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ICMA Quarterly Report

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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 over 610 members in 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.

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Foreword

Adapt and reset

by **Bryan Pascoe**

The last two months have delivered a fundamental realignment in the established norms of geopolitics, international relations and trade activity. Unsurprisingly this has caused a major jolt in confidence in financial markets, impacting significantly on underlying volatility, unpredictability and risk appetite. Markets are having to recalibrate at pace. The good news is that, in the fixed income space at least, readjustment has taken place in a largely orderly manner. Secondary markets have remained liquid, repo markets well-functioning and primary markets accessible. With the inflation and economic outlook picture highly uncertain, political headlines driving market sentiment more than ever, heavy additional debt issuance on the near- and long-term horizon and, structurally, many areas of the market now dominated by non-traditional players and new liquidity providers, it is impossible to know what is round the corner. One thing for sure is that avoiding complacency is essential.

The forward-looking supply picture, particularly in Europe, throws up new challenges as governments look to finance extensive long-term investment programmes in areas such as infrastructure, energy transition and defence. In Germany, the Government's plans for a strategic revival of infrastructure investment mark a significant shift in fiscal policy direction, with direct implications for primary markets and the broader investor base. Positively, many market participants welcome the additional supply of bunds although this will undoubtedly have knock-on effects on other markets and the supply increase will also come from other jurisdictions that do not benefit from such current scarcity. Caution is required as to how this will be absorbed given the changes in market structure we observe, and the market is seemingly being stretched. Of course, many questions remain unanswered for the time being, including by whom and over what time period the defence-related issuance will take place, so there will be much to learn and adjust to.

Away from the vagrancies of the market Q1 2025 has also seen a distinct intensification in regulatory and policy activity, shaping the global capital markets in increasingly complex ways, as simplification (led by the sustainable finance space where much change is afoot and where ICMA has continued to be highly active) and the competitiveness agenda now vie with the trend of additional regulation to which we have become largely accustomed.

Amid these developments, ICMA has continued to act as a central forum for dialogue and a strong advocate for efficient and well-functioning capital markets. One of the most significant areas of focus this quarter has been on activity by Non-Bank Financial Intermediaries (NBFI). The Financial Stability Board's (FSB) consultation on leverage in NBFI, published at the end of last year, builds on earlier reports and sets out proposed policy measures intended to monitor and contain systemic risk. ICMA's response, led through our Asset Management and Investors Council (AMIC) and the European Repo and Collateral Council (ERCC), has been both detailed and constructive.

While ICMA supports efforts to enhance market resilience, the heterogeneity of NBFI actors means that any regulatory approach must be carefully calibrated to avoid reductions in market liquidity, barriers to hedging, and disincentives to prudent risk transfer. We have strongly encouraged the FSB and relevant authorities to leverage existing available data in a more coordinated manner (where possible) and to align oversight and supervisory frameworks more effectively, recognising the robustness of many current reporting and leverage controls already in place. ICMA also acknowledges the benefit of proportionate and timely measures targeted at specific areas of market activity that impact on core markets and where interconnectivity and concentration risks are greatest.

In parallel, ICMA has been closely engaged in European regulatory and policy developments, particularly

in response to the European Commission's Savings and Investments Union (SIU) Strategy. This initiative marks a significant step forward in the evolution of the Capital Markets Union (CMU) and is built around four strategic pillars: increasing retail participation, improving investment and financing channels, achieving deeper market integration, and enhancing supervisory efficiency across the EU. There is a renewed urgency and focus here on deliverables which promises to bring some specific actionable progress rather than conceptual discussion, and this is encouraging.

We welcome the Commission's renewed ambition, particularly its recognition that capital markets must play a central role in supporting Europe's strategic objectives, from green innovation and digitalisation to economic competitiveness and security. However, it is notable that fixed income markets – despite their scale and importance – receive relatively limited attention in the current strategy, aside from in the context of securitisation and pensions reform. ICMA has emphasised the indispensable role of bond markets in mobilising capital at scale and at lower cost, and we will continue to advocate for policy measures that foster greater depth, accessibility and investor confidence in this space.

Building on this, I am pleased to highlight recent flagship events so far in 2025 that underscore ICMA's commitment to building market depth, international connectivity, and cross-border collaboration. In Riyadh, we partnered with ISDA and ISLA to deliver a high-level programme on liquidity, repo, derivatives, and bond market infrastructure. The event reflected Saudi Arabia's ambition to build world-class capital markets aligned with Vision 2030, and ICMA is proud to support these developments through our global best practices and repo market frameworks.

In Beijing, our second annual China Debt Capital Market Forum reaffirmed ICMA's long-standing partnership with the region and our support for the continued development and opening of China's markets. The event provided an invaluable platform for dialogue on developments in the onshore repo market, the integration of sustainable finance, and the role of digitalisation in evolving fixed income market structure. And finally, in Accra we are holding our inaugural event on shaping the future of West Africa's bond markets, supporting key regulatory and market initiatives to build depth, resilience and scale in the region. All these discussions reflect the increasing interconnection of global markets and our central role in supporting consistent standards, building market capacity and driving inclusive growth.

As we look ahead, our preparations for the ICMA Annual General Meeting and Conference (Frankfurt, 4-6 June) are well underway and the event is shaping up to be one of our strongest to date. The AGM remains a cornerstone of our calendar – bringing together senior market professionals, regulators, and policy makers from across the world. I look forward to the thoughtful debate and insights it will generate on the issues that matter most to our community, as well as the extensive opportunities for networking and catching up with old friends and colleagues which we will enjoy. This will also provide us, as always, with the perfect forum to show our appreciation to all our members for your continued engagement, active involvement and support.

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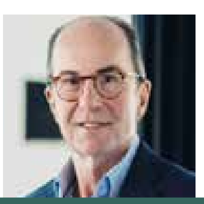
Debt relief under New York and English law



by **Leland Goss**

Over the past five years developing nations have endured the market fallout from the COVID-19 pandemic, central banks' quantitative tightening and Russia's invasion of and war with Ukraine, leading many emerging economies into high stress levels. Over that period Sri Lanka, Ethiopia, Ghana, Suriname, Argentina, Ecuador, Zambia and Lebanon have come through restructurings of debt owed to official and foreign private creditors.

With roughly US$1 trillion outstanding, just over half of the world's emerging market sovereign debt is issued under New York State law and nearly half under English law. Following efforts in the past few years to enact legislation in New York purportedly to address perceived shortcomings with the existing sovereign debt restructuring framework, a private members bill with similar aims has been introduced in the UK Parliament.

