy priorities for the next five-year mandate 2024-2029, following the European Parliament elections in June. ICMA is in the process of assessing the impact of the report on, and with, members.

5 *HM Treasury's Smarter Regulatory Framework:* ICMA has continued to be a member of HM Treasury's Industry Engagement Group on the UK's Smarter Regulatory Framework outside the EU Single Market. It is not yet clear how the proposed programme of reforms to the regulation of UK financial services will be affected by the outcome of the General Election in the UK on 4 July, which resulted in a change of Government in the UK.

Primary markets

6 *ICMA PMPC, LDC and related groups:* ICMA's Primary Market Practices Committee (PMPC) met on 27 June, with Ruari Ewing as Secretary. He also acts as Secretary of ICMA's Asia Pacific Bond Syndicate Forum (ABSF) and Asia Pacific Legal & Documentation Forum (ALDF), the latter of which met on 24 September. ICMA's Legal and Documentation Committee (LDC) met on 11 September, with Miriam Patterson as Secretary. She also acts as Secretary of ICMA's Securitisation Discussion Forum.

7 *EU and UK regulatory reviews:* ICMA continues to engage with policy makers on proposals to reform the prospectus regimes in the EU and UK (with an FCA consultation running until 18 October); on EU CSDR cash penalties (responding to a consultation on 9 September); on the EU retail investment strategy (including PRIIPs and EU MiFID protection topics); and on Hong Kong SFC market sounding guidelines and Hong Kong Monetary Authority greenwashing requirements.

8 *ICMA Issuer Forums:* ICMA's Public Sector Issuer Forum (PSIF) met at ICMA in London on 17 June, where the agenda included a discussion on the emergence of AI and use cases. The next PSIF meeting will be held in Washington on 24 October in the margins of the IMF/World Bank annual meetings. Katie Kelly acts as the Secretary of the PSIF, and also ICMA's two other issuer forums, for corporate issuers (CIF) and for financial issuers (FIIF). The CIF recently held an in-person meeting in London, hosted by National Grid. The FIIF has recently revised its terms of reference and is due to meet in Q4.

9 *LIBOR transition:* ICMA continued to chair the RFR Bond Market Sub-Group (BMSG) at the request of the FCA and Bank of England and with their support until synthetic US dollar LIBOR ceased on 30 September 2024, when the BMSG and related groups closed. The final meeting of the BMSG took place on 3 September to ensure that the bond market was fully prepared for LIBOR cessation.

10 *JIBAR transition:* ICMA has been requested by the South African Reserve Bank (SARB) to assist with the transition from JIBAR (the South African IBOR) to ZARONIA (the South African risk-free rate) until JIBAR's expected cessation at the end of 2026. For ICMA, Katie Kelly delivered a webinar to the region highlighting lessons learned in the UK and participated in a virtual panel arranged by the SARB on 10 September.

11 *Commercial Paper and Certificates of Deposit:* On 11 September, ICMA participated in a workshop on short-term funding markets organised by DG FISMA in the European Commission. Given the Commission's focus on these financial instruments, ICMA is engaging from an educational perspective on behalf of members. Katie Kelly is the Secretary of the ICMA Commercial Paper and Certificates of Deposit Committee (CPC).

12 *ICMA Primary Market Forum:* The 18th annual Primary Market Forum will take place on 12 November, hosted by A&O Shearman.

Secondary markets

13 *T+1:* ICMA continues actively to participate in discussions in the UK and the EU related to the potential shortening of the settlement cycle to T+1, following the successful US move to T+1 on 28 May. On the UK side, ICMA is engaging in the Technical Group which is working on final recommendations for a UK move to T+1 by the end of 2027, as proposed in the interim report (Geffen Report). On the EU side, ICMA was represented at ESMA's Public Hearing on T+1 which was held on 10 July. ESMA is working on its final recommendations on a potential EU move to T+1, which are due to be submitted to the European Commission by January 2025. In this context, ICMA is actively contributing to the work of a Cross-Industry Taskforce on EU T+1 which is working on a joint report setting out requirements and a potential path to T+1 in the EU. Alexander Westphal and Nina Suhaib-Wolf lead on ICMA's T+1-related work.

14 *ICMA BMLT:* The Bond Market Liquidity Taskforce (BMLT) led by Andy Hill and supported by Simone Bruno has begun a programme of engagement with the authorities on the issues arising from the BMLT report on liquidity and resilience in the core European sovereign bond markets. The report on Phase 2 of the BMLT will be focused on the European investment grade corporate bond market.

15 *Bond market transparency:* In the EU at Level 2, ESMA launched consultations on bond market transparency and a consolidated tape to which ICMA responded in August 2024. Nina Suhaib-Wolf leads on ICMA's work related to bond market transparency and the consolidated tape.

16 *CSDR settlement discipline:* Following the submission of ICMA's response to the ESMA consultation on reviewing the CSDR penalty mechanism for settlement fails and a subsequent briefing note published in March, ICMA continues to engage with ESMA and other policy makers in the EU to express its concerns with the ESMA proposals dramatically to increase CSDR penalty rates. Separately, ICMA responded to a targeted ESMA consultation on the scope of the CSDR settlement discipline measures. Alexander Westphal is in the lead for ICMA.

17 *ICMA SMPC:* The Secondary Market Practices Committee (SMPC) met on 26 September. The annual ICMA Secondary Market Forum is due to take place in London on 6 December, hosted by Bank of America. Andy Hill is Secretary of the SMPC, supported by Nina Suhaib-Wolf. She is also Secretary of the Electronic Trading Working Group, and Secretary of the MiFID Working Group, which is focusing on the ESMA consultation about firms' order execution policies.

Repo and collateral markets

18 *ICMA ERCC:* The European Repo and Collateral Council (ERCC) Committee met in London on 10 September. A follow-up meeting with ESMA in Paris primarily to discuss repo clearing took place on 3 October. On 15 November, the ERCC will hold its AGM 2024 in Brussels, in the margins of Euroclear's annual collateral conference. Alexander Westphal acts as the Secretary of the ERCC and ERCC Committee.

19 *ICMA GRCF:* The Global Repo and Collateral Forum (GRCF) continues to meet on a quarterly basis. The latest virtual meeting was held on 8 October, covering regional developments in Europe, Asia, MENA and Africa, as well as global developments relating to the GMRA and T+1. Alexander Westphal is the Secretary of the GRCF.

20 *GMRA and digital assets:* On 19 August, ICMA published a new Annex to the GMRA which covers the use of certain digital assets in repo transactions. Deena Seoudy leads ICMA's legal work related to the GMRA.

21 *Repo best practice:* ICMA continues to evolve its detailed best practice recommendations set out in the *ERCC Guide to Best Practice in the European Repo Market.* The process is led by the ERCC Best Practice Working Group, which is currently finalising a list of proposed amendments to the Guide. In May, the ERCC published separate best practice proposals related to bilateral pair-offs and error trades for wider market consultation.

22 *Repo and sustainability:* ICMA's Repo and Sustainability Taskforce has reviewed the results of the latest member survey on repo and sustainability, which was undertaken earlier this year. A detailed summary report based on the 20 responses received was published on 30 August. Zhan Chen leads this work.

23 *Repo and advocacy:* ICMA has engaged with regulators over recent months on several concerns related to prudential regulation and the potential impact on repo, including the proposed recalibration of the NSFR RSF factors for short-term SFTs. This is due to be applied in the EU in June 2025.

Asset management

24 *NBFI:* The European Commission consultation on the macroprudential work for non-bank financial intermediation (NBFI), launched on 22 May, closes on 22 November. ICMA's Asset Management and Investors Council (AMIC) Committee is planning to respond to this consultation with the support of AMIC members as well as other relevant ICMA committees and ICMA internal experts. Ahead of and during the consultation, AMIC has continued to engage with the official sector to explain the role that asset managers perform and the differences between the role of asset managers and other NBFIs. ICMA is planning a series of "conversation starter" webcasts with the aim of improving understanding of NBFIs generally and is also planning to undertake mapping work on NBFIs.

25 *AIFMD/UCITS:* AMIC responded to the ESMA Level 2 consultations on AIFMD/UCITS on Liquidity Management Tools (LMTs). The consultation closed on 8 October. A final report is due to be published on 16 April 2025. Irene Rey coordinated ICMA's response.

26 *ICMA AMIC Committee:* The AMIC Committee met with ESMA in Paris in June and followed the meeting with a letter to ESMA outlining the many issues highlighted in the discussion. ESMA proposed a joint meeting with the ICMA Sustainable Finance team and AXA IM as Co-Chair of the AMIC to discuss issues with the ESMA Guidelines applicable to ESG-related bond fund labels. The AMIC Committee will meet on 15 October with the Bank of England as discussant and, on 16 October, the AMIC Forum will be held in London, hosted by Schroders. The AMIC Secretariat consists of Nicolette Moser and Irene Rey.

Sustainable finance

27 *ICO 8th Sustainable Bonds Forum:* On 3 July 2024, Instituto de Crédito Oficial held its annual event in Madrid. Simone Utermarck delivered a keynote on *Financing the Transition*.

28 *Sustainable CP and repo:* On 30 August, ICMA published a detailed summary report based on the results of the latest member survey on repo and sustainability. In addition, on 7 October, ICMA published a discussion paper on the role of commercial paper in the sustainable finance market.

29 *Workshop for debt managers in Arab countries*: On 3 September, the Arab Monetary Fund in the UAE held its fourth regular workshop for debt managers and debt staff at ministries of finance and central banks. Simone Utermarck presented virtually on sustainability-linked bonds and new developments.

30 *Sustainable Global Capital Annual Summit 2024*: On 4 September, DZ Bank and INGLOSUS Foundation held their annual virtual conference. Simone Utermarck participated in a panel on *Funding the Transition: The Role of Thematic Finance*.

31 *In-person meeting of the Executive Committee of the Principles:* On 12 September, the Executive Committee of the Principles held an in-person meeting at ICMA's London office to discuss strategy and priorities for 2024/25.

32 *Turning MENA markets green*: On 24 September, Simone Utermarck participated in a roundtable discussion organised by SRMG Think in London.

33 *Promoting transition finance in Asia's capital market:* On 24 September, the Asian Development Bank hosted a webinar dedicated to transition finance. Nicholas Pfaff delivered the opening remarks, while Özgür Altun presented on the ICMA's February 2024 publication, *Transition Finance in the Debt Capital Market*.

34 *Harmonised Framework for Impact Reporting for Social Bonds:* On 25 September, the Executive Committee of the Principles published an updated version of the *Harmonised Framework for Impact Reporting for Social Bonds*. In 2024, the Impact Reporting Working Group began developing core metrics and sector-specific guidance for Social Bond Principles project categories, starting with Affordable Housing.

35 *Singapore Sustainable Finance Association–EY Capacity Building Workshop:* On 26 September, Özgür Altun participated virtually in a panel discussion focusing on *Driving Adoption of the Singapore-Asia Taxonomy through Ecosystem Enablers*.

36 *Hong Kong Code of Conduct for ESG Ratings and Data Products Providers:* On 3 October, ICMA published the Hong Kong Code of Conduct for ESG Ratings and Data Products Providers. The Code will be hosted and maintained by ICMA. The Code is available in English and Chinese.

FinTech and digitalisation

37 *FinTech Advisory Committee (FinAC):* A meeting was held on 16 September to exchange views on DLT-based bonds, wholesale CBDC, and the nexus between sustainable finance and FinTech and digitalisation. Gabriel Callsen is the Secretary of FinAC.

38 *DLT bonds:* Following the roundtables held in Q2, ICMA's DLT Bonds Working Group has drafted a compendium of key considerations for DLT-based bonds, which is due to be published in Q4.

39 *MAS Project Guardian:* ICMA has continued to participate in the fixed income workstream of Project Guardian, which seeks to promote fixed income industry standards and specifications across the asset lifecycle, amongst others. In parallel, ICMA's DLT Bonds Working Group and BDT Working Group held joint meetings to provide input into Project Guardian.

40 *Bond Data Taxonomy (BDT):* Following the BDT Working Group meeting in June, ICMA has drafted a proposal to integrate the BDT into ISO 20022 messages for primary markets, which is due to be submitted to ISO in Q4.

41 *Wholesale CBDC:* ICMA attended a meeting of the Eurosystem's New Technologies for Wholesale Settlement Contact Group (NTW-CG) on 25 September.

42 *FINOS Common Domain Model (CDM):* ICMA's CDM Implementation Working Group held a meeting on 25 September, focusing on the FIX protocol, mappings to the CDM, as well as regulatory reporting. ICMA spoke at the FINOS Open Source in Finance Forum on 30 September and 1 October in New York to promote adoption of the CDM.

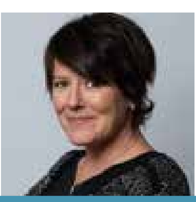
43 *Artificial Intelligence (AI)*: ICMA's new AI in Capital Markets Working Group held its inaugural meeting on 24 July to exchange views on latest developments of generative AI applications and regulatory developments.

44 *AI consultation response*: On 13 September, ICMA submitted its response to the European Commission's consultation on artificial intelligence in the financial sector, which reflects the views of a sub-set of the AI Capital Markets Working Group.

45 *Data collection and reporting:* ICMA participated in meetings of the UK's Industry Data Standards Committee (IDSC, formerly DSC) held on 15 July and 11 September.

46 *Events:* ICMA's 6th annual FinTech and Digitalisation Forum took place on 18 September in London and was attended by over 300 participants.

Primary Markets



by **Ruari Ewing, Miriam Patterson** and **Katie Kelly**

FCA consultation on UK prospectus regime

On 26 July 2024, the FCA published a consultation on the new *Public Offers and Admissions to Trading Regulations regime (POATRs)* (CP24/12), which sets out its proposals for when companies will need to produce a prospectus for the admission of securities to UK regulated markets or certain "primary" multilateral trading facilities (MTFs) and detailed requirements for the content of prospectuses for regulated markets. The consultation follows on from the making in Parliament in January 2024 of the *Public Offers and Admissions to Trading Regulations (POATRs) 2024*, which set out a framework for replacing the UK Prospectus Regulation, and the FCA's engagement with market participants via various engagement papers in summer 2023 (which was reported on at page 24 of the Fourth Quarter 2023 edition of this Quarterly Report). The consultation response deadline is 18 October 2024.

In CP24/12, the FCA stated it plans to publish a separate consultation paper on debt offerings to retail investors (by removing barriers to issuance of low denomination bonds) in late Q4 2024.

Many of the changes proposed by CP24/12 mainly impact equity capital markets. Provisions relevant to debt offerings include:

- Voluntary forward incorporation by reference.
- More flexibility around the use of supplements, including being able to add new securities to the base prospectus and to make non-material changes.
- Applying withdrawal rights to offers made by certain primary MTF issuers.
- Allowing further issuances of fungible non-equity securities without a prospectus of up to 75% of securities already admitted to trading.
- A new Protected Forward Looking Statement regime.
- For sustainable finance:
  - The proposed rules do not introduce any new general corporate sustainability disclosure rules for debt issuers.
  - For use-of-proceeds bonds and sustainability-linked bonds, the consultation introduces a new rule that a prospectus must state that the securities are (i) marketed as "green", "social", "sustainable" or "sustainability-linked" or (ii) issued under a framework (the framework does not need to be disclosed in the prospectus).
  - For use-of-proceeds bonds and sustainability-linked bonds, the rules also introduce a voluntary set of disclosures.

Overall, the FCA has proposed a new regime that is broadly consistent with the current prospectus regime, with some improvements, although clarification on some aspects of the proposed rules is needed. ICMA is conducting meetings with members currently on the details of the provisions listed above as there are some technical queries as to how the proposed rules will apply to debt offerings, and also on whether the proposed sustainable finance provisions are fully aligned with the ICMA Principles, all of which will feed into ICMA's consultation response.

Contact: Miriam Patterson
miriam.patterson@icmagroup.org

EU CSDR cash penalties: impact on primary markets

On 9 September 2024, ICMA submitted a response to ESMA's consultation paper, *Technical Advice on the Scope of CSDR Settlement Discipline*.

From a primary market perspective (the secondary markets perspective is separately covered in this edition of the ICMA Quarterly Report and mentions 144A/RegS conversions in passing), the response again reiterated ICMA's concerns with cash penalties in the primary market context (notably following issuer bond delivery during the US working day) and ICMA's consequently suggested one-day grace period for all fails of transactions in a new bond due to settle on the issue date of that new bond. (Regarding the preceding iteration, in the context of a 29 February ICMA response to ESMA, see article at page 28 of the Second Quarter 2024 edition of this Quarterly Report.)

The response additionally noted:

(a) that ESMA seemed to be proposing an alleviation for settlements related to new issuances, but that:

   (i) it was not clear that the proposal complies with ESMA's "immunisation principle" – unlike ICMA's suggestion and particularly given ESMA does not seem to think that a failed delivery caused by a market issuance delay should be outside the penalties regime;

   (ii) the proposal seemed to assume a single/local CSD approach to primary issuance (rather than cross-border bridges between different CSDs);

   (iii) it was not clear how the proposal would technically map to the context of the ICSDs (though no discrimination is presumably intended); and

(b) the hopefully relatively minor costs of ICMA's suggestion (CSDs recalibrating their penalty processes – on an *ex-ante* "filtering out" basis rather than *ex-post* "appeal" basis and with no need for transaction classification), as well as the benefits (a lowering of unfairly levied penalties).

ICMA will continue to engage on this topic as it progresses.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

EC workshop on short-term funding markets

The European Commission (EC) recently hosted a roundtable to assess the functioning of short-term markets, with a particular focus on the commercial paper (CP) market. The euro CP (ECP) market, valued at approximately €1 trillion in the EU (excluding the US), significantly trails behind the US CP market, which is estimated to be around $4 trillion. Despite this disparity, US investors remain a key source of investment in the EU, while many EU issuers rely on US markets for their capital raising. There is no doubt that a combination of measures, from regulatory interventions to market-driven innovations, could help to bridge that gap and enable CP to scale beyond its current scope.

The roundtable explored whether the fragmentation of the ECP market is a barrier to its growth and where potential improvements could be made. Market fragmentation, standardisation and the role of technology were key focal points, as were opportunities to improve efficiencies, particularly in market depth, transparency and ISIN generation.

Market fragmentation/standardisation

Fragmentation in the ECP market, which includes the French NEU CP market and domestic CP markets, has long been viewed as a challenge, but the roundtable discussions revealed that, for larger investors, this fragmentation has minimal impact. Key elements such as settlement processes are generally consistent across different markets, and most investors remain indifferent to the type of ECP they invest in, focusing more on yield and terms.

A standardised, single market is often considered to be a "silver bullet" which would improve the ECP market overall, but fragmentation would likely still persist. Individual negotiations are still a major component of the market, so the market would most likely still be highly intermediated, which would not lend itself to standardisation.

The ECP regulatory framework is highly flexible, offering significant choice in terms of maturity, currency, and issuance amounts, with minimal reporting constraints. While a single market offering similar flexibility could make it easier for smaller, newer issuers to participate, it might only offer marginal improvements in liquidity and functionality for larger, more established players.

However, creating a single market could help mitigate risks such as regulatory arbitrage and could lead to greater harmonisation in legal documentation, taxonomy and processes.

If a single market *were* to be developed, it would require the active involvement of all stakeholders: banks, corporates, market infrastructures, and public authorities. Ideally, existing best practices could be leveraged from other CP markets to result in a clear regulatory framework, a good level of transparency, and efficient post-trade processes, including fast ISIN generation and same-day settlement in central bank money. Importantly, the design of any new framework would need to be flexible enough to attract new issuers, with potential incentives like ECB eligibility to encourage participation.

The role of technology

Technology was raised as a potential solution to market fragmentation. Digital platforms could bring all participants together in a single market, offering one layer of connectivity that eliminates the need to navigate between different domestic markets. Although the ECP market is not vast, such platforms could give smaller issuers broader access.

However, the impact of platform issuance on market structure remains uncertain. Platforms might be useful for settlement efficiencies, but many issuers value the negotiation and flexibility offered by dealers, which might not easily transition to a digital platform. Completely disintermediating dealers by moving to a fully digital marketplace could introduce significant risks, including "dark trading" off-platform and potential market shrinkage.

Secondary market and liquidity

A key question is how to develop a more robust secondary market with deeper liquidity, especially during times of crisis.

But while liquidity is a challenge, it does not necessarily correlate with ECP's fundamental resilience.

For instance, in the March 2020 crisis, a combination of investors trading out of ECP into cash, issuers drawing on their revolving credit facilities and the timing coinciding with quarter-end reporting, led to concerns over CP's resilience, but this was largely considered to be a function of capital intensity combined with constraints on bank balance sheets. And the March 2020 crisis went beyond ECP, with central bank interventions being for the benefit of the whole financial system (not just ECP). In more recent crises, the ECP market has continued to operate smoothly.

CP is a short-term, generally buy-and-hold, market, so developing secondary liquidity would require increasing the pool of liquidity providers and incentivising existing liquidity providers. Capital and liquidity relief under Basel rules, enabling dealers to hold inventory, particularly in times of market stress, could help, as would recognising highly rated ECP as HQLA in capital ratios and developing a repo market for ECP.

Transparency

Transparency is generally recognised to be lacking in ECP. With respect to pricing, as the market is over-the-counter, dealers provide critical disclosure *to their clients* on pricing and curves, and full transparency beyond that is limited. And there is a data dilemma: while issuers would like access to historical and real-time pricing data, they are reluctant to share their own information for fear of negative messaging on their funding structure. Elsewhere, data on issuers' outstanding amounts is not always readily available other than from the dealers or issuers directly, and is required by investors under the Money Market Funds Regulation.

ISIN generation

ISIN generation could benefit from improvements. Currently, about half of ISINs are generated automatically, but the rest require manual processes that can delay issuance. ISINs are also compartmentalised per market – largely seen as a curse of legacy, pre-euro systems - which has led to significant inefficiency with different markets working to different, sometimes faster timelines. Broadening access to ISIN platforms could help streamline this process, particularly for cross-border issuances.

Evolution, not revolution

In conclusion, while the ECP market is functioning well, there are areas for improvement, particularly around transparency and process, while the consequences of market standardisation and secondary market liquidity may require more consideration. Generally, the roundtable participants agreed that, while a revolution is not required, the invisible hand of market forces may need more active guidance to address these issues and drive helpful evolutions of the ECP market. ICMA will continue to engage with policy makers and market participants to ensure such evolutions deliver on scalability effectively, while enhancing the current functioning of the CP market.

Contact: Katie Kelly
katie.kelly@icmagroup.org

The cessation of synthetic US dollar LIBOR

Following the cessation of panel bank US dollar LIBOR on 30 June 2023, the FCA required LIBOR's administrator, ICE Benchmark Administration Limited (IBA), to continue the publication of the one, three and six-month US dollar LIBOR settings until 30 September 2024 for legacy English law-governed US dollar LIBOR transactions, using an unrepresentative synthetic methodology. On 5 September, the FCA confirmed that it would not use its powers to compel IBA to continue to publish these settings *beyond* this date.

As noted in the article on *Lessons from LIBOR Transition in the Bond Market under English Law* in the ICMA Quarterly Report Second Quarter 2024, the FCA was clear that synthetic US dollar LIBOR was intended as a temporary bridge to risk-free rates, stating: "*Market participants need to ensure they are prepared for the final synthetic US dollar LIBOR settings to cease at end-September 2024.*"

The cessation of these final LIBOR settings on 30 September 2024 marks the completion of the transition away from LIBOR. With this objective achieved, and with the agreement of the groups concerned, the Bank of England, the FCA and the Risk-Free Reference Rates Working Group published on 1 October a joint statement on *The End of LIBOR*, and announced the closure of the Risk-Free Reference Rates Working Group, including the Bond Market Sub-Group which was chaired by ICMA.

If ICMA member firms have questions following the cessation of US dollar LIBOR settings, they are encouraged to use their established communication channels with the Bank of England and the FCA.

Contact: Katie Kelly
katie.kelly@icmagroup.org

Transition from JIBAR to ZARONIA in South Africa

South Africa is transitioning from the Johannesburg Interbank Average Rate (JIBAR) to a new overnight interest rate, the South African Rand Overnight Index Average (ZARONIA). To facilitate this process, the South African Reserve Bank (SARB) has established a Market Practitioners Group (MPG), consisting of representatives from the SARB, the Financial Sector Conduct Authority, and key market participants from both domestic and international bond, derivative and loan markets.

As the administrator of JIBAR, the SARB will determine the official timeline for JIBAR's cessation, which is currently expected to be the end of 2026.

Given JIBAR's deep integration into the domestic financial system, the transition may be complex, requiring close coordination among all market participants. ICMA is pleased to be supporting the SARB and the MPG in this transition, contributing its extensive expertise gained from the successful transition of sterling and US dollar LIBOR in the bond markets.

Contact: Katie Kelly
katie.kelly@icmagroup.org

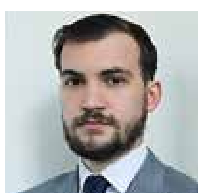
ICMA Primary Market Handbook amendment

On 8 October, ICMA published one change to the ICMA Primary Market Handbook. In Appendix A1 *Agreement Among Managers (Versions 1 and 2), Part 5A was amended: Version 1 - Asia Pacific (ex-Japan) subscription agreement amendments.* This was to include a provision relating to Singapore rules on the contractual recognition of resolution stay powers.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

Secondary Markets

by **Andy Hill, Nina Suhaib-Wolf, Alexander Westphal** and **Simone Bruno**



ESMA consultation on bond transparency deferrals: ICMA response

On 28 August 2024, ICMA, on behalf of its members, responded to ESMA's consultation on the MIFIR Review in relation to non-equity trade transparency (RTS 2). ICMA's response was particularly focused on the regulatory technical standards for the post-trade deferral framework for bond markets, proposed by ESMA and based on the very prescriptive model drafted by the co-legislators in the Level 1 Regulation.

As outlined in the Thought Leadership piece in this Quarterly Report, ICMA adopted a highly data-driven and analytical approach in assessing the framework proposed by ESMA as well as informing a number of suggested refinements intended to enhance the effectiveness of the EU transparency regime. In particular, ICMA proposes:

(i) *More granular groupings of bonds.* ICMA proposes a distinction between the fixed coupon issuance of the very largest sovereign issuers and other sovereign bonds, as well as between investment grade and high yield credit.

(ii) *A more scientific approach to establishing the appropriate liquidity determinant.* While ICMA has focused on outstanding issuance size as the key determination variable, it does not rule out the relevance of other key features (such as time to maturity or currency denomination).

(iii) *A refinement to the proposed deferral matrix,* which allows for a more appropriate distinction between liquid and illiquid trade size thresholds.

(iv) *A more data-driven approach to establishing the appropriate trade size thresholds for the relevant deferral categories,* based on historical traded average daily trading volumes.

The application of average daily volumes

In identifying helpful modifications to the ESMA proposal, as well as suggesting an alternative, more accurate approach to determining the appropriate thresholds (both for liquidity determination and deferral category calibrations), ICMA uses the historical average daily volumes (ADV) of notional amounts traded for various classes and sub-classes of bonds. This is based on a historical data set of MiFIR EU reported trades for all of 2023.[1]

ICMA uses ADV as a measure of liquidity, allowing for liquidity profiling of different classes and sub-classes of bonds, including estimating market depth, from which one can infer the potential time required to trade out of a risk position for a given bond and size.

Groupings

When establishing groupings of bond classes and sub-classes for the application of a deferral regime, it is imperative that the bonds within each grouping have relatively similar liquidity profiles. This is because these bonds will be subject to the same liquidity determinant and the same trade size thresholds. Groupings with diversely heterogeneous bonds will weaken the deferral framework and lead to adverse outcomes.

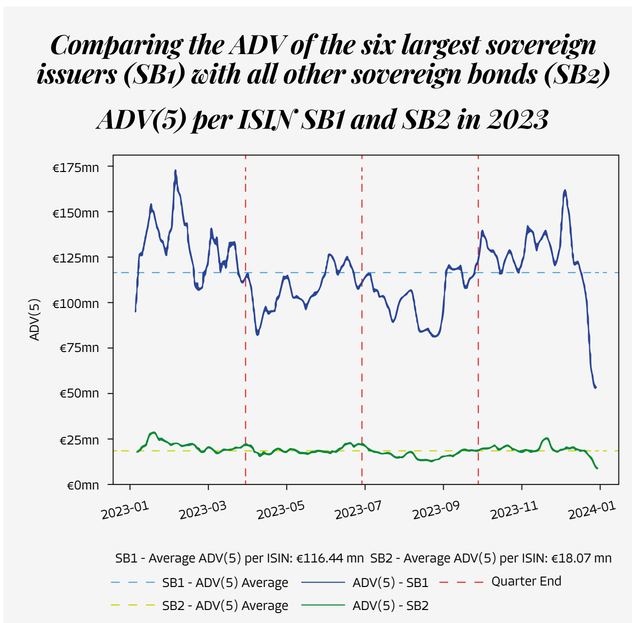
ICMA has used ADV analysis of various classes and sub-classes to identify where more granular groupings than those in the ESMA proposal are warranted, while balancing this with the need to ensure that the framework is not overly complex. ICMA further recognizes that it is important to be able to categorise groupings relatively easily, transparently, and consistently.

1. ICMA used Propellant Digital software to source and aggregate this data set.

Sovereign bonds

One of the most striking observations from the data is the difference between the vanilla (fixed coupon) government bonds of the largest sovereign issuers and other sovereign and public bonds. In its analysis ICMA focuses on the government bonds of the sovereign issuers that individually account for more than 4% of total notional value of sovereign debt traded in the EU for the sample data set (in this case all of 2023). These are the Government bonds issued by France, Germany, Italy, Spain, the UK, and the US. There are a number of factors that make these bonds distinct from all other sovereign bonds. Firstly, they account for 90% of the total notional value of government bonds traded in the EU in 2023. Secondly, their issuance sizes are significantly larger than most other sovereign bonds, with an average notional outstanding of €37.9 billion and a median value of €31.6 billion, compared with €5.6 billion and €1.6 billion respectively for all other sovereign issuers' bonds. Thirdly, the government bonds of these issuers are widely used as reference bonds for pricing and hedging, including for other sovereign bond markets. Unlike most other sovereign bond markets traded in the EU, they also have deep and active futures markets. Furthermore, when we look at the ADV of this group of bonds (€116.44 million) compared to that of other sovereign bonds (€18.07 million), there is no comparison.

Comparing the ADV of the six largest sovereign issuers (SB1) with all other sovereign bonds (SB2)



Calculating liquidity thresholds

In previous work, ICMA has applied regression modelling to identify the significant endogenous features of a bond that contribute to liquidity (measured in terms of ADV). After time since issuance, outstanding issuance size was identified as the next most important feature. Depending on bond class or sub-class, other features may also have an impact to some degree, including time to maturity, currency denomination, and credit rating. For sovereign bonds the analysis is complicated further by additional considerations such as the distinction between on-the-run and off-the-run bonds and futures deliverability.

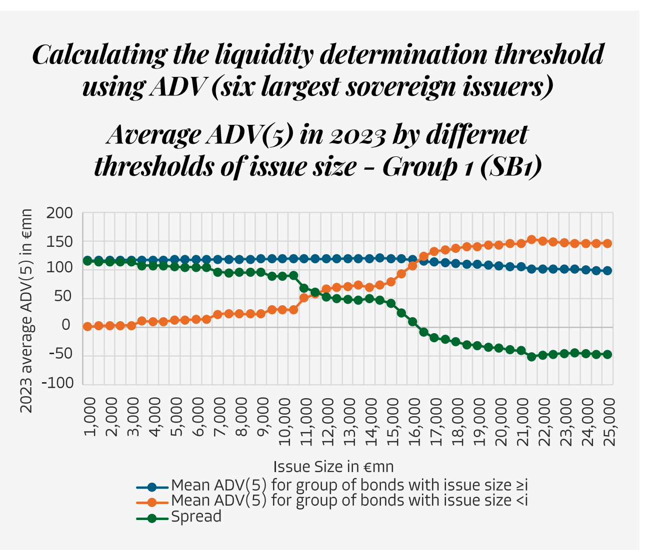
For the purposes of this response, ICMA focused primarily on outstanding issuance size as the sole liquidity determinant, consistent with ESMA's proposal. However, ICMA does not discount the fact that the framework could be improved by incorporating other liquidity determinants, for example time to maturity, particularly in the case of sovereign bonds.