Why is this relevant? Well, all debts including government debts are essentially contracts and therefore subject to a specified governing law allowing courts to interpret and enforce the terms of these bonds that can have significant implications and outcomes for both sovereign borrowers and bondholders. What is different about sovereign debt from commercial or other non-government debt is that there are unique obstacles to enforcing a borrowing country's promise to repay borrowed amounts, while at the same time there is no Chapter 11-like or other judicial insolvency process as there is for certain corporate debtors for whom an empowered bankruptcy court can effect an orderly and fair allocation of assets or other debt treatment amongst creditors.

So that leaves resolution of disputes between government borrowers and their bondholders and other creditors to a largely *ad hoc*, collective and consensual negotiation process, with no insolvency law or bankruptcy framework to manage it, that too often is not only contentious but can become harmfully time-consuming for the debtor country. Delay in sovereign debt restructuring not only increases cost for both sides but also allows a country's economic position to continue to deteriorate and delays implementation of needed structural and fiscal reforms and its regaining access to external markets.

These proposals are well intended …

The proponents of statutory measures introduced in the New York State legislature and in the UK Parliament are rightly concerned at the increased number of overindebted countries today either in or verging on distress and at their future prospects. Indeed, we may be facing an unprecedented whole raft of simultaneous debt crises as these emerging market economies struggle with increasing debt servicing costs on their already-fragile finances.

Supporters further contend that the existing *ad hoc*, market-based framework for restructuring sovereign debt is unsatisfactory in providing countries in distress fast and effective debt relief. This is a fair point, as the existing process is far from perfect.

More pointedly, the main problem cited by proponents that makes it necessary to have a legislative solution are "holdout creditors", usually hedge funds that seek to block restructurings, including through litigation, by holding out for repayment in full (to which they and all bondholders are legally entitled) while other creditors agree to compromise their claims and suffer sizable haircuts.

This, however, is a problem for the most part already solved: the market reality is that while holdout creditors ten or so years ago were an issue, for example, in the high profile litigation brought by investors against Argentina in the US federal courts, the holdout problem has been largely resolved and mitigated through the use of enhanced collective action clauses (CACs), majority voting provisions in bonds that can bind a minority of holdout creditors who vote against restructurings. CACs work because creditors know that courts can and will enforce without difficulty CACs against holdout creditors if they try to enforce repayment in full. Today it is widely accepted that litigation by private creditors

is now rare and not really a problem or reason to warrant the legislation proposed in New York and the UK. While attempting to solve for a problem that has been effectively addressed, these proposed laws will actually create serious problems.

... but will harm the sovereign borrowers they seek to help

Both proposals differ in a number of respects but also share a common feature which is likely to damage the emerging economies' pricing of and access to public debt markets. They effectively give the debtor country the ability to unilaterally override its fundamental obligation to repay creditors in full at maturity and instead cap investor recoveries at a potentially much lower amount. In short, the capped amount can be no more than what the bondholder would have recovered if it had accepted an offer by the debtor on comparable debt treatment terms to official creditors (specifically, the US Government in the case of the New York law).

Thus, this would retroactively re-write outstanding bond contracts, removing strengthened and beneficial CACs and also compel pension funds, institutional asset managers and insurance companies holding bonds to take, without negotiation or their consent, haircuts on their assets, limiting their recovery to an ambiguous burden sharing standard. The drafting of this key "price cap" provision in both proposals is sufficiently imprecise and riddled with uncertainties that ironically it will open multiple new avenues for court challenges by creditors' lawyers that are not possible in the absence of the proposed laws.

Now, one may argue that this is little different than what happens in most restructurings, ie the private creditors understand and accept that their debt treatment can be no more favourable than the terms for official creditors (known as "Comparable Treatment") and that a supermajority vote in favour of a restructuring binds minority creditors who oppose it, obligating them to take the same write downs. But there is a crucial difference: under the existing restructuring process, there is *consent* by all creditors, either to compromise their claim directly or by virtue of accepting the operation of CACs to bind minority creditors.

The unintended and undesirable consequences from this ought to be apparent. The elimination of democratic consent to accept losses that is customarily negotiated and voluntarily given by bondholders in restructurings will in the end compromise and devalue emerging market bond markets and damage the asset class. Why should a pension fund hold a debt instrument that can have its right to repayment reduced at will by the debtor without the investor's negotiation and agreement? This will result in higher risk, and in turn, regressively increased borrowing costs and debt burdens to be suffered by overindebted countries, and in some cases loss of market access altogether.

While the proposed laws are not needed to stop holdout creditor litigation due to the increasing prevalence of enhanced CACs, there indeed remain other more pertinent problems to be solved with the existing restructuring framework, including the more heterogeneous nature of the emerging market investor base today and differing incentives and objectives among official and private sector creditors, giving rise to complex issues of inter-creditor equity and coordination. These issues are being addressed by practitioners and progress has been made in this regard by the Global Sovereign Debt Roundtable, whereas the legislation proposed will create more problems than it solves.

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EU Savings and Investments Union Strategy: summary of key points

by **Natalie Westerbarkey**

Introductory remarks

ICMA provided detailed recommendations on the four EU Savings and Investments (SIU) Strategy areas in the ICMA response from 7 March 2025[1] to the EU SIU call for evidence published on 3 February 2025[2].

In our contribution from 7 March 2025, ICMA outlines how *the fixed income market* plays a key role in achieving EU investment needs by providing low-cost, simple solutions for retail investors' wealth creation and alternative funding sources for corporations in addition to bank loans, resulting in the promotion of sustainable and innovative growth in Europe.

In the EU SIU Strategy, however, there is notably little focus on fixed income other than securitisation and the indirect effects of more retail investment and pension fund growth.

ICMA would like to emphasise the *importance of bond markets* for all aspects of funding and investing initiatives for citizens and corporates as an *indispensable element* to deliver on the EU's economic growth and sustainability agenda.

Summary of key points

This note summarises key points related to capital markets of the *EU Savings and Investments Union Strategy* (SIU Strategy) to foster citizens' wealth and economic competitiveness in the EU.[3]

1 The EU SIU Strategy is about 20 pages long and explores how the EU's economic potential can better serve citizens, businesses, optimise both markets and supervision, alongside suggested improvements for the Banking Union.

2 The EU UCITS investment funds framework is highlighted as a globally successful brand and the leading investment vehicle, especially in sustainable finance.