To isolate the optimal issuance size threshold for each grouping, ICMA plotted the ADV associated with the bonds that fell into each issuance size bucket. At each issuance size interval, it is assumed that all bonds with an equal or greater issuance size are liquid and those with a smaller issuance size are illiquid.

As one would expect, the plot for both sets of bonds (liquid and illiquid) is upward sloping, with ADV increasing with issuance size. To identify the optimal point on the curve, ICMA looked to find the point at which the difference between liquid and illiquid ADV is at its widest (maximizing the spread between liquid and illiquid). Essentially, this aims to optimize the difference between liquid and illiquid bonds based on their relative ADV. While this works well in the case of a non-linear (quadratic) relationship between ADV and issuance size, it is observed that in most cases the relationship is linear (ie the gradient of the curve is relatively constant). Here ICMA applies a different methodology, whereby we look for the point on the illiquid curve where the gradient of the curve is at its lowest: ie where an incremental increase in issuance size has the least effect on ADV.

ICMA also looked at the issuance size distribution for each grouping to ensure that the proposed thresholds are not too far from the mean and median values.

Calculating the liquidity determination threshold using ADV (six largest sovereign issuers)



Refining the real-time and deferral categories

The ESMA deferral matrix, which is largely based on the one prescribed in the Level 1 legislation, partly attempts to distinguish between liquid and illiquid bonds in the case of medium and large trade sizes, but does not apply the same logic to the threshold for real-time (small trades) or for the longest four-week deferral (very large). Given the significant difference in ADV between liquid and illiquid bonds for each bond grouping, ICMA sees this as a weakness in the proposed framework as it will naturally result in trade size thresholds that are too low for most liquid bonds, and too high for most illiquid bonds. By splitting both the real-time and very large categories into liquid and illiquid sub-categories, it is possible to apply more precisely calibrated trade size thresholds that recognise the different ADVs between liquid and illiquid bonds in each grouping.

Liquid					
Category	Issuance size		Trade Size	Price deferral	Volume deferral
N/A Liquid	≥ X		< a	Real Time	
1	≥ X	Medium	a-b	15 mins	
3	≥ X	Large	b-c	T+1	1 week
5	≥ X	V Large	≥ c	4 weeks	

Illiquid					
Category	Issuance size		Trade Size	Price deferral	Volume deferral
N/A Illiquid	< X		< d	Real Time	
2	< X	Medium	d-e	EOD	
4	< X	Large	e-f	T+2	2 weeks
6	< X	V Large	≥ f	4 weeks	

Time to trade out

ICMA believes that the estimated time to trade out of a risk position for a given bond and size should be the guiding principle for establishing the size thresholds for each category. Essentially, for transactions that are not reported in real-time, the post-trade deferral should allow enough time for a liquidity provider to trade out of the position before the details of the trade are made public.

However, the estimated times to trade out of a position should also be treated with some caution for the following reasons:

(i) Using different ADV methodologies (daily ISIN count vs total ISIN count) will result in different ADV calculations for the same data set.

(ii) The ADV is an average of a distribution of daily volumes for different bonds within a grouping. For a given trade size, some bonds in that grouping will have a lower ADV, and require a longer average trade-out time, while some will have a higher ADV and require a shorter average trade-out time.

(iii) In the case of bonds that trade relatively infrequently (such as illiquid corporate bonds), the averaging methodology could underestimate the trade-out time quite significantly.

(iv) The ADV reflects the total daily traded volume in a bond (essentially a measure of market depth). It is highly unlikely that a liquidity provider will be able to transact against 100% of the volumes during the deferral period, and this also needs to be factored into setting the trade size threshold (eg one might assume that 25% of daily volume is achievable).

(v) For very large trades, there is no upper threshold. Therefore, some very large trades will require longer than the four-week deferral provided.

ICMA Group 1a: Sovereign bonds Liquid #1 [SB1: Government bond issuance by DE, FR, IT, ES, UK, and US – fixed coupon]

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Liquid	≥ 10bn	< 5mn	Real Time	
1	≥ 10bn	5-20mn	15 mins	
3	≥ 10bn	20-100mn	T+1	1 week
5	≥ 10bn	≥ 100mn	4 weeks	

ICMA Group 1b: Sovereign bonds Illiquid #1 [SB1: Government bond issuance by DE, FR, IT, ES, UK, and US – fixed coupon]

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Illiquid	< 1bn	< 1mn	Real Time	
2	< 10bn	1-10mn	End of day	
4	< 10bn	10-50mn	T+2	2 weeks
6	< 10bn	≥ 50mn	4 weeks	

ICMA Group 2a: Sovereign bonds Liquid #2 [SB2: All other sovereign bonds]

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Liquid	≥ 5bn	<5mn	Real Time	
1	≥ 5bn	5-10mn	15 mins	
3	≥ 5bn	10-20mn	T+1	1 week
5	≥ 5bn	≥ 20mn	4 weeks	

ICMA Group 2b: Sovereign bonds Illiquid #2 [SB2: All other sovereign bonds]

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Illiquid	< 5bn	<1mn	Real Time	
2	< 5bn	1-5mn	End of day	
4	< 5bn	5-10mn	T+2	2 weeks
6	< 5bn	≥ 10mn	4 weeks	

ICMA Group 3a: Other public bonds Liquid

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Liquid	≥ 1bn	<1mn	Real Time	
1	≥ 1bn	1-2mn	15 mins	
3	≥ 1bn	2-10mn	T+1	1 week
5	≥ 1bn	≥ 10mn	4 weeks	

ICMA Group 3b: Other public bonds Illiquid

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Illiquid	< 1bn	<1mn	Real Time	
2	< 1bn	1-2mn	End of day	
4	< 1bn	2-5mn	T+2	2 weeks
6	< 1bn	≥5	4 weeks	

ICMA Group 4a: – IG Corporate bonds, Convertible bonds, and Other bonds Liquid

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Liquid	≥ 750mn	<1mn	Real Time	
1	≥ 750mn	1-2mn	15 mins	
3	≥ 750mn	2-5mn	T+1	1 week
5	≥ 750mn	≥ 5mn	4 weeks	

ICMA Group 4b: – IG Corporate bonds, Convertible bonds, and Other bonds Illiquid

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Illiquid	< 750mn	<0.5mn	Real Time	
2	< 750mn	0.5-1mn	End of day	
4	< 750mn	1-2mn	T+2	2 weeks
6	< 750mn	≥ 2mn	4 weeks	

ICMA Group 5a: – HY Corporate bonds, Convertible bonds, and Other bonds Liquid

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Liquid	≥ 750mn	<0.75mn	Real Time	
1	≥ 750mn	0.75-1.5mn	15 mins	
3	≥ 750mn	1.5-3.5mn	T+1	1 week
5	≥ 750mn	≥ 3.5mn	4 weeks	

ICMA Group 5b: – HY Corporate bonds, Convertible bonds, and Other bonds Illiquid

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Illiquid	< 750mn	<0.25mn	Real Time	
2	< 750mn	0.25-0.75mn	End of day	
4	< 750mn	0.75-1.5mn	T+2	2 weeks
6	< 750mn	≥ 1.5mn	4 weeks	

ICMA Group 6a: Covered bonds Liquid

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Liquid	≥ 1bn	<1mn	Real Time	
1	≥ 1bn	1-2mn	15 mins	
3	≥ 1bn	2-5mn	T+1	1 week
5	≥ 1bn	≥ 5mn	4 weeks	

ICMA Group 6b: Covered bonds Illiquid

Category	Issuance size	Size	Price deferral	Volume deferral
N/A Illiquid	< 1bn	<0.5mn	Real Time	
2	< 1bn	0.5-1mn	End of day	
4	< 1bn	1-2mn	T+2	2 weeks
6	< 1bn	≥ 2mn	4 weeks	

Conclusion

While ICMA is confident that its proposed refinements to the framework are a significant improvement on the current proposal, and would result in better market outcomes, it is also aware that there is no perfect model on which the entire market can agree. However, ICMA, with the broad support of its members, does believe that a data-driven approach, particularly based on the notion of traded average daily volumes, is essential for ensuring the optimal design and calibration of the EU deferral framework for bonds while minimizing the risks of adverse outcomes. With this in mind, ICMA would further suggest starting from a point of relative caution, with a view to the gradual adjustment of thresholds in response to ongoing data and analysis.

Accordingly, ICMA encourages ESMA not only to consider ICMA's proposals, but more importantly to adopt the methodology and principles underlying its analysis and, working with ICMA and the wider industry, construct a revised framework that is data-driven and better calibrated to the market it is designed to serve.

Contacts: Andy Hill, Nina Suhaib-Wolf, and Simone Bruno
andy.hill@icmagroup.org
nina.suhaib-wolf@icmagroup.org
simone.bruno@icmagroup.org

ESMA consultation on consolidated tape providers: ICMA response

Introduction

On 24 May 2024, ESMA published its MiFIR Review *Consultation Package on Technical Standards related to Consolidated Tape Providers (CTPs) and DRSPs*, and assessment criteria for the CTP selection procedure, to which ICMA responded, on behalf of its members, on 28 August 2024. This consultation forms part of a series of three larger consultation packages as well as further separate consultations launched by ESMA in recent months, following the MiFIR Review and final legislative amending text of MiFIR which entered into force on 28 March 2024.

The ESMA consultation package includes, *inter alia*, draft technical standards and associated consultation questions in regard to input and output data requirements for CTPs, the synchronisation of business clocks, the authorisation and organisational requirements for DRSPs, as well as ESMA's proposals on the specification of assessment criteria for the CTP selection, all of which ICMA responded to via its MiFID Working Group.

Timeline of the EU CTP for bonds

As per the revised MiFIR Regulation and also as outlined on ESMA's dedicated webpage for CTPs, the timeline for the EU consolidated tape for bonds foresees ESMA to develop and submit its final draft technical standards to the European Commission at the end of this year by the legislative deadline of 29 December 2024. This will be followed by the launch of the first selection of the bond CTP, which ESMA has announced will commence on 3 January 2025, with the selection procedure expected to be finalised within six months, as per the attached ESMA press release. The bond CTP-selected candidate is then expected to be authorised by Q4 2025 and according to this schedule, the bond CTP could be allowed to start operations by Q1 2026.

ICMA CTP considerations

ICMA has long advocated for the introduction of a consolidated tape for bonds in the EU, given the fragmented nature of the bond markets, and the difficulty therefore to obtain high quality data on a harmonised basis. ICMA members very much support the introduction of a consolidated tape as one "golden" source of data that is available on a consolidated basis, at an affordable cost to a wide range of market participants. This will help increase bond market transparency, hence allowing for a wider access and greater participation in EU bond markets. In turn, this will help to channel important investments towards EU bond issuers and ultimately help to improve EU competitiveness in the context of the international capital markets.

As such, ICMA very much welcomes ESMA's proposals under this consultation. However, as highlighted throughout our response, ICMA is of the view that, in the development of the framework for a consolidated tape for bonds, it is important that a distinction is drawn between different asset classes. In particular, the bond market with its mechanics is very different from the equity market and this important distinction has to be reflected in the upcoming transparency regimes.

Distinction between asset classes

In general, when defining frameworks for the consolidated tapes, there is a trade-off to be balanced between (a) the cost of the consolidated tape and technical requirements (eg the higher the technical requirements, the higher the cost might become) and (b) latency and data quality/accuracy (eg a very high transmission speed may come to the detriment of data quality and accuracy). The key point featured in ICMA's response therefore is that such trade-offs have to be viewed differently with respect to the different asset classes. Whereas requirements with respect to latency and high-speed transmission may play a pivotal role in equity markets, especially with respect to pre-trade data, the underlying nature of bond markets is very different, where there should be a focus on high quality and accuracy of data, which has to be retrieved from many different sources, given the fragmentation of the market and the different channels through which bonds are traded. This is relevant in particular in the case of OTC transactions which are published via authorised publication arrangements (APAs), and where an ultra-fast transmission speed seems not feasible, especially not when looking at the transmission process as a whole and from the execution timestamp onwards, as was highlighted by ESMA in its proposal.

Against this background, ICMA would like to highlight in particular that the proposed definition of what constitutes "as close to real-time as technically possible" with respect to the CTP input data (eg 100 milliseconds for transactions traded on trading venue and 200 milliseconds for transactions traded OTC), as discussed under Question 8 of the consultation, are not practical with respect to bond markets. The same considerations apply to ESMA's proposals in regard to the minimum requirements for latency of the transmission protocol and business clock synchronisation. In general, it can be said that, whereas in the equity markets milliseconds may be a very accurate measurement for real-time, this is not the case in bond markets. Further thoughts on this and a very detailed discussion can be found in ICMA's response to Question 8 of ESMA's CP, as well as to Questions 4,41 and 58. The full response can be found again here.

Final thoughts

Aside from transmission requirements, another key message of ICMA's response is that a strong governance model of the CTP is a key requirement for ICMA members. As such, ICMA welcomes many of ESMA's proposals in the CP, such as a robust conflict of interest policy as well as the creation of an administrative committee consisting of data providers and data users.

Ultimately, the successful CTP "project" will depend on the right calibration of the framework and good collaboration of all involved stakeholders, with the aim of providing high quality bond data at an affordable cost, thereby allowing for wider market participation across EU bond markets.

Contacts: Andy Hill and Nina Suhaib-Wolf,
andy.hill@icmagroup.org
nina.suhaib-wolf@icmagroup.org

EU CSDR: ESMA consultation on settlement discipline scope: ICMA response

On 9 September 2024**,** ICMA submitted a response to ESMA's consultation paper on *Technical Advice on the Scope of CSDR Settlement Discipline.* The consultation sought stakeholder views on two specific exemptions from settlement discipline measures that are set out in the CSDR Refit Article 7(9) and which ESMA has been asked to further specify, namely (i) settlement fails that are considered as not attributable to the participants in the transaction, and (ii) operations that are not considered as trading.

ICMA's response covers both the secondary market angle as well as relevant aspects from a primary market perspective, incorporating feedback from ICMA's CSDR-SD Working Group, as well as input from ICMA's Primary Market Practices Committee (PMPC). In general, ICMA is supportive of ESMA's proposals in terms of the two exemptions and the applicable scenarios set out in the consultation paper. The response welcomes ESMA's stated objective to keep exemptions from penalties relatively limited in line with the "immunisation principle", ensuring that intermediaries in a fail chain are flat in terms of

penalties due and received. In this respect, ICMA also highlights the important differences between penalties and mandatory buy-ins, which would require a distinct approach if they were ever to be implemented. From a primary market perspective, the response reiterates ICMA's concerns with cash penalties in the primary market context, suggesting a one-day grace period for all fails of transactions in a new bond due to settle on the issue date of that new bond. These aspects are covered in more detail in the Primary Markets section of this Quarterly Report.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org

Shortening of the settlement cycle: an ongoing discussion

On 27 September 2024, the UK's T+1 Technical Group, which had been established earlier in the year on the back of the interim report by the Accelerated Settlement Taskforce, published its draft recommendations for a UK move to T+1. The report reiterates the intention of the UK to move to T+1 by the end of 2027 and sets out a long list of recommendations and proposed best practices to ensure a smooth transition. The proposals (43 principal recommendations and 14 additional recommendations) have been issued along with a list of consultation questions, with a window for all stakeholders to submit comments on the proposals by the end of October. As part of the ongoing consultation, on 17 October, the Technical Group will also host the *Accelerated Settlement in the UK Conference* which will be livestreamed. Registration and further details are available here.

Based on the consultation feedback, the T+1 Technical Group will finalise the recommendations and publish its final report by the end of the year, which will also include further details regarding the proposed timeline. While ICMA has been actively involved in the Technical Group discussions, we are considering submitting a feedback statement in response to the report, guided by member views. One important open question remains the timeline and the implications in terms of alignment with other European jurisdictions, in particular the EU and Switzerland.

On the EU side, the discussion on T+1 is picking up steam as well. ESMA held a full-day *Public Hearing on Shortening the Settlement Cycle* on 10 July, which reiterated the EU's political intention to follow the US (and UK) on the path to T+1, but also highlighted the related challenges. While ESMA is still working on its final report on the topic, which is expected in December 2024 or at the latest in January 2025, from comments at the Public Hearing it seems likely that ESMA will recommend an EU move to T+1. Furthermore, the European Commission indicated that it considers a move to T+1 in Q4 2027 as "realistic". Although timing remains an open question, that will surely trigger further discussion. ICMA had the opportunity to speak in the Public Hearing on the first panel, which was a debate around the "appropriateness of shortening the settlement cycle in the EU, expected impacts, costs and benefits". This was an opportunity to highlight some of the challenges from a fixed income and repo perspective which often seem under-appreciated, including the structural differences between the US/UK and the EU markets which will make T+1 in the EU a far more challenging undertaking. A recording of the Hearing and related material is available here.

In anticipation of the final ESMA report, the EU Cross-Industry Taskforce on T+1, which was established in early 2023 bringing together all the major trade associations in the field, continues to work on a joint industry response. Following detailed discussions across the various workstreams, the group is currently consolidating the workstream inputs into a single report which it aims to finalise and submit to ESMA by 14 October. A high-level summary of the recommendations has already been shared with ESMA. ICMA continues to engage actively in the Taskforce.

One important part of the journey in Europe is to learn the lessons from the US move to T+1. The go-live in the US on 28 May has largely been described as a smooth exercise with only minor frictions, which was a positive surprise to many who expected far greater issues. On 12 September, SIFMA, DTCC and ICI published their own *T+1 After Action Report* which reiterated this view. However, the full and perhaps slightly more nuanced picture may just be starting to emerge. For example, a recent Citi White Paper published on 3 September, based on views from a wide range of market participants, focused on the broader impacts of the move, describing some of the challenges and costs that have received less attention so far.

Contacts: Alexander Westphal and Nina Suhaib-Wolf
alexander.westphal@icmagroup.org
nina.suhaib-wolf@icmagroup.org

The ICMA Bond Market Liquidity Taskforce

Background: In November 2022, ICMA's Committee of the Regional Representatives (CRR) suggested that ICMA should leverage its various initiatives related to fixed income to identify potential risks and vulnerabilities within the markets. In response, ICMA mobilised a Bond Market Liquidity Taskforce ("The Taskforce"). The Taskforce is made up of interested ICMA members, representing sovereign, corporate, short-term, and repo markets, including the sell side, buy side, and relevant financial market infrastructures.

Phase 1: In its first phase, following inputs from the Taskforce, the Secretariat undertook an in-depth analysis into the core European sovereign bond markets. These were identified to be those of Germany, France, Italy, Spain, and the UK. In March 2024, ICMA published *Liquidity and Resilience in the Core European Sovereign Bond Markets.* The analysis is based on both quantitative analysis and qualitative interviews. In addition to providing an overview of the markets, the paper provides suggestions for policy makers to enhance market resilience.

Phase 2: After successfully delivering Phase 1, the Secretariat is coordinating and mobilising Phase 2 for the second half of 2024. This will take the form of an in-depth exploration of the European investment grade corporate bond market. Similar to Phase 1, an initial quantitative analysis will be undertaken, followed by qualitative interviews with ICMA members, which will be synthesised and anonymised and used to confirm the findings of the quantitative analysis.

Phase 2 aims to answer the following questions:

- How is the market evolving, what are the dynamics driving this, the implications for investors and issuers, and how is this impacting liquidity?
- What market initiatives and policy measures would help to improve market efficiency, liquidity, and growth?
- Other key themes include trends in e-trading, automation, trend towards smaller trade sizes, effects of transparency, Central Bank Quantitative Easing/ Tightening and the role of the Credit Default Swap (CDS) and Fixed Income Exchange-Traded Fund (ETF) markets.

Timeline: The ICMA Secretariat is finalising the data collection and aims to begin its analysis in Q4 2024. Qualitative interviews will follow shortly after with subsequent publication of the report in 2025.

Taskforce members: ICMA continues to identify any gaps in the Taskforce membership to ensure a balanced representation of different markets, regions, and roles. In particular, ICMA is keen to ensure that more sell-side and buy-side fixed income traders are involved. Any ICMA member interested in contributing to the work of the Taskforce should contact Andy Hill, Secretary to the Secondary Market Practices Committee, or Simone Bruno, Associate Data Analyst.

Contacts: Simone Bruno and Andy Hill
simone.bruno@icmagroup.org
andy.hill@icmagroup.org

Repo and Collateral Markets

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

ICMA's ERCC and GRCF

ICMA ERCC Annual General Meeting 2024: On 15 November, the European Repo and Collateral Council (ERCC) will hold its Annual General Meeting in Brussels. The event will be hosted by Euroclear and will take place following the Euroclear Collateral Conference 2024 in the Square Convention Centre. Members and interested non-members are welcome to join us for this shortened two-hour session, from 13:30 – 15:30 (CET), which will feature a mix of updates on important ERCC topics and initiatives in 2024, as well as a panel with market practitioners. As in previous years, the General Meeting is a great opportunity to catch up on the latest ERCC discussions and repo market developments, and to network with peers and friends. The event will be followed by networking drinks.

ICMA ERCC Committee: Members of the ERCC Committee came together in London on 10 September for the fifth meeting this year, kindly hosted by Barclays in Canary Wharf. Members covered a full and interesting agenda, reviewing the latest repo market developments, as well as dedicating time to discuss repo clearing, in view of an upcoming meeting with ESMA on this topic (see below). Other topics on the agenda included the latest best practice work, particularly on manufactured payments, a presentation on the CDM project and related use cases for the repo market, as well as the usual updates on key legal and regulatory developments. Minutes of the meeting will be made available to members in the usual way, following approval at the next regular Committee meeting which will be held on 14 November in Brussels (kindly hosted by Euroclear). Prior to the November meeting, Committee members travelled to Paris on 3 October for an informal exchange of views with ESMA on the topic of repo clearing, reflecting on recent developments in the US as well as policy implications for Europe.

47th European Repo Market Survey: preview: ICMA is about to release the results of the next edition of its bi-annual *European Repo Market Survey,* now in its 47th edition. Based on responses from 62 participating banks, the report provides a detailed snapshot of the European repo market on the survey date (12 June 2024). While market growth has slowed, the headline figure reached a new all-time high of €11.1 trillion. More details can be found in the upcoming survey report, which should be available shortly. Firms which are not yet contributing to the survey and would like to participate can find further details here.

ICMA Global Repo and Collateral Forum (GRCF): In early 2022, ICMA created the Global Repo and Collateral Forum (GRCF). Since then, the group has been meeting on a quarterly basis. The latest virtual meeting took place on 8 October, covering a broad range of topics, from regional repo market developments across Europe, Asia, MENA and Africa to some of the global themes that are affecting repo market participants around the world, including important legal developments and initiatives around the GMRA. A focus this time was on repo clearing, reflecting on the US Securities and Exchange Commission's decision to move to mandatory clearing in the US Treasury repo market and the global ripple effects of this decision. The GRCF is open to all ICMA members with an interest in global cross-border repo markets. If you would like to join the GRCF, please send an email to grcf@icmagroup.org.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org

EU NSFR and SFTs

ICMA continues to engage with regulators and policy makers to raise concerns related to the re-calibration of the Net Stable Funding Ratio (NSFR) Required Stable Funding (RSF) factors for short-term securities financing transactions that is due to be applied in the EU in June 2025.

As currently written in CRR II, from the end of June 2025 the RSF factors for reverse repos are set to revert to the BCBS levels of 10% and 15% for transactions with a term of less than six months that are secured by Level 1 HQLA and non-Level 1 HQLA collateral respectively (moving from the current levels of 0% and 5%).

In May 2024, ICMA, with the support of the ERCC Prudential Working Group, published a *Briefing Note* which attempts to quantify the impacts for EU headquartered banks, both in terms of the aggregate annual cost to support reverse repo activity as well as the proportion of fixed income market making that would be affected. It also points to other jurisdictions that are not implementing a similar re-calibration, thereby putting EU banks at a competitive disadvantage. These concerns are not new and had been highlighted previously, for example in a detailed 2016 ERCC *Briefing Note* on the potential NSFR impacts on repo.

There is a hope that the EU co-legislators may be inclined to revise the existing CRR II text to maintain the RSF factors at current levels, in line with other jurisdictions. However, given that the new Commission is still being formed, it would seem unlikely that the legislative process required to do this could be completed by June 2025. While the EBA, in its January 2024 report, suggests that impacted EU banks already have sufficient NSFR buffers to absorb the additional term funding that the RSF increases will require, this does not take into account the fact that banks largely set their buffers based on peer metrics, and do not run them at the required minimum thresholds. Accordingly, EU headquartered banks may find themselves having to increase their funding to support their repo and market making activities in the coming months.

Contacts: Andy Hill and Alexander Westphal
andy.hill@icmagroup.org
alexander.westphal@icmagroup.org

EBA Q&A on LCR treatment of open reverse repos

Following the publication of an updated Q&A relating to the LCR treatment of open reverse repos, the EBA is currently working on further guidance to help with the interpretation of the new approach, which clarified that inflows from open reverse repos can be recognised provided that firms "*can demonstrate to the supervisor that the open reverse repo would be called and effectively mature under certain circumstances, within the following 30 days*". The additional EBA guidance is expected to provide further details as to how firms are expected to comply with this approach. ICMA welcomed the updated Q&A which followed several exchanges with the EBA on the matter and we continue to be in contact with the EBA ahead of the publication of the guidance which is expected within the next few weeks.

Contacts: Andy Hill and Alexander Westphal
andy.hill@icmagroup.org
alexander.westphal@icmagroup.org

US SEC and Treasury clearing

In December 2023, the US Securities and Exchange Commission adopted rule changes to enhance risk management practices for central counterparties in the US Treasury market and facilitate the additional clearing of US Treasuries. In short, the rules require that cash and repo market trades with a Netting Member of the Fixed Income Clearing Corporation (FICC) are centrally cleared. The upshot of this is that any entity that is not a member of FICC that transacts in US Treasuries with a FICC member will need to clear these trades using one of FICC's clearing models.

There are a number of exemptions, including where the non-FICC member is a central bank or sovereign entity. Primary market transactions in US Treasuries, as well as cash settlements arising from US Treasury futures deliveries, are also exempt. Importantly, transactions between two non-FICC members will not be impacted.

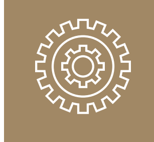
The main driver for the rule is the expected reduction in counterparty credit risk. Analysis by the Federal Reserve Bank of New York estimates that central clearing could reduce the settlement obligations of primary dealers by 70%. This should, in theory, also free up balance sheet for dealers who will have more netting opportunities as a result of trading with a central counterparty. Additional perceived benefits include increased supervisory oversight and a reduction in leverage. By way of context, currently only around 20% to 30% of the US Treasury repo market is centrally cleared, and less than 20% of the outright cash market.

While it could be argued that the move to mandatory clearing will help to underpin market resilience, particularly in light of recent events such as the pandemic induced "dash for cash", the flip side is that it will increase costs for many stakeholders active in the Treasury market who will now be forced into direct or indirect membership of the clearing house, along with the various margin requirements of central clearing.

The implementation date of the cash market is 31 December 2025 and for the repo market it is 30 June 2026. This does not leave a lot of time for firms to establish how they will be impacted and whether they need to become a direct or indirect member of FICC to support their trading activities in US Treasuries.

ICMA is in the process of organising a workshop for its international members focused on the scope and impact of mandatory clearing which it hopes to hold in the coming weeks. More information will be shared with members soon.

Contact: Andy Hill
andy.hill@icmagroup.org



UK SFTR validation rules

Following the update of the EU's SFTR validation rules which went live in September 2023, the UK is in the process of updating its own validation rules under UK SFTR. The updated rules published initially in August 2023 will go live on 24 November. In this context, ICMA and ISLA discussed with the FCA a specific issue related to the reporting of certain collateral fields (cash collateral amount, collateral quantity and collateral market value). Based on the call ICMA and ISLA submitted a joint proposal for reporting those fields which would involve some clarifications in the validation rules which we hope can be taken into account ahead of the upcoming go-live. The related call with the FCA in July was also an opportunity to raise a number of other open questions.

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

Repo and sustainability: summary report

On 30 August 2024, ICMA published a report summarising feedback received in response to its 2024 *Repo & Sustainability Market Survey*, which had been launched in February 2024. Building on the observations and categorisations from ICMA's 2022 paper on sustainability in the repo market, the survey aimed to deepen the understanding of existing market practices and identify issues for further reflection and future guidance.

Some key messages from the survey included:

- a clear call for further dedicated guidance to cover all types of sustainability-related repo;
- a confirmation that the majority of respondents active in this market primarily focus on repo transactions involving sustainable collateral and this category of sustainability-related repo remains their top priority;
- a general agreement that use-of-proceeds and Sustainability-Linked (SL) repo should be transacted under firms' overarching sustainability frameworks or strategies;
- a strong view that SL repos are more appropriate for maturities exceeding 12 months;
- a consensus that, to avoid double-counting from an accounting perspective, any green claims should remain with the repo seller, who retains the economic exposure to the assets.

Guided by members of its Repo and Sustainability Taskforce, ICMA will continue to monitor the market evolution closely and is looking to work on expanded guidance as a next step, which is a clear request emerging from the survey outcomes.

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

GMRA Digital Assets Annex

On 19 August 2024, ICMA published the Digital Assets Annex, a significant new addition to the Global Master Repurchase Agreement (GMRA).

The Digital Assets Annex was produced as part of a joint project between ICMA and ISLA aiming to bring consistency to the legal terms used by market participants when trading certain digital assets under the GMRA 2011 and GMSLA 2010. The Annex was developed by the Digital Assets Legal Working Group run by ICMA and ISLA, with Clifford Chance appointed as counsel.

The Digital Assets Annex provides a standardised framework and set of terms which can be used to document repo transactions involving digital cash, digital securities (including tokenised traditional securities), or asset-backed digital assets. The Annex clarifies that, in the GMRA 2011, references to Securities includes Platform Transferred Securities, and references to cash or currency encompasses Digital Cash. The Annex also seeks to address some of the commercial considerations that arise as a result of the operational feasibility of intra-day repo transactions, which have been made possible by the shorter settlement times offered by digital assets and technological platforms.

To promote ICMA members' familiarity with the Digital Asset Annex, ICMA partnered with Clifford Chance to host a webinar that provided an overview of how the Annex works and its various features, as well as an opportunity for ICMA members to ask any questions. A recording of the webinar can be found here.

To download the Digital Assets Annex and accompanying guidance note, click here.

Contact: Deena Seoudy
deena.seoudy@icmagroup.org

Asset Management

by **Nicolette Moser** and **Irene Rey**

AIFM and UCITS Directives: ESMA consultation on LMTs

ESMA has consulted on the first Level 2/Level 3 measures of the revised AIFM and UCITS Directives which entered into force on 16 April 2024. ESMA has consulted on the RTS to determine the characteristics of liquidity management tools (LMTs), as well as the guidelines on the selection and calibration of LMTs. The ICMA Asset Management and Investors Council (AMIC) Committee submitted its response to the consultations on 8 October. In its response, AMIC particularly highlighted the importance of preserving the spirit of the agreement reached at Level 1 to ensure that fund managers retain the necessary flexibility to act in the best interest of investors. ESMA is expected to publish these final guidelines and RTS by 16 April 2025.