3 Reference is made to the Commission's Competitiveness Compass[4], which identified three imperatives to boost competitiveness: promoting venture capital, especially related to technology, a joint roadmap for decarbonisation, and reducing excessive foreign dependencies and increasing security.

4 The EU SIU Strategy builds on four core areas:

(1) Citizens and savings: wealth creation for individuals.

(2) Investments and financing: funding EU business for growth.

(3) Integration and scale: integration and efficiency of capital markets.

(4) Efficient supervision: promoting an effective EU single rulebook.

5 The implementation of the SIU Strategy is considered a shared responsibility of EU Member States and EU Institutions, building on the progress made by the Capital Markets Union (CMU) over the last 10 years.

6 The SIU Strategy highlights that both legislative and non-legislative measures will need to be adopted. It recognises, however, that for reasons of competitiveness the pace of action needs to accelerate and can only be achieved if combined with industry-led efforts.

7 Financial markets play a key role in promoting economic growth, generating wealth for citizens and providing

1. ICMA contribution from 7 March 2025 to the EU SIU call for evidence from 3 February 2025
2. European Commission SIU call for evidence, 3 February 2025
3. EU Savings and Investments Union Strategy to enhance financial opportunities, 19 March 2025
4. European Commission: *A Competitiveness Compass for the EU*, COM(2025) 30 final, 29 January 2025

solutions for retirement income. These objectives are ideally achieved through shifting EU savers' deposits into key European sectors and generally European corporates; however, it should be through products aligned with the investment suitability requirements of citizens.

8 A key obstacle to unleash the full potential of European capital markets remains the barriers across EU investment borders and overall fragmentation of the market infrastructure and supervisory landscape within the EU Single Market, as laid out in the Draghi Report[5], which also highlighted that a minimum annual additional investment of €750 to €800 billion is needed to promote growth in Europe.

9 The EU SIU Strategy acknowledges, in light of global geopolitical developments, the need to prioritise investments into security and defence, sustainable prosperity and economic competitiveness, so to secure democracy and social fairness.

Citizens and savings

10 The report encourages shifting cash deposits into capital markets to obtain higher returns from citizens' savings and contribute directly to EU economic growth, especially through tax incentives on investment products. A wider choice of products is called for in terms of retirement savings, investment and insurance, which should be easy, simple and provide low-cost access.

11 The EU points to examples of investment accounts with digital interfaces that give access to a wide range of products, offer preferential tax rates or simplified tax processes, and allow a change of provider for no or low cost.

12 In some cases, the accounts and tax incentives are designed to support investment in European companies and in strategic priorities such as defence and space, research and innovation and the green transition, according to the EU SIU Strategy.

13 An opportunity for citizens to co-invest alongside public entities should be explored together with the EIB and ESM to allow retail investors to contribute to the funding of EU priorities.

14 Promoting financial literacy in pursuit of these goals is vital as a strategy to empower citizens and develop an "investment savvy" culture.[6]

15 The development of a supplementary pension sector will be a key building block. This includes auto-enrolment of occupational pensions, but also awareness-building tools such as pension tracking systems and pension dashboards.

16 The existing regulatory frameworks of occupational retirement provision (IORPs) and the pan-European personal pension product (PEPP) will be re-assessed to identify the slow uptake in the market in developing respective product offerings for retail investors. Some challenges have been identified, including pension providers being too small, fragmented markets, restrictive regulations and high fees and costs.

Investment and financing

17 The SIU Strategy aims to promote the creation of a larger pool of capital to support the European economy and lower financing costs for European businesses. It puts a focus on equity and alternative assets such as venture capital, private equity and infrastructure.

18 Access to funding especially for SMEs and small mid-caps will be critical as they play a key role in the growth of the EU economy and face barriers in accessing finance. The EuVECA label aimed to create such access, but experienced limited success due to regulatory limitations that affected its attractiveness.

19 Certain sectors would specifically benefit from growth and investments, such as Artificial Intelligence (AI), quantum and other deeptech fields, biotech and cleantech, or in the defence sector. The SIU Strategy here makes reference to the EU Defence White Paper[7] which is complemented by the objectives of the upcoming Start-up and Scale-up Strategy.[8]

20 Public funding and the SIU aim to be better aligned, for example with the new Multi Annual Financial Framework. EU spending programmes include loans, guarantees and financial instruments backed by the EU budget, and aim to mobilise co-financing from Member States and beneficiaries. However, mobilising private sector investments has been very limited so far, hence this area will be assessed in collaboration with the EIB.

21 The SIU Strategy acknowledges that securitisation can boost investment through a risk-transfer mechanism of banks to free up capital for additional lending to citizens and businesses, including SMEs. Further simplification of the framework could promote the securitisation's potential as a liquidity, capital management and risk transfer tool. Industry and the EIB could also further contribute to the development of the EU securitisation market. It aims to make proposals in Q2 2025 focusing on simplifying due diligence, transparency and adjusting prudential requirements for banks and insurers.

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5. The Draghi Report: *A Competitiveness Strategy for Europe*, 9 September 2024
6. EIOPA financial education map: including EU Member State information
7. EU White Paper for European Defence and the ReArm Europe Plan/Readiness, 19 March 2025
8. EU Initiative: *Towards a Start-Up and Scale Strategy*, March 2025

22 The European Commission also envisages working with the EIB Group and private investors to scale up the TechEU22 investment programme,[9] and the European Tech Champions Initiative 2.0 (ETCI) which will be launched ideally before 2026 by the European Investment fund (EIF), pooling capital from both private and public investors with a focus on innovation and tech companies.

23 The EU aims to increase liquidity and supply of capital to listed companies through the implementation of the Listings Act, ensuring that burdens are reduced with a view to creating more attractive public markets. The EU SIU Strategy aims to address the lack of suitable exit options as a main barrier to increase venture and growth capital investments in the EU. To increase the attractiveness, the EU plans to explore improved exit mechanisms via public capital markets and boosting secondary markets for private capital, in case IPO exits are not suitable.

Integration and scale

24 Market-driven consolidation will be facilitated through the removal of any regulatory, supervisory or political barriers. Removal of gold-plating and reducing national opinions will be a priority, working closely with the European Supervisory Authorities (ESAs) and National Competent Authorities (NCAs). The Commission will propose legislation to launch infringement procedures.

25 Legislative measures, in the form of regulations rather than directives, will be prioritised. The Commission has proposed a 28th legal regime and views the European Innovation Act[10] as a key tool to remove fragmentation especially in the areas of corporate law, insolvency, labour and tax law.