Contact: Irene Rey
irene.rey@icmagroup.org

EC consultation on macroprudential policies for NBFI

The European Commission (EC) is consulting on the adequacy of macroprudential policies for non-bank financial intermediation (NBFI). The consultation is aiming to map out the existing macroprudential framework and to identify risks and vulnerabilities. ICMA is responding to this consultation with the AMIC Committee leading the response. Some of the key points ICMA will be highlighting are:

- It is critical to recognise that the NBFI ecosystem is very heterogeneous in nature and any suggested new macroprudential framework must recognise this in its policies.
- These policies must also facilitate NBFIs' role as providers of liquidity and not hinder their role of financing the wider economy.
- Regulated asset managers and investment funds are already governed by robust regulatory frameworks which have recently been reviewed and enhanced at both EU and global level.
- Enhanced data sharing between ESMA, national competent authorities and central banks will help identify regulatory gaps which would further support the development of the right targeted policy responses.
- Systemic liquidity risks are likely to arise from less monitored NBFI entities and activities.
- Enhanced oversight, including supervisory collaboration and data collection, should be prioritised to facilitate the identification by policy makers of any vulnerabilities and the mitigation of any risks.

ICMA will be submitting its response by the deadline on 22 November.

Contacts: Nicolette Moser and Irene Rey
nicolette.moser@icmagroup.org
irene.rey@icmagroup.org

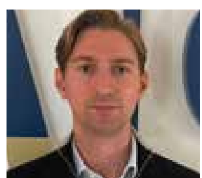
AMIC Forum

This year the AMIC Forum will be held in London on the morning of 16 October, kindly hosted by Schroders. The theme for the event is: *Mind the Gaps – Savings, Investment and Financing the Real Economy.* The forum will bring together speakers representing investors and the wider economy as well as a panel discussing the supporting role of FinTech. We are also delighted to have a keynote presentation from the OECD on financial literacy. The event is open to all and if you would be interested in attending the event, please register.

Contacts: Nicolette Moser and Irene Rey
nicolette.moser@icmagroup.org
irene.rey@icmagroup.org

Sustainable Finance

by **Nicholas Pfaff, Simone Utermarck, Valérie Guillaumin, Ozgur Altun** and **Stanislav Egorov**

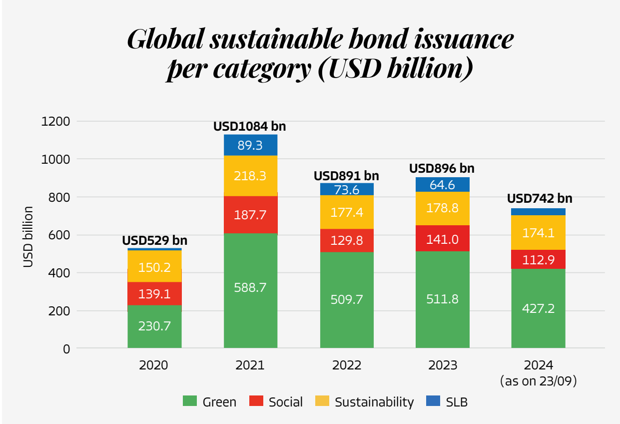


Summary

After reviewing the good progress of the sustainable bond market to date in 2024, we summarise the 2024 priorities of the Executive Committee of the Principles and report on the implementation of the new governance of the Principles. We also reflect on the significance of the publication of the Hong Kong Code of Conduct for ESG Ratings and Data Products Providers. Finally, we describe our on-going advocacy on the treatment of sustainable bonds under ESMA's ESG fund naming guidelines, as well as summarise important regulatory developments internationally.

Sustainable bond market update

As of 23 September 2024, sustainable bond issuance reached USD742 billion, representing a 7% increase year-on-year and accounting for 10% of the overall bond market. SSA issuance dominates the sustainable bond market, constituting 50% of issuance, followed by corporates at 31% and financials at 19%.



Source: ICMA based on LGX DataHub and Bloomberg data as of 23 September 2024

Green bond issuance exceeded USD427 billion, a 10% increase year-on-year, and accounted for 58% of sustainable bond issuance year-to-date. New green bond issuers include Eurobank completing a EUR850 million 6-year transaction and Dominican Republic selling its inaugural green bond, USD750 million 12-year.

Social bond issuance reached USD113 billion, representing a 2% year-on-year increase. Notable transactions include Slovenia raising JPY50 billion (USD350 million) through a dual-tranche social bond sale, marking the first social Samurai bond issued by a sovereign. Additionally, Banca Monte dei Paschi issued its inaugural EUR750 million 6-year social bond.

Sustainability bond sales topped USD174 billion, marking an impressive 26% increase compared to the same period in 2023. New entrants to the sustainability bond market include Guatemala, which raised USD800 million through the issuance of a 12.5-year bond, and Welsh Water, which completed a GBP600 million 20-year transaction.

Unlike other types of sustainable bonds, sustainability-linked bonds (SLBs) are the only category to experience a year-on-year decline, dropping by 48%. Issuers making their debut in the SLB market include Ceconomy, a German retail company, with a EUR500 million 5-year bond, and Ülker, a Turkish food and beverage producer, with a USD550 million 7-year SLB.

Furthermore, following the publication of the new related Guidance, Crédit Agricole CIB issued its first JPY3 billion (USD21 million) Sustainability-Linked Loan financing Bond (SLLB).

Principles priorities for 2024/25

It is now a well-established practice that, after the summer break, the Executive Committee of the Principles (ExCom) discusses and updates its annual priorities notably for its working groups and taskforces. The discussions took place during an in-person meeting on 12 September in London hosted by ICMA. Concerning its working groups and taskforces, the ExCom decided to:

- continue the work started by existing working groups and taskforces (ie for Green enabling, Sustainability Linked Loans financing Bonds, Impact Reporting and Sustainability-Linked Bonds);
- restart the working group on Climate Transition Finance;
- create a joint working group with the ICMA Fintech Advisory Committee on Sustainable Finance and FinTech & Digitalisation.
- further consider a taskforce focusing on financing nature & biodiversity themes.

Overview of Working Groups and Taskforces of the Principles

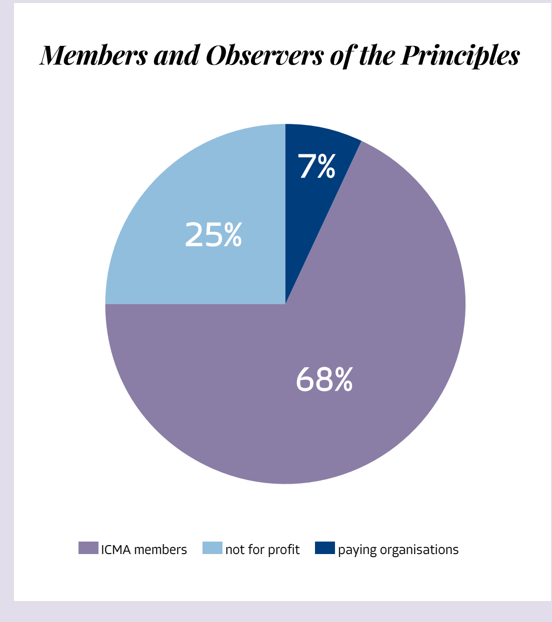
Type	Name	Recent publications
Working Groups	Impact Reporting for Green and social Bonds	• Harmonised Framework for Green Bonds (June 2024) • Harmonised Framework for Social Bonds (September 2024)
	Sustainability-Linked Bonds	• Sustainability-Linked Bond Principles (June 2024 update) • Illustrative KPIs Registry (June 2024 update) • SLB disclosure data checklist (June 2024)
	Climate Transition Finance	• Climate Transition Finance Handbook (June 2023 update)
Taskforce	Green enabling projects	• Green Enabling Projects Guidance (June 2024)
Joint-Taskforce ICMA CPC	Sustainable Commercial paper	• The role of commercial paper in the sustainable finance market (October 2024)
Joint-Taskforce ICMA ERCC	Sustainable Repo	• ICMA Repo & Sustainability Survey: Summary report (August 2024)
Joint-Taskforce LMA	SLL financing Bonds	• Sustainability-Linked Loans financing Bond Guidelines (June 2024)
Joint-Taskforce ICMA FINAC	Fintech & Digitalisation and Sustainable Finance	New Taskforce 2024

Members and observers of the Principles will be invited in the coming days by the Secretariat to register or renew their registration to the working groups or taskforces. The terms of reference of these groups will soon be available on ICMA's website. The ExCom is otherwise planning a wider market survey on topics that will be communicated at the time of its launch.

Governance and membership of the Principles

After the vote of the members of the Principles in January 2024, the Governance Framework of the Principles has been updated to reflect the requirement for for-profit organisations that are not members of ICMA to pay an annual financial contribution. The objective is to ensure a fair contribution from all for-profit organisations to the continued development of the Principles. Following this update and until the end of August, ICMA extensively reached out to the members and observers that were in scope of those changes.

As expected, the introduction of the mandatory financial contribution has recentred the Principles community around a core group which now represents 338 organisations, 68% of which are ICMA members or their affiliates, the rest being not-for-profit or public sector institutions and organisations paying the alternative mandatory financial contribution. The Principles community is composed of 178 members (representing investors, issuers and underwriters) and 160 observers (other market participants and wider stakeholders including from civil society and the official sector).

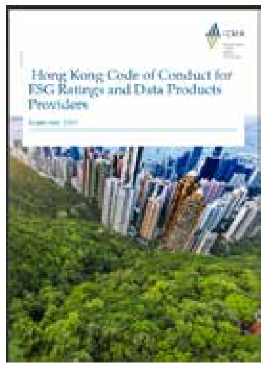


Sustainable Finance and ICMA's website

With the continued expansion of sustainable finance guidance and resources released by ICMA over the last decade, it became necessary to reorganise the dedicated section in its website. This is now structured around the following key areas covering notably the Principles, ICMA's wider work in sustainable finance and resources relating to market data, as well as an archive. Specifically, the sub-sections are:

- The Principles & related guidance
- Membership, governance & working groups of the Principles
- Codes of Conduct for ESG Ratings and Data Products Providers
- Sustainable Bond Market Data
- Regulatory responses & commentary
- Other sustainable finance guidance, publications & initiatives
- Contacts & Principles Helpdesk
- Archive

The Hong Kong Code of Conduct for ESG Ratings and Data Products Providers



On 3 October 2024, ICMA published the Hong Kong Code of Conduct for ESG Ratings and Data Products Providers. The Code is available in English and Chinese. Following IOSCO's report in November 2021, numerous jurisdictions globally have developed and issued legislative proposals and/or codes of conduct addressing its recommendations. In this context, in October 2023, ICMA had been appointed by the Hong Kong Securities and Futures Commission (SFC) to provide the Secretariat and convene an industry working group (the Voluntary Code of Conduct Working Group or VCWG) to develop a voluntary Code of Conduct for the Hong Kong market.

With the aim of promoting a globally consistent, interoperable and proportionate voluntary code of conduct, the VCWG looked closely at the December 2023 Code of Conduct provided by ICMA, which is intended to be internationally applicable. In various meetings, the VCWG found that the six Principles indeed could be adopted for the Hong Kong market. However, additionally, with the Hong Kong Code, providers that are voluntarily adhering to the Code will be expected to complete a self-attestation document as proposed by the SFC. The majority of the VCWG agreed that this would help foster greater transparency and facilitate users' due diligence process. It is also similar to Singapore's Code of Conduct, which asks providers to fill in an attestation checklist.

Looking back at how the Code was developed, meetings of the VCWG began in January 2024. The VCWG included representatives from Hong Kong, Mainland China, and other international ESG ratings and data products providers, as well as key users from the local financial industry. Observers in the VCWG included the SFC, the Hong Kong Monetary Authority, the Insurance Authority, and the Mandatory Provident Fund Schemes Authority, among others. A full list of members and observers of the working group can be found on the ICMA website.

On 17 May 2024, the VCWG launched a one-month public consultation on the draft Code which closed on 17 June. During this period, market participants were invited to provide feedback, specifically focusing on the Code's applicability to the Hong Kong market, its clarity to ensure adherence, and the usefulness of the self-attestation document. A feedback statement is available here.

Going forward, the HK Code will be hosted and maintained by ICMA and, later this year, ICMA and the SFC are planning to hold a launch event. Please keep an eye on the ICMA website as well as LinkedIn for further details.

Regulatory engagement and developments

Further ICMA advocacy on the treatment of sustainable bonds under ESMA's ESG fund naming guidelines

As background, ESMA published the translations of its Guidelines on 21 August, triggering their application date for the new funds on 21 November 2024, and for existing funds, 21 May 2025 if NCAs approve them. In our previous QR edition, we had summarised the key content of these Guidelines as well as the arguments under our June 2024 letter to ESMA where we had asked for an exception to the application of Paris-aligned benchmark (PAB) exclusions to green and sustainability bonds, as well as "high-quality" SLBs.

Over the summer period, we have had further exchanges with our members and other stakeholders regarding the concerns about the application of PAB exclusions to sustainable bonds. Given that the application timeline for the Guidelines has started, we are now proposing that through interpretative

Q&A guidance ESMA could confirm that the PAB exclusions should be considered at project level for use-of-proceeds bonds and dynamically for high quality SLBs.

Other regulatory developments

China introduced in August guidelines to ramp up green transition in all areas of economic and social development which represent the first comprehensive and systematic planning blueprint for green transformation formulated at the central level.

In September 2024, the Hong Kong Institute of Certified Public Accountants announced the publication of the Exposure Drafts for Hong Kong Sustainability Disclosure Standards (HKFRS) S1 (General disclosures) and HKFRS S2 (Climate Disclosures), based on full convergence with relevant ISSB standards, for consultation until 27 October. In the same month, the Australian Government published its interim report on the country's upcoming sustainable finance taxonomy.

In the EU, the long-waited Draghi Report points to the complexity and inconsistency of EU sustainability reporting legislation and due diligence framework as a major source of regulatory burden. Unclear definitions and requirements, for instance concerning the application of the EU Taxonomy's "do no significant harm" principle, and unharmonized reporting timelines are mentioned among the underlying drivers. The report also argues for the simplification of the EU Taxonomy and provision of tools (eg digital) to address lack of comparability of reporting and for the applicability to SMEs.

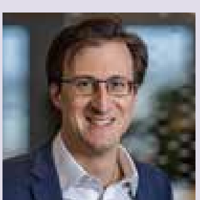
Published in August 2024, the European Commission's FAQ on CSRD implementation take into account input received from companies and cover issues such as scope, application dates and exemptions. For example, they clarify when companies may use estimates rather than having to collect value chain information from suppliers or partners.

In Türkiye, the Government launched in September a consultation on its Taxonomy framework which is heavily influenced by the EU Taxonomy. Also, the Turkish Capital Markets Board (CMB) published a draft extending its existing guidance for green bonds and lease certificates (sukuk) to cover social and sustainability bonds, and a separate draft for guidance on sustainability-linked bonds. CMB's existing and draft guidance reference and align with ICMA Principles for sustainable bonds.

Contacts:
Nicholas Pfaff, Simone Utermarck, Valérie Guillaumin, Ozgur Altun and Stanislav Egorov
nicholas.pfaff@icmagroup.org
simone.utermarck@icmagroup.org
valerie.guillaumin@icmagroup.org
ozgur.altun@icmagroup.org
stanislav.egorov@icmagroup.org

Guidance for a nascent SLLB market

by **Laurent Adoult, CACIB**



In June 2024, the International Capital Market Association (ICMA) together with the Loan Market Association (LMA) published the Guidelines for Sustainability-Linked Loan financing Bonds ("SLLBG"). The dedicated taskforce of the Executive Committee of the Principles was coordinated by CACIB, the Nordic Investment Bank and JP Morgan.

A nascent market fueled by innovative transactions

The publication aims to promote transparency and integrity in the development of this nascent market, pioneered by several innovative transactions over the last few years. These included the Bank of China's issuance of a USD300 million Sustainability Re-Linked Bond in 2021 and its debut 2024 CNY2.5 billion Sustainability-Linked, Green and Social Loan (SGS) Bond, as well as Nordea's EUR400 million equivalent Sustainability-Linked Loan Bond in 2022.

Sustainability-Linked Loan financing Bonds ("SLLBs") refers to a dedicated bond instrument allowing issuers to finance or re-finance a portfolio of eligible SLLs[1]. While following the concept of use of proceeds, it is important to note that SLLBs should be seen as a separate category and not to be considered or presented as Green, Social or Sustainability Bonds.

The SLLBG aims at providing the market with a clear structure in a context where (i) a risk of fragmentation was emerging with different structures coming to the market and where (ii) some banks with existing portfolios of SLLs were interested to issue in such format but feared greenwashing accusations with the lack of a clear market standard. With these new guidelines, issuers need to follow the core components of the SLLPs, with a focus on including specific criteria used for selecting each eligible SLL financed or refinanced by the SLLBs.

The SLLBG provides issuers with a clear indication about the expected level of transparency. These guidelines should also allow the market to gain in integrity and standardisation, while boosting issuances by helping issuers to come to the market. Even though issuances of SLLBs have so far been done by commercial banks, the instrument could also be of interest to public financial institutions.

The SLL market losing momentum, a threat to the development of SLLBs?

Several lending institutions are potential candidates to issue SLLBs and thus leverage their existing portfolios of SLLs. This loan product has gained momentum over the last few years, with total SLL lending reaching about

1. SLLs are defined under the Sustainability-Linked Loan Principles as "any types of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) for which the economic characteristics can vary depending on whether the borrower achieves ambitious, material and quantifiable predetermined sustainability performance objectives." These sustainability performance objectives are labeled Sustainability Performance Targets (SPTs) and based on relevant Key Performance Indicators (KPIs).

EUR540 billion for the year 2022[2] and representing the main sustainable loan format. However, this increase subsequently slowed down and the SLL market has shrunk to about EUR360 billion for the year 2023[3] and 2024YTD data seems to confirm the trend[4].

The publication of the SLLBG is likely to lead to only the most robust SLLs being eligible for SLLB financing, allowing investors to gain exposure to companies with ambitious sustainability commitments. As such, the SLLB market is likely to incentivise best market practices in SLLs. It is therefore the quality of this best-in-class market which would promote the development of SLLBs. If the SLL market were to slow down by focusing on robust structures, the development of SLLBs might remain unaffected.

Early market adoption

Recently, Crédit Agricole CIB issued an inaugural JPY3 billion Sustainability-Linked Loan financing Bond. Crédit Agricole CIB's SLLB has been inspired by the work done by the ICMA taskforce (although no formal alignment with the guidelines can be claimed due to the earlier publication of the Framework).

Other issuers are likely to follow, such as Emirates NDB which recently published the first SLLB framework aligned with the guidelines. Several lending institutions have already established internal eligibility criteria for SLLs, which they could use as a base for developing a SLLB Framework. The SLLBG have been designed to ensure usability with several structuring options available for SLLBs. A SLLB market could thus emerge soon, given the practicality of SLLBs and the important SLL portfolios held by lending institutions.

As investors become more familiar with the product, we expect that demand for SLLBs will also increase through a better understanding of the product's characteristics and how it fits into investment strategies. SLLBs could otherwise represent a new start for the SLL market with a focus on quality rather than volume, in a context of increased emphasis of market participants on SLL quality and integrity.

2,3,4. Source: Dealogic, Crédit Agricole CIB – the volumes presented include drawn and non-drawn amounts.

Green Enabling Projects eligibility framed by ICMA

by **Anne-Claire Lejeune, Natixis,** and **Agnès Gourc, BNP Paribas**

ICMA published Green Enabling Projects Guidance on 25 June 2024 (available here) that recognises the important role that such projects play in catalysing and scaling the transition to a low-carbon economy. The guidance was developed by a dedicated taskforce of the Executive Committee of the Principles coordinated by Natixis and BNP Paribas.

Why was the guidance needed?

In order comprehensively to address the climate emergency, the sustainable finance market should allocate capital to the entire value chain of a low-carbon/sustainable economy, rather than solely focusing on the end green activity/solution. Indeed, many enabling activities that are necessary for the development of green projects must be scaled up and financed to ensure we reach a net zero economy in time.

For example, according to Wood Mackenzie, battery grade lithium demand is forecast to grow nearly 43 times by 2050 compared to 2020 demand levels and projects announced/funded today only cover a growth of 13 times. Nonetheless, none of the net zero frameworks adopted by financial institutions incudes the enabling components[1]. When measuring a financial institution's carbon footprint or setting decarbonization targets (such as NZBA for banks) we are neither accounting nor valuing the potential impact of being involved in critical raw materials for green activities.

Yet, if you do create that spotlight on this enabling activity, it needs to be framed and objectivized, as some of these "green enabling" projects come with ESG challenges (including climate and biodiversity loss) and may have multiple end-uses with variable environmental benefits.

The market guidance does not aim at building another taxonomy defining eligible or ineligible activities. It aims to help issuers objectivize clear enabling environmental benefits through detailed principles and criteria to further enhance transparency.

What is an enabling activity under the new guidance?

A Green Enabling Project is a necessary component of an enabled Green Project's value chain, but it is not necessarily a conveyor of a direct positive environmental impact on its own (ex: the lithium mining project, ie the Green Enabling Project, needed for electric vehicles' batteries, ie the Green Project's value chain). The enabled Green Project is the one that must deliver a clear environmental benefit, as described in the Green Bond Principles. In the guidance document published by ICMA, Green Enabling Projects are subject to all the criteria (to be deemed eligible) described below:

Specific criteria for eligible Green Enabling Projects	
Necessary for an enabled Green Project's value chain	✔ a necessary component of an enabled Green Project's value chain, but not necessarily a conveyor of a direct positive environmental impact on its own ✔ clearly identified and/or contextualised ✔ a necessary component of enabled Green Projects in net-zero scenarios and medium to long-term transition plans
No carbon lock-in	✔ should not lead to locking-in high GHG emitting activities relative to other technologically feasible and/or commercially viable solutions ✔ transition to net-zero scenarios, and in particular transitioning away from fossil fuels should be considered in light of national, regional and/or sectoral transition plans
Clear, quantifiable and attributable environmental benefit	✔ either based on actual impacts or estimates of the potential outcome of enabled Green Project(s) ✔ assessed on the basis of a life cycle analysis type approach clearly outlining assumptions of the enabled Green Project(s) compared to a non-green alternative or baseline scenario ✔ transparency is of particular value in communicating the expected and/or achieved impact of projects ✔ quantitative performance indicators such as avoided emissions, is recommended with disclosure of the key underlying assumptions, including the attribution factors

1. https://assets.bbhub.io/company/sites/63/2023/11/Transition-Finance-and-Real-Economy-Decarbonization-December-2023.pdf

Mitigated adverse social or environmental impacts	✔ issuers should ensure that there are no material adverse social impacts as a result of the Green Enabling Projects themselves and that Green Enabling Projects are not significantly detrimental to other environmental objective ✔ the material impacts related to the underlying Green Enabling Projects should be transparently outlined and compared with taxonomies, best available techniques and technologies, comparable peers ✔ this will allow investors to make an informed decision on the overall merits of the activity

Transparency on end-use	
Where end-use is known and largely traceable	✔ Where end-use is known and largely traceable, then the share of activity servicing the Green Project end-use, should be disclosed
Where the end-use is not known	✔ Where the end-use is not known, external assumptions (including proxies) can be utilized to demonstrate its role in a Green Project development. In this instance the activity can be deemed 'Green Enabling', based on further disclosure and contextualization from issuers

What level of adoption can we expect from the market?

This market guidance can be used for both bonds or loans. Immediate application examples spring to mind in the mining and metals sectors project finance. Financial actors like to engage in projects where we know 100% of the offtake, but this is not always possible, and so this is when the guidance can come into play.

The guidance has been designed for projects in sectors where the clarity/transparency of the value chain needs to be further developed. This includes, but is not limited to:

- Mining and metals (mapped for example to the clean transportation Green Project category when used in electric vehicles).
- Building and construction supplies and equipment (mapped for example to the pollution prevention and control Green Project category when used to limit air emissions).
- Chemicals and specialty chemicals (mapped for example to the green buildings Green Project category when used for the manufacturing of building insulation materials).
- ICT and telecommunication networks (mapped for example to the energy efficiency Green Project category when used for smart grids).
- Manufacturing of industrial parts and components (mapped for example to the renewable energy Green Project category when used for the development of electricity grids).

Vulcan Energy Resources: a first green enabling transaction in the market

Vulcan Energy has announced that it aims to secure the first ever green financing aligned with ICMA's green enabling market guidance (link here). Vulcan Energy is a fully integrated renewable energy and lithium chemicals company, with access to the largest lithium resource in Europe, Germany's Upper Rhine Valley. Its ZERO CARBON LITHIUM™ Project aims to produce both renewable geothermal energy and lithium hydroxide monohydrate (LHM) for Battery Electric Vehicles (BEV), from the same deep brine.

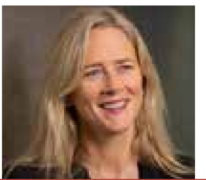
Vulcan Energy aims to produce 24,000 tons of LHM per annum that could equip 500,000 EVs. The company has binding lithium offtake agreements with some of the largest cathode, battery and automakers in the world, including Stellantis, Renault, Umicore, LG Energy Solution and Volkswagen. The Project is expected to have a substantial positive environmental impact as the company intends to use zero fossil fuels in its LHM production process.

The Project could have been structured in a pure and simple alignment format with the GBP under the categories "Renewable energy production" and "Energy efficiency and pollution reduction", considering the substantial gains in carbon and water footprint from lithium processes. However, the contribution of its lithium production to CO_2 avoidance in the EV value chain would have been completely overlooked.

A new chapter in sustainable finance is being written with this market guidance. It pushes the green finance market to go one step further by addressing the notion of both necessary supply and end-uses through the criticality of a technology for a certain value chain while looking at induced and avoided impacts, extending the scope of possibilities for new market participants.

FinTech and Digitalisation

by **Georgina Jarratt, Gabriel Callsen** and **Emma Thomas**



ICMA FinTech and Digitalisation Forum

On 18 September 2024, ICMA held its 6th FinTech and Digitalisation Forum in London at the London Congress Centre. 302 delegates attended in person and the event was a huge success.
We are very grateful to our eight lead sponsors, without whom this could not have taken place: A&O Shearman, BondAuction, Clifford Chance, DekaBank, Hogan Lovells, Moody's, Murex and SIX Digital Exchange, as well as to our non-lead sponsor, ANNA/DTIF.

The panels and keynotes covered critical topics such as the rise of DLT and the evolution of the digital bond ecosystem, including a spotlight on the landmark digital green bond issuance by the HKMA on 7 February this year. The forum also focused on the fascinating topic of AI and its enormous transformational impact on the industry, as well as the nexus between sustainable finance and technology – a new frontier.

Opportunities for delegates to meet with peers and to network with industry leaders working in the innovation space were extensive.

If you missed the event, recordings can be found on our website here.

Contact: Georgina Jarratt
georgina.jarratt@icmagroup.org

MAS Project Guardian fixed income workstream

On 27 June 2024, the MAS announced the expansion of initiatives to scale asset tokenisation for financial services. This includes partnering with global industry associations and financial institutions to drive common asset tokenisation standards in fixed income, foreign exchange (FX) and asset & wealth management.

At the invitation of the MAS, ICMA joined Project Guardian's Fixed Income Workstream. The fixed income workstream seeks to develop protocols and data specifications building on ICMA's Bond Data Taxonomy (BDT), and considers the types of risk factors and disclosures required in a tokenised bond offering document, amongst other deliverables.

ICMA's DLT Bonds Working Group and BDT Working Group held a series of meetings between July and September to provide input into the workstream's deliverables. These are due to published in Q4 in the context of the Singapore FinTech Festival. If you would like to become involved, please get in touch.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

Common Domain Model

The FINOS CDM is an open-source model that facilitates the automation of trading, post-trade and reporting of derivatives, repo and securities lending transactions. To assist developers and IT specialists in understanding how to use the CDM's code and functionalities, ICMA's CDM Implementation Working Group held a meeting in September. The focus of the meeting was on the FIX protocol, mappings to the CDM, as well as regulatory reporting under EU/UK SFTR and US OFR.

FINOS held its Open Source in Finance Forum (OSFF) on 30 September and 1 October in New York. ICMA participated in a workshop jointly with FINOS to raise awareness on the CDM, provide a deep-dive into CDM functionalities for repo and collateral management, and promote its adoption. The OSFF featured further presentations, demos and talks on CDM applications by ISDA and other stakeholders of the open-source community. The CDM is open source and publicly available from the FINOS repository. Demos and further materials are also available on ICMA's website.

Contact: Gabriel Callsen
gabriel.callsen@icmagroup.org

ICMA's new AI in Capital Markets Working Group

In July 2024, ICMA's AI in Capital Markets Working Group held its first meeting, against the backdrop of the rapid emergence and growth of generative AI applications in financial services. The topic was introduced, the aims of the group established, and individual business use-cases were shared. A decision was made to respond to the European Commission consultation on *Artificial Intelligence in the Financial Sector*. The group now has over 120 members from firms represented across six continents, including investors, banks, market infrastructures, issuers and law firms. If you would like to join the new working group, or have any questions, please contact Emma Thomas.

Contact: Emma Thomas
emma.thomas@icmagroup.org

EC consultation on AI in the financial sector: ICMA response

On 13 September 2024, ICMA submitted its response to the European Commission (EC) consultation on *Artificial Intelligence in the Financial Sector.* The response reflects the views of a sub-set of the AI in Capital Markets Working Group. The consultation, which is intended to improve the effective implementation of the EU AI Act, was discussed in a series of meetings held over the summer. In the response, innovation in the debt capital market industry was widely encouraged, with the interconnectedness between AI, ESG and DLT-related developments also highlighted. Increased efficiency and automation were mentioned as key benefits found from using AI. The response also emphasised the importance of human validation and internal AI risk frameworks, alongside the role of existing pieces of legislation such as UCITS and MiFID II/MiFIR, which already capture safeguards for the responsible use of technology. To see the response in more detail please click here.

Contact: Emma Thomas
emma.thomas@icmagroup.org

AI regulatory developments

Council of Europe Framework Convention on AI and human rights, democracy and the rule of law

On 5 September 2024, the European Commission Vice-President for Values and Transparency, Věra Jourová, signed the Council of Europe Framework Convention on AI and human rights, democracy and the rule of law on behalf of the EU. This Convention is the first legally binding international instrument on AI. It is fully compatible with EU law in general, and the EU AI Act in particular, which is the first comprehensive AI Regulation globally.

HKMA: Guiding principles in respect to the use of GenAI in customer-facing applications

On 19 August, the HKMA published a set of guiding principles in respect of use of generative artificial intelligence (GenAI) in customer-facing applications from a consumer protection perspective. In recent months, the HKMA notes an increasing interest from banks in adopting GenAI in their operations. The HKMA has therefore set out additional principles under each of the four major areas aiming to ensure that appropriate safeguards for consumer protection are in place when GenAI is adopted for customer-facing applications. These include governance and accountability, fairness, transparency and disclosure, and data privacy and protection.

BaFin: Report on AI at banks and insurers: automatically fair?

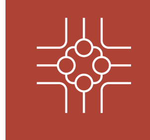
On 16 August, BaFin published a report on the measures which financial services providers and state supervisory authorities must take to prevent unjustified discrimination that can be amplified by highly automated decision-making processes with little human monitoring. The report describes the different facets behind discrimination and how they fall under the umbrella term of "fairness".

MAS: Information paper on cyber risks associated with GenAI

On 30 July, the Monetary Authority of Singapore published an information paper on *Cyber Risks Associated with Generative Artificial Intelligence (GenAI)*. The paper aims to raise financial institutions' awareness by providing an overview of key cyber threats arising from GenAI, the associated risk implications, and some of the mitigation measures that financial institutions could take to address the risks. Specifically, it details how GenAI can be used by threat actors, and covers the threats and risks on GenAI deployments, namely, unauthorised information disclosure and data leakage, as well as GenAI model and output manipulation.

EU publication of the AI Act (Regulation (EU) 2024/1689) in the Official Journal

On 12 July, the Artificial Intelligence (AI) Act (Regulation (EU) 2024/1689) was published in the *Official Journal*. The purpose of this Regulation is to improve the functioning of the internal market by laying down a uniform legal framework in particular for the development, the placing on the market, the putting into service and the use of AI systems in the EU, in accordance with EU values. It also aims to promote the



uptake of human centric and trustworthy AI while ensuring a high level of protection of health, safety, fundamental rights as enshrined in the Charter of Fundamental Rights of the EU. The Regulation ensures the free movement, cross-border, of AI-based goods and services, thus preventing Member States from imposing restrictions on the development, marketing and use of AI systems, unless explicitly authorised by the Regulation.