26 The EU SIU Strategy focuses, furthermore, on the consolidation of trading and post-trading market infrastructures, including through better interoperability, interconnection and efficiency supported by the latest generation of technologies and innovations, such as distributed ledger technology (DLT), tokenisation and Artificial Intelligence (AI).

27 Whilst the prudential framework for the asset management sector is considered to be sound, more can be done to address fragmentation and unnecessary regulatory burdens, especially for entities that operate cross-border in multiple EU jurisdictions. This results in unnecessary resourcing costs for industry players with a group structure, as they cannot enjoy the benefits of a passport, which increases the fees for end investors.

Efficient supervision in the Single Market

28 A single supervisor is common practice in large parts of the EU banking sector, but not capital markets, which are mostly supervised through NCAs. Harmonised supervision may also be achieved here through convergence of national supervisory practices. However, rules are often applied differently by NCAs. This can lead to unnecessary administrative burdens leading to increased costs for businesses and create supervisory arbitrage, impacting the trust between NCAs.

29 ESAs can play a key role in addressing these divergences, where NCAs face capacity constraints to support them, with a pool of expertise, technical advice, delegating specific tasks or responsibilities or using the ESAs as data and technology hub and provider of "SupTech tools".[11]

30 The EU SIU Strategy therefore proposes that ESAs and NCAs make full use of the simplification communication tools and use convergence tools where available. The EU plans to propose measures in Q4 2025 to achieve a more unified supervision, including transferring certain tasks to EU level.

Roadmap

The key measures to implement the SIU Strategy are laid out in a precise timeline:

2025 Q3: Focus on encouraging retail participation in capital markets through the creation of an EU Savings and Investment Account and establishing a financial literacy strategy. Together with the European Investment Bank (EIB) and the European Stability Mechanism (ESM) and national banks, the EU will assess the possibility of suitable financial products that allow citizens to invest into EU priority sectors.

2025 Q4: Recommendations related to the pensions sector, and specifically related to occupational pension auto-enrolment, a pensions tracking system and pensions dashboards will be developed. A review of pillar 2 Occupational Retirement Provisions (IORP) Directive and pillar 3 pension products such as the Pan-European Personal Pension Product (PEPP) Regulation will be conducted.

2025 Q4: Development of market integration and supervision measures through the adoption of a Market Infrastructure Package, barrier reduction of EU cross-border fund provision and harmonised supervision.

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9. EIB Group Strategic Roadmap: reaffirms its role as financing arm of the EU, June 2024

10. EU Competitiveness Compass launched in February 2025

11. ECB SupTech, 15 November 2023

2025 Q4: Focus also on the promotion of equity investment, ie the eligibility and clarification of equity investments by institutional investors.

2026 Q3: A review of the European Venture Capital Fund (EuVECA) Regulation will take place.

2026: Publication of a report assessing the overall situation of the EU banking system, including its competitiveness.

Q2 2027: An SIU mid-term review of the overall progress will be published.

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Making European capital markets more competitive

by **Paul Richards**

Summary

Increasing the international competitiveness of the European economy has become a priority for the authorities in both the EU and the UK. This is mainly because they both see competitiveness, not as an end in itself, but as a means of contributing to economic growth and prosperity. In the case of the EU, the Draghi Report on EU competitiveness has drawn attention to a number of ways in which the EU economy lags behind the US and has made recommendations for improvements. There are also concerns about competitiveness in the UK, where the FCA and PRA have both been given competitiveness objectives and have been tasked to consider the impact of regulation on economic growth. Given that capital markets are an integral part of the European economy, this assessment considers the steps which the authorities in the EU and the UK are planning to take with the objective of making European capital markets more competitive, and the challenges they face in doing so, under three main headings: capital market integration; simplification of capital market regulations; and the regulatory approach to risk-taking.

Capital market integration

1 The Presidents of the ECB and the European Commission have stated that "remaining competitive is fundamental for Europe's future".[1] In putting forward recommendations about how to achieve this, the Draghi Report on *EU Competitiveness: Looking Ahead*[2] and other EU official sector reports draw on comparisons with the US to propose a number of ways in which the EU could become more competitive through capital market integration:

- The EU needs to encourage saving for investment through capital markets in preference to relying on bank lending, so that EU capital markets become more like the US.
- Capital market fragmentation across Member States in the EU needs to be reduced by unifying supervision and by integrating market infrastructure, as in the US.
- Barriers to cross-border mergers in the EU need to be removed so that a consolidated EU banking system can compete more effectively with US banks.
- The financing capacity of the EU banking system needs to be increased by overcoming excessively restrictive regulation on securitisation, as already in the US.
- The EU needs to develop a common safe and liquid asset – like US Treasuries – through more borrowing in its own name to finance joint investment projects and help integrate EU capital markets.

2 As the Draghi Report on EU competitiveness and other EU official sector reports on the same theme make clear, capital market competitiveness cannot be considered in isolation. It needs to be considered in the context of the competitiveness of the European economy as a whole,

1. Christine Lagarde, President of the ECB, and Ursula von der Leyen, President of the European Commission: *Europe has got the Message on Change,* FT, 1 February 2025.

2. *EU Competitiveness: Looking Ahead,* European Commission, 9 September 2024. See also other reports on the same theme by the Eurogroup, ECB, ESMA, Letta and Noyer.

taking account of monetary policy and fiscal policy. There are additional complicating factors with potential implications for EU economic growth and inflation, in particular: uncertainty arising from the need to finance higher European defence spending in response to the Russian invasion of Ukraine; and uncertainty arising from the imposition by the US of "reciprocal tariffs". But Mario Draghi has advised that the EU's high internal barriers and regulatory hurdles "are far more damaging for growth than any tariffs the US might impose – and their harmful effects are increasing over time".[3] And, in the case of financial services, the IMF has estimated that internal barriers to the EU Single Market are equivalent to a tariff of over 100%.[4]

3 The European Commission is giving priority to implementing many of the recommendations in the Draghi Report and has proposed to use a Competitiveness Compass to measure progress.[5] The Competitiveness Compass for the EU "establishes competitiveness as one of the EU's overarching principles for action"; and states that "the EU must integrate and have deeper and more liquid capital markets as a necessary step to mobilise private sector resources and direct them towards future-oriented growth sectors".