Contact: Emma Thomas
emma.thomas@icmagroup.org

Other FinTech regulatory developments

ECB: Eurosystem's exploratory work on DLT platforms

On 23 September 2024, the ECB provided an update on the Eurosystem's work to explore how wholesale financial transactions recorded on distributed ledger technology (DLT) platforms could be settled in central bank money. A total value of €532 million has been successfully settled in more than 50 transactions involving 15 different financial firms and central banks since May 2024. In total, 60 financial firms from nine countries in the euro area and four central banks are participating in the Eurosystem's exploratory work. The trials have already seen the first euro area sovereign bond issued natively on a distributed ledger and will continue until the end of November 2024.

BIS: Project Agora

On 16 September, the BIS announced that more than 40 private sector financial firms, convened by the Institute of International Finance, will join Project Agorá. The project investigates how commercial bank tokenisation deposits can be seamlessly integrated with tokenised wholesale central bank money in a public-private programmable core financial platform. These firms represent a diversity of private sector partners in terms of business models, institution size, expertise and geography.

ECB: Update on development of a draft digital euro rulebook

On 5 September, the ECB published its third report outlining the progress of the digital euro scheme Rulebook Development Group (RDG) in developing a draft digital euro rulebook, consisting of a single set of rules, practices and standards for the harmonisation of digital euro payments across the euro area. The draft digital euro rulebook intends to be sufficiently flexible to accommodate any future adjustments and will be updated in accordance with the outcome of the digital euro legislative process.

BCBS: Working paper on permissionless distributed ledger technologies

On 28 August, the BCBS published a working paper on the novel risks, mitigants and uncertainties with permissionless distributed ledger technologies. Certain risks stem from the blockchain's reliance on unknown or third parties, which makes it difficult for banks to conduct due diligence and oversight. These risks require new risk management strategies and safeguards. Current practices for mitigating these risks remain in various stages of development and have not been tested under stress. The paper considers the risks related to operations and security, governance, legal, compliance (including money laundering/financing of terrorism) and settlement finality.

HKMA: Project Ensemble Sandbox

On 28 August, The Hong Kong Monetary Authority launched the Project Ensemble Sandbox and introduced four main themes of asset tokenisation use cases for the initial round of experimentation. The HKMA has completed the building and set-up of the Sandbox, which is designed to facilitate interbank settlement using experimental tokenised money, focusing on transactions involving tokenised assets. Participating banks from the Project Ensemble Architecture Community have connected their tokenised deposit platforms to the Sandbox, paving the way to conduct experiments for both interbank payment-versus-payment and delivery-versus-payment settlement.

ESMA: Working paper on decentralised finance: a categorisation of smart contracts

On 1 August, ESMA published a working paper on decentralised finance: a categorisation of smart contracts. The paper aims to answer regulators' calls for a closer, consistent monitoring of DeFi and its underlying protocols. The paper also leverages natural language processing and topic modelling to cluster smart contracts into homogeneous groups which could then provide a solid basis for further analysis aimed at investigating specific types of smart contracts or the interconnectedness between different categories of smart contracts.

BIS and Bank of England: Project Pyxtrial

On 31 July, the BIS and the Bank of England launched Project Pyxtrial to explore how technology solutions can enable the monitoring of asset-backed stablecoins' balance sheets, providing insight into whether the backing assets exceed their liabilities at all times. To support the supervision of issuers of asset-backed stablecoins, Project Pyxtrial has developed a prototype data analytics pipeline which includes data collection, storage and analysis. Pyxtrial is designed so that its technical components (the APIs, integration layer, data model, data storage solution and dashboard) are modular, reusable and can be repurposed.

The Law Commission: Report and draft Bill on digital assets as personal property

On 29 July, the Law Commission published a supplementary report and draft Bill on digital assets as personal property. This report supplements the February 2024 consultation, and a June 2023 report in which the Law Commission concluded that certain types of digital assets are things to which property rights relate; however, they do not fit into traditionally recognised categories of personal property. This supplementary report and draft Bill seek to explain that recommendation and append the draft legislation intended to implement the recommendation.

FINMA: Guidance on stablecoins

On 26 July, FINMA published guidance on the issuance of stablecoins. It comments on default guarantees, the associated risks and discloses its practice on stablecoins. FINMA provides information on aspects of financial market law that arise in relation to stablecoin projects and the impact of such projects on the supervised institutions. In connection with stablecoin projects, the guidance draws attention to the increased risks in the areas of money laundering, terrorist financing and the circumvention of sanctions.

European Supervisory Authorities: Draft RTS to specify the elements mandated by DORA

On 26 July, the European Supervisory Authorities published their final report on draft Regulatory Technical Standards (RTS) to specify the elements which a financial entity needs to determine and assess when subcontracting ICT services supporting critical or important functions as mandated by Article 30(5) of Regulation (EU) 2022/2554 (DORA). In particular, the draft RTS requires financial entities to assess the risks associated with subcontracting during the precontractual phase; this includes the due diligence process.

ECB: Occasional paper on stablecoin

On 25 July, the ECB published an occasional paper, entitled *Toss a Stablecoin to your Banker,* on stablecoins' impact on banks' balance sheets and prudential ratios. The paper explores the relationship between banks and stablecoins and their issuers, focusing on the mechanical effects on banks' capital and liquidity ratios when issuing stablecoins or collecting deposits from stablecoin issuers. The analysis reveals that converting retail deposits into stablecoin issuers' deposits weakens a bank's liquidity coverage ratio (LCR), turning a retail deposit into a wholesale deposit, even when these funds are reinvested in high-quality liquid assets.

European Supervisory Authorities: Policy products under DORA

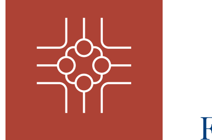
On 17 July, the European Supervisory Authorities published the second batch of policy products under the DORA. This batch consists of four final draft Regulatory Technical Standards (RTS), one set of Implementing Technical Standards (ITS) and two guidelines, all of which aim at enhancing the digital operational resilience of the EU's financial sector. The package focuses on the reporting framework for ICT-related incidents (reporting clarity, templates) and threat-led penetration testing, while also introducing some requirements on the design of the oversight framework. The final draft technical standards have been submitted to the European Commission, which will now start working on a review with the objective to adopt these policy products in the coming months.

EBA: Statement reminding issuers and offerors to comply promptly with MiCAR

On 5 July, the EBA released a statement reminding issuers and offerors of asset-referenced and e-money tokens to comply promptly with MiCAR and the consumers of risks. The EBA expects any person who intends to commence ART/EMT activities to comply fully with MiCAR as from 30 June 2024. The regulatory and implementing technical standards and guidelines applicable to such activities are available on the EBA's website. The EBA urges issuers and offerors to have regard to these documents and adjust as if those measures were fully applicable, in the case of technical standards pending their adoption by the European Commission and publication in the *Official Journal.* This includes measures relating to white papers, governance, complaints handling, own funds, reserve assets, recovery and redemption plans.

ESMA: MiCA report covering eight draft technical standards

On 4 July, ESMA published the final report under MiCA covering eight draft technical standards that aim to provide more transparency for retail investors, clarity for providers on the technical aspects of disclosure and record-keeping requirements, and data standards to facilitate supervision by NCAs. The draft standards provide market participants with technical requirements to ensure human and machine readability of crypto-asset white papers, as well as templates and formats for crypto-asset service providers (CASP) order and transaction records. The rules also cover public disclosures, descriptions on how issuers should disclose price-sensitive information to the public to prevent market abuses, and detail how CASP trading platforms should publish the data required for pre-and post-trade transparency.



BCBS: Approval of disclosure frameworks and capital standard for banks' crypto-asset exposures

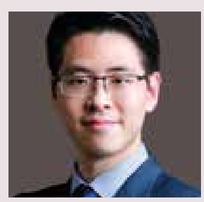
On 3 July, the Basel Committee on Banking and Supervision announced it will publish a finalised disclosure framework, which includes a standardised set of public tables and templates covering banks' crypto-asset exposures. These disclosures aim to enhance information availability and support market discipline. The Committee also approved a set of targeted revisions to the crypto-asset prudential standard. These revisions aim to further promote a consistent understanding of the standard, particularly regarding the criteria for stablecoins to receive a preferential "Group 1b" regulatory treatment.

EBA and ESMA: Final report on joint guidelines on the assessment of suitability

On 27 June, the EBA and ESMA published their final report on joint guidelines on the suitability assessment of members of the management body of issuers of asset-referenced tokens (ARTs) and of crypto-asset service providers (CASPs), and the suitability assessment of shareholders and members, whether direct or indirect, with qualifying holdings in issuers of asset-referenced tokens and in crypto-asset service providers.

Contact: Emma Thomas
emma.thomas@icmagroup.org

Global survey of Korean Treasury bond markets



by **Mushtaq Kapasi, Ricco Zhang** and **Alex Tsang**

On 25 July 2024, ICMA reported the results of a market survey on Korean Treasury bonds (KTBs), revealing international market potential for KTB trading as supported by recent market reforms by the local regulators.

The survey, conducted in partnership with Bloomberg, received more than 300 responses from global capital market participants to assess the impact of existing reforms from a market stakeholder's perspective and to understand market expectations of further reform initiatives in Korean capital markets.

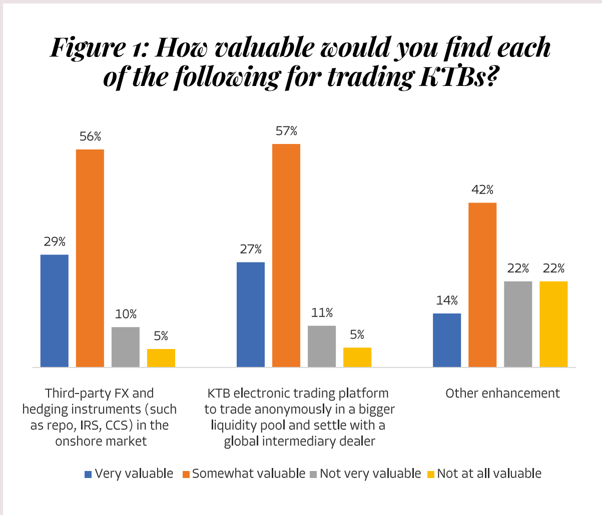
The survey found that 91% of respondents had never engaged in KTB trading. While the majority of the respondents (88% of those who had never traded KTBs) did not have a clear plan to enter the market in the near term, the survey suggested that clearing with International Central Securities Depositories (ICSDs) and allowing the Korean won to be tradable offshore could be factors which drive them to consider entering the KTB markets. Only 3% of respondents said they currently traded KTBs, with only 6% having done so in the past.

The survey noted that recent market reforms have sparked increased interest. Nearly half of the respondents expressed heightened interest due to the latest operational reforms such as the simplified process for third-party onshore foreign exchange (57%), the abolition of the Investment Registration Certificate requirement (47%), and implementation of the omnibus account (47%). Market participants also agreed that the likely impact of those measures will make KTB trading easier.

Furthermore, the anticipated use of the omnibus account for KTB trading has garnered significant attention, with 56% of respondents indicating plans to utilise this facility.

Looking ahead, there is cautious optimism for the KTB markets' growth, with the potential for increased trading volumes facilitated by clearing with ICSDs and a positive impact expected from the inclusion of KTBs in global major indices.

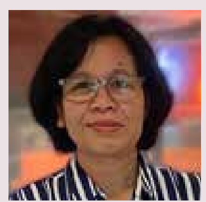
Survey respondents commented on strategic improvements that could bolster the appeal of the KTB markets, including technological advances such as developing a robust e-trading platform for KTBs to improve transparency, efficiency and accessibility for domestic and international investors, and leveraging AI, blockchain and straight-through-processing (STP) measures that would reduce settlement costs and improve operational efficiency.



Source: Global Survey of Korean Treasury bond markets, ICMA & Bloomberg, 2024 (Base size: n=308)

According to comments provided by respondents, ensuring high-quality collateral availability would boost market confidence, and implementing delivery-versus-payment (DVP) clearing arrangements with custodians would streamline settlement processes and reduce settlement risks. Promoting the use of the Global Master Repurchase Agreement (GMRA) for repo trades would standardise and streamline transactions.

Contacts:
Mushtaq Kapasi, Ricco Zhang and Alex Tsang
mushtaq.kapasi@icmagroup.org
ricco.zhang@icmagroup.org
alex.tsang@icmagroup.org



Omnibus Law: a significant reform of Indonesia's financial market

by **Agustyatun Muji Rahayu** and **Rai Sudani**

The recent enactment of Law No. 4 of 2023 concerning the Development and Strengthening of the Financial Sector ("The Law") marks a significant advance in the regulatory landscape of Indonesia's financial market. This long-awaited legislation amends several existing laws and introduces comprehensive regulations aimed at enhancing financial instruments, improving market infrastructure, advancing fund-raising and transaction mechanisms, and bolstering investor protection.

Enhancing financial instruments

The Law provides a stronger legal foundation for the development of money market instruments by Bank Indonesia, the development of digital financial instruments by OJK, and the development of financial derivatives of money market and capital market instruments by OJK and Bank Indonesia.

Additionally, the Law recognizes instruments or transactions that straddle both the money market and capital market, such as repo transactions. The development of repo transactions is expected to boost liquidity, support price discovery mechanisms in the bond market, and offer investors alternative investments as well as opportunities to obtain short-term funding by leveraging securities portfolios, particularly government bonds. Repo transactions also enhance integrity in the interbank money market as they involve collateralized lending, replacing uncollateralized interbank money market transactions. In addition, repo instruments are important for the transmission of central bank monetary policy.

Revamping market infrastructure

The Law introduces interoperability among infrastructure providers, allowing a single market infrastructure provider to offer services across different regulatory domains. This flexibility enhances integration and operational efficiency. Additionally, the Law permits multiple providers to manage various aspects of market infrastructure, including transaction, clearing, central counterparty (CCP) services, and securities settlement and depository systems. By integrating electronic and decentralized systems, the Law aims to streamline operations, improve efficiency, and promote transparency in transactions.

Recent developments represent significant enhancements to the market infrastructure. PT Kliring dan Penjaminan Efek Indonesia, the clearing and guaranteeing institution in the capital market, has received a licence from Bank Indonesia to act as the CCP in the money market. Similarly, PT Kustodian Sentral Efek Indonesia, the central custodian in the capital market, has been appointed to serve as the central custodian for corporate money market instruments.

Advancing fund-raising and transaction mechanisms

The Law also enhances fund-raising and transaction mechanisms by legalizing direct public fund-raising (crowdfunding) and promoting securitization activities. It introduces special-purpose vehicles and trustees and recognizes close-out netting mechanisms to optimize net transaction values. These changes are intended to shorten transaction processes, facilitate fund-raising, and simplify financial transaction processes. Furthermore, the Law acknowledges smart contracts, which will standardize and digitize contract documentation, including for cross-border agreements.

Previously, the Civil Code required individual settlement of transactions, including in cases of bankruptcy or settlement failures. The introduction of close-out netting in the Law, previously a *lex specialis* under the Capital Market Law, now allows netting for bilateral transactions if one transaction fails.

Strengthening investor protection and enforcement

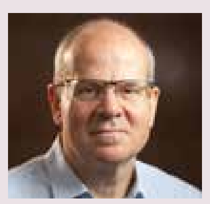
A crucial aspect of the Law is its focus on bolstering investor protection and enforcement mechanisms. It expands the OJK's authority and introduces improved dispute resolution measures. Notable enhancements include stronger shareholder rights in issuer liquidation and mandatory privatization for delisted issuers.

On the enforcement front, the law introduces principles such as *una via* and disgorgement in the capital market, adjusts penalty ranges, and grants OJK greater preventive powers. These measures aim to enhance market integrity and uphold high standards of conduct.

Conclusion

The Law represents a significant leap forward for Indonesia's financial market. By clarifying authority, expanding market access, increasing financial instrument diversity, and strengthening enforcement, the law aims to foster a more robust, transparent and competitive financial environment. These reforms are expected to support market stability, ultimately enhancing the integrity of Indonesia's financial system.

Agustyatun Muji Rahayu is Deputy Director, Capital Market Development & Regulation (agustyatun@ojk.go.id), and Rai Sudani is Deputy Director, Securities Companies Supervision (ninyoman.rai@ojk.go.id), OJK, Indonesia.



Brazil: a growing market

by **Jose Carlos Doherty**

As the largest capital market in Latin America, Brazil has become a strategic hub for investors and companies seeking financing. The country has reached a level of sophistication comparable to major global markets, offering a wide range of instruments to cater to various sectors of the economy.

The rising figures confirm this trend: as of August 2024, total issuances across all fund-raising instruments reached R$484.2 billion, up 4% from the entire year of 2023.

This growing volume and variety of instruments reflect the entry of new issuers, which in turn attract a broader range of investors, making the fixed income secondary market more dynamic and diversified.

Fixed income continues to dominate investment portfolios in Brazil, reflecting the conservative profile of investors, shaped by historical and structural factors. As a result, debentures account for the largest share of issuances, representing 59% of total fund-raising this year. New instruments like commercial notes, introduced to the Brazilian market in 2021, are also gaining traction, particularly among smaller companies, with total issuances surpassing R$102 billion since their launch, now accounting for 6% of total issuances this year.

At the same time, the maturing of securitization and structuring instruments has expanded investment opportunities in assets from highly significant economic sectors. In real estate, we have Real Estate Receivables Certificates (CRIs) and Real Estate Investment Funds (FIIs). In agribusiness, key instruments include Agribusiness Receivables Certificates (CRAs) and Investment Funds in Agro-Industrial Production Chains (Fiagros).

The increase in bond offerings in recent years has strengthened the fixed income secondary market, both through the availability of more assets and the entry of new investors. Notably, incentivized debentures – long-term bonds tied to infrastructure projects that offer tax exemptions to individual investors – have played a key role. The participation of these investors in trading tax-exempt debentures has democratized access to the capital markets and resulted in more widely distributed transactions within the segment.

Incentivized debentures now account for 37.7% of transactions (up to July 2024), providing funding for infrastructure projects, particularly in electricity, sanitation, transportation, oil and gas industries.

This trend has enhanced liquidity not only for these securities but for the entire corporate credit market. Currently, debt securities make up 32.7% of the financing structure for Brazilian companies, a share that aligns with what is seen in more mature economies. Eight years ago, this share was below 18%.

The challenge for Brazil's capital markets is to maintain growth and attract foreign investors, whose participation in private debt securities remains minimal. However, the situation is different with Government bonds: 9.8% of Brazil's public debt, equivalent to R$670 billion, is held by non-resident investors.

Between 2018 and 2024, private issuances grew at an average annual rate of 13%. The outlook is optimistic, supported by forecasts for inflation, interest rates, and GDP growth. Adding to this is a stable regulatory environment, bolstered by new rules that came into effect in 2023, aimed at making issuances simpler, faster, and less costly. Equally important is the role of self-regulation, led by the Brazilian Financial and Capital Markets Association (ANBIMA), in partnership with the Securities and Exchange Commission of Brazil (CVM), ensuring market needs are met and procedures are in place to facilitate transactions while enhancing operational security.

Jose Carlos Doherty is Chief Executive of the Brazilian Financial and Capital Markets Association (ANBIMA).

ICMA Capital Market Research

ICMA Capital Market Research

Second ICMA Repo and Sustainability Survey: Summary Report
Published: 30 August 2024
Author: Zhan Chen, ICMA

Korean Treasury Bonds: An International Perspective
Published: 25 July 2024
Authors: Alex Tsang, Mushtaq Kapasi and Christhoper Matthew, ICMA with contributions from Ilhwan Kim and Vicky Cheng, Bloomberg

The Asian International Bond Markets: Development and Trends (Fourth edition)
Published: 26 March 2024
Authors: Andy Hill, Mushtaq Kapasi and Alex Tsang, ICMA, with support from the Hong Kong Monetary Authority

Use of RMB-Denominated Bonds as Collateral for Global Repo Transactions
Published: 26 March 2024
Author: Joint report by ICMA and the China Central Depository & Clearing Co Ltd (CCDC)

Bond Markets to Meet EU Investment Challenges
Published: 21 March 2024
Author: Julia Rodkiewicz, ICMA

ICMA Report: European Secondary Bond Market Data (H2 2023)
Published: 19 March 2024
Authors: Simone Bruno and Andy Hill, ICMA (produced in collaboration with Propellant digital)

Liquidity and Resilience in the Core European Sovereign Bond Markets
Published: 5 March 2024
Author: Andy Hill and Simone Bruno, ICMA

Transition Finance in the Debt Capital Market
Published: 14 February 2024
Authors: Nicholas Pfaff, Ozgur Altun and Stanislav Egorov, ICMA

ICMA ERCC Briefing Note: The European Repo Market at 2023 Year-End
Published: 29 January 2024
Author: Andy Hill, ICMA

Considerations for Risk Factors and Disclosure in DLT Bond Offering Documents
Published: 21 November 2023
Author: Gabriel Callsen, ICMA

ICMA Guide to Asia Repo Markets: South Korea
Published: 8 November 2023
Author: Richard Comotto

Market Integrity and Greenwashing Risks in Sustainable Finance
Published: 10 October 2023
Authors: Nicholas Pfaff, Simone Utermarck, Ozgur Altun and Stanislav Egorov, ICMA

ICMA Report: European Secondary Bond Market Data (H1 2023)
Published: 27 September 2023
Authors: Simone Bruno, Andy Hill, Nina Suhaib-Wolf, ICMA (third semi-annual report, produced in collaboration with Propellant digital)

ICMA Report: European Secondary Bond Market Data (H2 2022)
Published: 25 April 2023
Author: Andy Hill, ICMA (second semi-annual report, produced in collaboration with Propellant digital)

ICMA Analysis: SFTR Public Data for Repo in 2022
Published: 31 March 2023
Author: Richard Comotto

The Asian International Bond Markets: Development and Trends (Third edition)
Published: 29 March 2023
Authors: Andy Hill, Mushtaq Kapasi, and Yanqing Jia, ICMA, with support from the Hong Kong Monetary Authority

ICMA ERCC Briefing Note: The European Repo Market at 2022 Year-End
Published: 26 January 2023
Author: Andy Hill, ICMA

White Paper on ESG Practices in China
Published: 10 January 2023
Author: Joint report by ICMA and the China Central Depository & Clearing Co Ltd (CCDC)

ICMA Events, Education and Training

Highlights from the 10th Annual Conference of the Principles

The 2024 Annual Conference of the Green, Social, Sustainability and Sustainability-Linked Bond Principles (collectively known as the "Principles") was held in Amsterdam on 25 June. The Principles are the leading framework globally for the issuance of sustainable bonds and are the *de facto* standard referenced by over 98% of sustainable bond issuance internationally. The Principles underpin a market representing $5 trillion of securities, the largest source of debt capital finance available for sustainable projects and transition finance.

The full-day conference agenda combined keynote speeches and panel discussions with leading market figures and experts in sustainable finance. It featured key updates on the 2024 Guidance from the Principles, as well as the critical topics being debated in sustainable finance from a global perspective, including: a look at enabling the transition with the sustainable bond market; the impact of policy and innovation on the market; market integrity; Dutch leadership in sustainable finance; and regulatory developments in Asia.

Highlights from The FinTech and Digitalisation Forum

The automation and digitalisation of the industry is one of the most important topics being discussed by our global membership and the wider market. The evolution of the digital bond ecosystem, the emergence of AI as a potentially disruptive force, and the criticality of models and standards were all on the agenda and debated this year.

The 2024 ICMA FinTech and Digitalisation Forum, held in London on 18 September, combined keynote speeches and panel discussions with leading market figures and experts working in the FinTech and digitalisation space, from the buy and sell side, market infrastructure providers along with software and data vendors. The event also featured SSA issuers and international regulators active in this space.

Following opening remarks from ICMA Chief Executive, Bryan Pascoe, who discussed the importance of DLT adoption and furthering the use of tokenised transactions in financial markets, the first panel of the day focused on how digital bonds are spearheading the growth of a new ecosystem, with a deep dive into the role of CSDs, the settlement process and the scoping of various sandbox projects around the world, with a specific focus on the Digital Securities Sandbox operated by the UK's Financial Conduct Authority and the Bank of England.

Throughout the day, other conversations focused on a number of key issues, including: the latest advances in fixed income market innovation; developments with AI transformation; HKMA's Digital Green Bond Issuance; the role of technology to accelerate the journey towards sustainability and data reliability; and closed with a thought-provoking discussion on whether the new digital world will ever fully replace the legacy market.

We would like to express our appreciation for our many speakers, sponsors and exhibitors, members and delegates who continue to support ICMA events.

Forthcoming events

This autumn, ICMA will host a number of our annual in-person conferences, addressing the latest developments across asset management as well as primary and secondary markets. You can also look out for our schedule of topical webinars and podcasts.

Date / Location	Event
16 October LONDON	The AMIC Forum: Mind the Gaps – Democratisation of Investing and Financing the Real Economy
23 October DUBLIN	ICMA Women's Network: Unlocking the Power of Networking – a masterclass with Jean Evans
29 October FRANKFURT	ICMA German region: Networking lunch
31 October HONG KONG	Innovation in Capital Markets
6 November SINGAPORE	Innovation in Capital Markets
12 November LONDON	European Primary Market Forum
15 November BRUSSELS	European Repo and Collateral (ERCC) General Meeting
18 November ROME	ICMA Women's Network: Sinergie di leadership: stili di leadership diversi e inclusivita
22 November TOKYO	8th Annual ICMA & JSDA Conference: Enabling Sustainable Society/ Economy-Wide Transition through Sustainable Bonds
6 December LONDON	Secondary Market Forum

Further information on these events will be announced in due course. Up to date details on all forthcoming ICMA events are available at www.icmagroup.org/events or contact events@icmagroup.org

To discuss sponsoring an ICMA event, contact sponsorship@icmagroup.org

Recordings of a selection of our events are available via the ICMA website. In addition, we continue to produce a range of podcasts featuring important stakeholders in the market, discussing their views on a variety of issues relating to capital markets. With more than 360 podcasts and an impressive 141,578 downloads to date from across the globe, the ICMA Podcast series remains a valued service for the market.

FINANCIAL MARKET FOUNDATION QUALIFICATION

NEW VIDEO-BASED COURSE

Previously only available as a pdf-based course, we're excited to launch the Financial Markets Foundation Qualification (FMFQ) in an **all-new video-based format**!

- 26 module videos
- Downloadable scripts
- Quizzes
- Practice exam

Available from October 1st

The training provider for the capital markets

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
BDT Bond Data Taxonomy
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
CCBM2 Collateral Central Bank Management
CCP Central counterparty
CDM Common Domain Model
CDS Credit default swap
CIF ICMA Corporate Issuer Forum
CMU EU Capital Markets Union
CoCo Contingent convertible
COREPER Committee of Permanent Representatives (in the EU)
CPC ICMA Commercial Paper Committee
CPMI Committee on Payments and Market Infrastructures
CPSS Committee on Payments and Settlement Systems
CRA Credit rating agency
CRD Capital Requirements Directive
CRR Capital Requirements Regulation
CSD Central Securities Depository
CSDR Central Securities Depositories Regulation
CSPP Corporate Sector Purchase Programme
CSRD Corporate Sustainability Reporting Directive
CT Consolidated tape
CTP Consolidated tape provider
DCM Debt Capital Markets
DEI Diversity, equity and inclusion
DLT Distributed ledger technology
DMO Debt Management Office
DNSH Do no significant harm
DvP Delivery-versus-payment
EACH European Association of CCP Clearing Houses
EBA European Banking Authority
EBRD European Bank for Reconstruction and Redevelopment
EC European Commission
ECB European Central Bank
ECJ European Court of Justice
ECOFIN Economic and Financial Affairs Council (of the EU)
ECON Economic and Monetary Affairs Committee of the European Parliament
ECP Euro Commercial Paper
EDDI European Distribution of Debt Instruments
EDGAR US Electronic Data Gathering, Analysis and Retrieval
EEA European Economic Area
EFAMA European Fund and Asset Management Association
EFC Economic and Financial Committee (of the EU)
EFTA European Free Trade Area
EGMI European Group on Market Infrastructures
EIB European Investment Bank
EIOPA European Insurance and Occupational Pensions Authority
ELTIFs European Long-Term Investment Funds
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
ESAP European single access point
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
ESRS European Sustainability Reporting Standards
ETF Exchange-traded fund
ETP Electronic trading platform
€STR Euro Short-Term Rate
ETD Exchange-traded derivatives
EURIBOR Euro Interbank Offered Rate
Eurosystem ECB and participating national central banks in the euro area
FAQ Frequently Asked Question
FASB Financial Accounting Standards Board
FCA UK Financial Conduct Authority
FEMR Fair and Effective Markets Review
FICC Fixed income, currency and commodity markets
FIIF ICMA Financial Institution Issuer Forum
FMI Financial market infrastructure
FMSB Financial 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
GHG Greenhouse gas
GHOS Group of Central Bank Governors and Heads of Supervision
GMRA Global Master Repurchase Agreement
G-SIBs Global systemically important banks
G-SIFIs Global systemically important financial institutions
G-SIIs Global systemically important insurers
HFT High frequency trading
HKMA Hong Kong Monetary Authority
HMRC HM Revenue and Customs
HMT HM Treasury
HQLA High Quality Liquid Assets
HY High yield
IAIS International Association of Insurance Supervisors
IASB International Accounting Standards Board
IBA ICE Benchmark Administration
ICMA International Capital Market Association
ICSA International Council of Securities Associations
ICSDs International Central Securities Depositories
IFRS International Financial Reporting Standards
IG Investment grade
IIF Institute of International Finance
IMMFA International Money Market Funds Association
IMF International Monetary Fund
IMFC International Monetary and Financial Committee
IOSCO International Organization of Securities Commissions
IRS Interest rate swap
ISDA International Swaps and Derivatives Association
ISLA International Securities Lending Association
ISSB International Sustainability Standards Board
ITS Implementing Technical Standards
KID Key information document
KPI Key performance indicator
LCR Liquidity Coverage Ratio (or Requirement)
L&DC ICMA Legal & Documentation Committee
LEI Legal Entity Identifier
LIBOR London Interbank Offered Rate
LTRO Longer-Term Refinancing Operation
LMT Liquidity management tool
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
NBFI Non-bank financial intermediation
NCA National competent authority
NCB National central bank
NPL Non-performing loan
NSFR Net Stable Funding Ratio (or Requirement)
OEF Open-ended fund
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
QMV Qualified majority voting
RFQ Request for quote
RFRs Near risk-free reference rates
RM Regulated Market
RMB Chinese renminbi
RMO Recognised Market Operator (in Singapore)
RPC ICMA Regulatory Policy Committee
RSP Retail structured products
RTS Regulatory Technical Standards
RWA Risk-weighted asset
SBBS Sovereign bond-backed securities
SEC US Securities and Exchange Commission
SFC Securities and Futures Commission
SFDR Sustainable Finance Disclosure Regulation
SFT Securities financing transaction
SGP Stability and Growth Pact
SI Statutory instrument
SLB Sustainability-Linked Bond
SMEs Small and medium-sized enterprises
SMPC ICMA Secondary Market Practices Committee
SMSG Securities and Markets Stakeholder Group (of ESMA)
SARON Swiss Average Rate Overnight
SOFR Secured Overnight Financing Rate
SONIA Sterling Overnight Index Average
SPV Special purpose vehicle
SRF Single Resolution Fund
SRM Single Resolution Mechanism
SRO Self-regulatory organisation
SSAs Sovereigns, supranationals and agencies
SSM Single Supervisory Mechanism
SSR EU Short Selling Regulation
STS Simple, transparent and standardised
T+1 Trade date plus one business day
T2S TARGET2-Securities
TD EU Transparency Directive
TFEU Treaty on the Functioning of the European Union
TLAC Total Loss-Absorbing Capacity
TMA Trade matching and affirmation
TONA Tokyo Overnight Average rate
TR Trade repository
VNAV Variable net asset value

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 8375 6613
25 rue du Quatre Septembre
75002 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

icmagroup.org