4 As the next step, the Competitiveness Compass for the EU foreshadows the European Commission's Strategy on Savings and Investments Union (see separate article), including proposals for:

- the promotion of low-cost saving and investment products at EU level, while encouraging retail investors;
- work on the potential for private and occupational pensions to help EU citizens to plan for their retirement and channel their savings into the economy;
- action to remove barriers to market-driven consolidation of financial markets infrastructure;
- measures to promote the EU's securitisation markets to provide additional financing capacity for banks;
- measures for more unified supervision;
- the reform and harmonisation of insolvency frameworks EU-wide, including the ranking of claims and insolvency triggers or the rules for financial collateral or settlement; and
- the removal of taxation barriers to cross-border investment.

5 If these proposals are implemented, they are expected to make EU capital markets more like capital markets in the US in the longer term. But the objective is not simply to copy the US, which has had integrated capital markets for many years, but to make EU capital markets more competitive. The political process for decision-making in the EU is different in many ways from the US. It is not yet clear whether EU Member States will be willing to agree to the transfer of responsibility from national level to EU level and make the policy changes required at national level that would be required, nor how effective such a transfer would be in improving EU competitiveness in the short term, recognising that "boosting competitiveness is not a quick fix":

- If some EU Member States are not ready to support the measures proposed, one option for consideration would be to allow coalitions of willing Member States to go ahead of others, though this approach carries the risk of fragmenting the Single Market for the EU27 as a whole in the meantime. The development of the euro area within the EU provides a precedent, though qualification for membership of the euro area depends on meeting economic convergence criteria first.
- Another, possibly complementary, option is that "the Commission will propose a so-called 28th regime for innovative companies, allowing them to benefit from a single legal framework across the EU for aspects of corporate law, insolvency, labour law and taxation."[6] Agreement would first be needed on how "innovative companies" would be defined.

6 While the UK helped to develop the EU Single Market when it was a member of the EU, since Brexit the UK Government has followed a separate path to serve the needs of UK financial services and markets outside the EU Single Market. The new UK Government elected in July 2024 is committed to remaining outside the EU Single Market but is seeking to rebuild the UK/EU relationship in financial services, and has argued that "a closer economic relationship between the UK and the EU is about improving both our growth prospects".[7] The implication is that a reset of the UK/EU relationship could lead to increased growth and greater prosperity in both the UK and the EU.

7 Under the EU/UK MOU on financial services regulatory cooperation, which came into effect in 2023, the EU/UK Financial Services Regulatory Forum has been meeting at periodic intervals since then, most recently on 12 February 2025. The MOU provides an opportunity to rebuild trust between the UK and the EU over a period of time through

3. Mario Draghi: *Europe has Successfully Imposed Tariffs on Itself,* FT, 15 February 2025.

4. IMF Regional Economic Outlook: quoted in the European Commission communication on Savings and Investments Union Strategy, 19 March 2025.

5. European Commission: *A Competitiveness Compass for the EU*, 29 January 2025.

6. Christine Lagarde, President of the ECB, and Ursula von der Leyen, President of the European Commission: *Europe has got the Message on Change,* FT, 1 February 2025.

7. Address by the Chancellor of the Exchequer to the Eurogroup meeting of Finance Ministers in the euro area on 9 December 2024.

cooperation.[8] For example, the EU has decided to extend equivalence for UK CCPs for three more years until the end of June 2028. There is also scope for the UK and EU to cooperate on new market-based initiatives where the market believes that there is a strong case for the UK and the EU to follow a similar course of action in order to increase their international competitiveness, in particular in relation to the US. For example, the EU, the UK and Switzerland have decided to shorten the settlement cycle to T+1 on 11 October 2027, following the move in the US in May 2024. The financing of higher defence spending, sustainable finance and digitalisation are other issues on which it should be possible to find common ground between the UK and the EU.

Simplification of capital market regulations

8 Both the EU and the UK face a common concern that financial services regulation has become over-complex and too much of a burden on the industry to ensure their international competitiveness. They both have a common interest in cooperating on how best to simplify regulation and reduce the regulatory burden on the industry (eg by reducing reporting requirements), while continuing to comply with high international standards and not engaging in a "race to the bottom". In the UK, for example, the Chief Executive of the PRA has proposed to ease the burden of its rules on banks and insurers, saying that changes could be made without unleashing a regulatory race to the bottom.[9]

9 In the EU, the Presidents of the ECB and the European Commission have proposed that "the regulatory burden will be lightened by an unprecedented simplification effort". This includes a far-reaching simplification of legislation on sustainable finance reporting and due diligence, and may include further "omnibus" proposals in due course.[10] Similarly, the EU's Competitiveness Compass draws attention to the importance of simplification. Explaining the rationale for this, the Governor of the Banque de France has stressed that "it is no longer enough for the regulatory principles themselves to be sound – we also need to ensure that the complexity of our existing regulation or oversight does not constitute an obstacle to achieving our goals."[11]

10 There is a distinction to be drawn between regulatory simplification, on the one side, and "light-touch" regulation, which preceded the global financial crisis, on the other. It is not always clear whether the objective of the authorities in Europe is solely regulatory simplification, or deregulation as well. They now also need to take account of the regulatory approach expected from the new Administration in the US.

Regulatory approach to risk-taking

11 The debate about regulatory simplification is closely related to the debate about the regulatory approach to risk-taking. In the UK, the new Government has made it clear that the FCA needs to consider the implications for international competitiveness and economic growth in the UK before it takes regulatory action.[12] The FCA's recent competitiveness objective is a potential challenge, given its existing objectives for consumer protection and market integrity. This is because achieving more economic growth is likely to involve taking more financial risk, which may lead to more business failures and losses for consumers (eg from fraud and mis-selling). In setting out the FCA's five-year strategy on 25 March 2025, the FCA Chair said: "We want to deepen trust in financial services and shift our collective attitude across financial services to risk. Too often the focus has been on the risks of a decision taken rather than the lost opportunity of taking none. We want to change that so we can spur growth and improve lives."[13]

12 Similar questions about the balance between regulation and risk-taking arise in the EU. On the one hand, the EU Competitiveness Compass has stated that "it is necessary to stimulate greater appetite for risk-taking by private investors, using public money as an anchor". On the other, the Head of the EU Single Resolution Board has expressed concerns that "deregulating and lowering the bar on financial protections" involve taking the risk that "we will not be ready to tackle volatility. That means crises, which means less growth."[14]

13 In order to minimise the risk of failures, the EU and the UK have a common interest in ensuring financial resilience.[15] The Governor of the Bank of England has argued that, while

8. Memorandum of Understanding establishing a framework for financial services regulatory cooperation between the EU and the UK, 27 June 2023.

9. Evidence to the House of Lords Financial Services Regulation Committee, 8 January 2025.

10. *Europe has got the Message on Change,* FT 1 February 2025.

11. Francois Villeroy de Galhau, Governor of the Banque de France: *New Year Wishes to the Paris Financial Centre,* 8 January 2024.

12. Under the UK Financial Services and Markets Act 2023, the previous UK Government introduced a secondary objective for the FCA and the PRA to facilitate the international competitiveness of the UK economy and its growth in the medium to long term, subject to aligning with international standards.

13. Ashley Alder, FCA Chair: *FCA Five Year Strategy to Support Growth and Improve Lives,* 25 March 2025.

14. Dominique Laboureix, Head of the EU Single Resolution Board: quoted in the FT, 25 March 2025.

15. "Financial resilience and economic competitiveness go hand in hand.": PRA evidence to the House of Lords Financial Services Regulation Committee.

"there is a growing resistance to regulation and rule-making as memories of the global financial crisis recede", there is a continuing need to ensure that markets become more resilient, and he has proposed that the IMF could play an important role through *ex ante* surveillance.[16] In addition to applying to financial markets, the need for resilience also applies to consumers. Both the EU and the UK have a common objective of improving the level of financial literacy (eg through education in schools) to increase consumer resilience, but inevitably this will take time.[17]

Conclusion

14 The EU and UK authorities both aim to make European capital markets more competitive. Increased competitiveness in one need not come at the expense of the other. Competitiveness is not a zero-sum game. At the same time, as the Competitiveness Compass for the EU recognises, "boosting competitiveness is not a quick fix".

16. Andrew Bailey, Governor of the Bank of England: speech at King's College, Cambridge, 17 January 2025.

17. For example, the Eurobarometer survey of July 2023 estimates that only 18% of EU citizens possess a high level of financial literacy.

T+1: the impact on bond market trading

by **Andy Hill** and **Alexander Westphal**

The recent wave of shortening of settlement cycles in securities markets, that began in the US and some other jurisdictions in 2024 and is now set to be copied in Europe and elsewhere, is largely being driven by equity market considerations. According to the National Securities Clearing Corporation (a subsidiary of DTCC), the initial impact of compressing the settlement cycle from two days (T+2) to one day (T+1) in the US in May 2024 resulted in a reduction of US$3.7 billion in daily posted margin.[1] But the push for T+1 is not restricted to stock markets, and much of the global bond market is also in scope, which comes with a different set of challenges. That is not to say that a reduction in counterparty credit risk should not be welcomed in the bond markets, but bonds are not equities. In general, they do not trade on exchanges, mostly are not centrally cleared, and can be traded 24 hours across every time-zone. Compressing settlement times does not just present operational difficulties but also raises questions about the impact on trading behaviours and market liquidity.

It pays to be flexible

Very short settlement cycles in the bond markets are nothing new. The US Treasury market, the largest bond market in the world, moved to a standard T+1 cycle in 1995, with the UK gilt market following in 2000. While both are internationally traded markets, they benefit from settlement being concentrated in a single domestic CSD and clearing taking place mainly in one domestic CCP; very much in contrast to the EU's highly fragmented post-trade ecosystem. This also helps in facilitating a liquid overnight repo market, which, as we will see, is key in supporting T+1 settlement. But also, and quite importantly, the respective moves to T+1 were not regulatory requirements; rather they were agreed best practice by market participants. And this allows for a degree of flexibility.

ICMA has seen trade data that shows that while the vast majority of US Treasury and gilt trades are transacted on a T+1 basis in their own time-zone, a significant proportion settles on a longer cycle when it comes to clients in further away geographies, in particular APAC. To some extent the EU and UK's CSD Regulation, which currently prescribes T+2 settlement for securities transactions executed on trading venues, allows for an element of flexibility for trades that are "transacted privately but executed on a trading venue", which would seem to cover generic "request-for-quote" based transactions. However, there is less certainty with other trading protocols, which should be an important consideration as the market tries to put ever more trading through venues. In the case of the EU, for instance, a rigid application of the T+1 rule could restrict the access of some international investors to Europe's bond markets, at a time when it is trying to grow market-based funding for corporates and while sovereigns are looking to issue ever increasing amounts of debt.

What will happen to the repo market?

The success of T+1 will largely hinge on the ability of the repo, and securities financing transactions market more broadly, to continue to function as normal. Understanding the role and structure of the SFT market is therefore critical.

Banks' repo activity can be grouped into three main functions: (i) liquidity management; (ii) market making to support clients' funding needs (the "matchedbook"); and (iii) financing the bank's outright securities trading (the "financing book"). The first is generally the remit of the bank's treasury, while the latter two are managed by the repo desk.

Liquidity management is very much driven by the projected inflows and outflows of the bank, which are managed not only on a daily basis but over a projected time horizon, looking days, weeks, and months ahead. Similarly, matched book trading is driven by the needs of the bank's clients, which again is not restricted in terms of specific settlement dates. To a large extent, much of this activity may not necessarily be impacted by a change in the settlement cycle for outright securities trading. This is what we saw with the move to T+2 in 2014, when a significant amount of SFT activity that had previously

1. See: *DTCC Comments on Industry's T+1 Progress, 30 May 2024*

been executed on a T+2 basis did not move (and has still not moved).

The financing book, however, involves the lending or borrowing of long and short inventory in the securities trading books, and so is directly impacted by the shortening of the settlement cycle. Much of this activity is transacted for settlement one day shorter than the standard settlement cycle for the underlying trading activity, due to the fact that it is based on the closing positions of the previous day. With outright trading activity moving to T+1, this would mean a sizeable quantum of repo financing transactions being executed on a T+0 ("overnight") basis.

This is going to be important from the perspective of bond market liquidity provision and pricing. Market makers are regularly required to short-sell bonds in order to meet client needs, which is contingent on their ability to borrow securities. If the repo market becomes more expensive or less liquid, and particularly if this results in settlement fails, dealers will need to adjust their prices accordingly.

Overnight repo in the EU is not particularly liquid and is complicated by the multiplicity of settlement systems and fragmented cut-off times. It is also expensive due to the intraday liquidity needs to support real-time settlement. A more efficient solution could be that repo desks start covering their cash traders' positions late in the day on T+1, when most of the trading activity can be assumed done, thereby also benefiting from the netting efficiencies of overnight batch settlement. An alternative could be for CSDs to introduce new day-time batch settlements, say mid and late morning, which could help to improve the efficiency and liquidity of T+0 repo activity.

But for the most part, we may not see much of a change in the settlement cycles of SFT trading, noting that this is inherently flexible.

SFTs do not have a standard settlement date

The point about SFTs not having a standard settlement date is worth stressing. Given the fundamental role of SFTs in funding and liability management, both for banks and their clients, and which can span a vast time horizon, subjecting such activity to a standardised settlement date would seem nonsensical: effectively saying that you cannot manage your funding requirements until they are due. However, somewhat inadvertently, that is precisely what CSDR did in 2014. Widely acknowledged at the time as an oversight, SFTs were caught by the scope of the CSDR T+2 requirement, which technically means that SFTs with a start-date beyond two days should not be traded on a trading venue. When the market pointed out the impracticality of this (not to mention the consequences for sound risk management), NCAs quickly offered pragmatic interpretations of the Regulation that allowed for business to continue as usual. This has been the *status quo* in the EU and UK for the past ten years, although it is far from ideal from the perspective of legal certainty.

With the imminent redrafting of CSDR to support the move to T+1 in October 2027, this has provided an opportunity to bring SFTs unambiguously out of scope of the requirement. ICMA and the industry more broadly flagged this to both EU and UK authorities in 2024 following the decision of the respective jurisdictions to move to T+1. Unfortunately, this has not been as straightforward as it should have been and is still not resolved. The current draft proposal amending the EU version of CSDR has no mention of SFTs, although discussions remain ongoing. It has also prompted a realisation that the industry still has a lot of work to do to bolster regulators' understanding of the SFT market. Not least if T+1 has any chance of success.

Next stop T+0?

The ultimate goal of regulators and perhaps market stakeholders more broadly is to compress settlement cycles to same day (T+0) or even to real-time (instantaneous or atomic settlement). This will most likely be achievable. But the move to T+1 is not a part of this journey. T+1 is very much about pushing legacy settlement systems and processes, as well as the way we trade and finance securities, to the absolute limit, without breaking the market. That is not to say that it is without benefits. It has long been felt that banks and other investment firms have not dedicated sufficient investment and resources to modernise and automate their post-trade infrastructure, while the settlement ecosystem has been crying out for standardisation and even consolidation.

However, T+0 is going to require a complete reimagining of how we trade and settle securities, with a whole new architecture, and even more investment in technology and automation. Some might argue that this is a missed opportunity and that a medium-term roadmap to T+0 may have been a better use of resources rather than a short-term scramble for T+1. Accordingly, T+0 perhaps now looks even further away.

T+1 can work

While the move to T+1 for bond markets in the EU, UK, and elsewhere is not without its challenges, we have seen from the US that it can be done, as far back as 1995, even if this was with fewer inherent complexities. But if bond markets are to adapt and remain competitive and liquid, this will require paying attention to two crucial lessons: remain flexible when it comes to what investors need, and do not mess with the SFT market.

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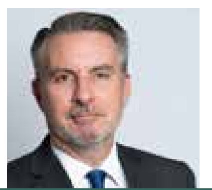
A time for change in the sustainable fund market



by **Nicholas Pfaff** and **Özgür Altun**

The International Capital Market Association (ICMA) published on 25 March 2025 a new paper with reflections and recommendations for the sustainable fund market in a new regulatory environment. We summarise here its main points and recommendations.

The sustainable fund market has experienced significant growth and now represents AUM of USD3.3 trillion. It remains, however, predominantly based in Europe which accounts for 84% of the ESG open-ended and exchange-traded fund universe[1]. Furthermore, near 60% of euro-denominated public fund assets are currently invested in Article 8 and Article 9 funds[2]. Since 2022, momentum around sustainable funds seems to have slowed down due to factors such as macroeconomic context, high rates, ESG pushback, as well as greenwashing concerns and regulation.

In their main European market, most sustainable funds face the choice of rebranding or opting out of the segment following regulation in both the UK with the FCA's Sustainability Disclosure Requirements (SDR) and investment labels, and in the EU following ESMA's Guidelines on funds' names using ESG or sustainability-related terms. This follows an earlier widespread structuring of sustainable funds since 2019 into Article 8 and 9 categories based on the EU's Sustainable Finance Disclosure Regulation (SFDR) even though these fund disclosures were not intended as investor facing labels. Prior to this and in parallel, both the official sector and the market have also promoted explicit sustainable fund labels designed to support integrity and provide clarity to investors.

The rationale for regulatory initiatives on fund naming, categorisation, and labelling initiatives is based on greenwashing concerns. The available data does not evidence that these risks crystalised at significant scale in the market, although prior regulatory action and disclosures may have also acted as early mitigants. It is important to note that the scope of ESMA's Guidelines, notably following industry dialogue led by ICMA, was adjusted to avoid unwarranted disruption of the sustainable bond market.

In practice, European regulation now requires sustainable funds to be categorised in broad categories on either sustainability, impact, or transition themes. Our in-house research illustrates the existence of market practices that mirror this implied categorisation to some degree, but such practices remain insufficiently standardised (see Annex 1 of the paper). We also note that some asset managers consider that alternatives exist to named or labelled sustainability, impact and transition funds such as funds pursuing selective forms of investing which serve underlying sustainability themes.

Further legislative and regulatory action, notably under the upcoming EU SFDR review, may lead to regulated sustainable fund categories accompanied by broader naming restrictions over and above ESMA's Guidelines. We argue that the SFDR review should remain consistent with measures to date to prevent market disruption and possible unwarranted contraction while allowing for targeted enhancements.

We also identify the risk of a potentially reductionist approach proposed by European Supervisory Agencies (ESAs) to define "sustainable investments", notably under SFDR, only in terms of alignment with the EU Taxonomy. This could dramatically and unjustifiably narrow the investable universe because of the recognised usability challenges and EU-centricity of the Taxonomy[3].

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1. Morningstar.
2. See Morningstar's *SFDR Article 8 and Article 9 Funds:* Q3 2024 Review.
3. See our reports, *Ensuring the Usability of the EU Taxonomy* (February 2022), and more recent *Commentary and Recommendations on the Simplification of EU Sustainable Finance legislation* (February 2025).

Our research shows that current market practice for the assessment of sustainable investments is much more diverse. There are several other tools that are equally important and/or complementary with dedicated instruments such as other official and recognised market taxonomies, sustainable bonds, ESG ratings, sustainability-related revenue and capex threshold methodologies, Net Zero and/or GHG reduction targets, and other transition trajectory assessments. It is critical that the industry conveys to EU legislators and regulators the risks of an unjustifiably restrictive approach to defining sustainable investment.

Our research into asset manager practices evidences the relative lack of fund offerings marketed under an explicit transition theme compared with a sustainability one. We underline the terminology and substantive challenge arising from investments in the transition space as transition occurs over a spectrum from economy-wide, via climate, to fossil fuel and "hard-to-abate" transition[4]. We also highlight the need for regulators to adapt their perception of greenwashing risks to accommodate transition investments that may lead to intermediate rather than sustainable outcomes.

We propose that transition-themed funds resulting from European regulation could focus notably on investments in transition trajectories based on KPIs from sustainability reporting and the execution of transition plans, as well as in transition-themed sustainable bonds, while also especially promoting fossil fuel and "hard-to-abate" transition. We otherwise refer to the necessity of wider policy support for transition. Based on the above, we have the following recommendations:

- Future regulation, notably from the SFDR review, should be consistent to avoid disruption and/or discouragement of the sustainable fund market, which will have substantially rebranded and reorganised because of recent initiatives. Enhancements can however be considered such as a uniform disclosure relating to the exposure of funds to investees implementing transition plans where climate transition risks are material.
- To prevent a dramatic narrowing of the investable universe in sustainability, EU regulators should not restrict the assessment of sustainable investments solely to the EU Taxonomy and remain open to other official and leading market taxonomies as well as established assessment tools and approaches.
- To grow transition-themed funds resulting from European regulation, terminology and investment strategies need to identify more specifically transition investments that cannot necessarily be accommodated by other sustainable fund categories, such as in the fossil and "hard-to-abate" sectors, while regulators may need to adapt their greenwashing prevention efforts to avoid deterring such investments.

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4. See ICMA's report, *Transition Finance in the Debt Capital Market* (February 2024).

Artificial Intelligence regulation in the bond market: finding the balance

by **Emma Thomas**

The turning tide on AI

Artificial Intelligence (AI) has dominated headlines in recent years, and the financial services industry is no exception to the rising profile of this field of computer science. A recent survey by the Bank of England and FCA identified an increase in the number of financial institutions using AI, from 58% in 2022 to 75% in 2024.[1] This notable shift towards AI innovation is also reflected in the debt capital markets, through an influx of new AI prototypes that address various industry themes such as settlement efficiency, optimising access to liquidity and streamlining legal documentation processes.

Increased activity has also necessitated a renewed focus on AI by regulators, with a large number of consultations launched in the last year alone. Since 2024, various consultations issued include a European Commission consultation on AI in the financial sector to support the implementation of the landmark EU AI Act, an FCA consultation on current and future uses of AI and the UK financial services regulatory framework, a Singapore-based consultation on a proposed model governance framework for Gen AI, an Australian Government consultation on mandatory guardrails for AI in high-risk settings, and the US Department of Treasury's request for information on uses, opportunities, and risks of AI in the financial services sector, amongst many others.[2] This demonstrates a widespread awareness of incomplete perspectives on the topic, and a heavy reliance on the few with relevant insights to share their findings with the many.

As a result, regulatory engagement has become a pivotal part of ICMA's AI in Capital Markets (AICM) Working Group. A key point raised in the Working Group was the importance of defining the scope of the term "artificial intelligence". In general, ICMA references the OECD definition of AI, which understands it to be a machine-based system that, for explicit or implicit objectives, infers from the input it receives how to generate outputs.[3] This definition, based on the OECD AI principles, extends to include machine learning (ML) and other techniques such as natural language processing (NLP), large language models (LLMs) and generative AI (Gen AI). This is an essential step to facilitate a meaningful discussion on AI, as it broadens the terminology beyond the frequent misinterpretation that focuses predominantly on generative and highly autonomous models.

Throughout these consultations specific topics recur, indicating a number of primary concerns by the regulators. These include third-party dependency, systemic risk, potential regulatory overreach or shortfalls, unknown and rapidly expanding use cases, and barriers to implementation. Two key categories emerge in relation to these topics: balancing support for innovation with the responsible use of technology.

1. See *Artificial intelligence in UK Financial Services – 2024.*

2. See European Commission consultation, *AI in the Financial Sector.*
UK Parliament Treasury Committee call for evidence, *AI in Financial Services.*
Australian Government consultation, *Introducing Mandatory Guardrails for AI in High-risk Settings.*
US Department of Treasury's request for information, *Uses, Opportunities, and Risks of AI in the Financial Services sector.*
Singapore InfoComm Media Development Authority (IMDA) and the AI Verify Foundation's consultation on a *Model Governance Framework for GenAI.*
See on the *FCA AI Input Zone* and ICMA's full response.

3. See OECD *Explanatory Memorandum,* March 2024.

Support for innovation

Innovation is a key pillar of resilient and efficient international debt capital markets. Recently, ICMA's AICM Working Group has been given first-hand insight into the ways in which AI can cross-examine legal bond documentation across various data providers, helping to shorten manual reconciliation processes, prevent settlement fails and delayed interest payments, through use of AI and ICMA's Bond Data Taxonomy. Other applications of AI in the bond markets are monitored on our tracker of fintech applications and include examples such as using AI to match potential bonds on the market with specific criteria and optimise liquidity.[4] Regulators have also played a key role in providing safe and secure ways of testing AI applications through sandboxes, such as Project Raven launched by the BIS, and the upcoming "supercharged sandbox" as part of the FCA's AI Lab.[5]

In the debt capital markets, the growing role of AI can also be seen through other avenues of innovation, such as in sustainable finance. Here, interest is increasing in AI applications that enhance the monitoring of ESG-related targets and projects. For the regulator, it raises an important consideration regarding the wider context in which AI sits, as any additional regulation or changes to existing regulation that covers AI (eg DORA) could have an unintended impact on broader industry innovation.[6] This raises an additional consideration prevalent in the industry, the risk of an operational and competition-based gap emerging between various global jurisdictions that take different approaches to AI regulation.

Responsible use of technology

Whilst AI itself is not a new technology in the debt capital markets, the evolution of Gen AI, LLMs, and NLP applications have collectively highlighted both the potential opportunities and adverse risks of AI technology. Risks to financial stability, cyber security and data protection are high on the list of concerns for many taking a holistic view of AI, and the prevalence of hallucinations and bias in Gen AI models in particular, is well-documented. Consequently, global organisations are now dealing with a growing number of guidance documents, for example the HKSAR's recent policy statement on responsible AI in the financial sector and an MAS paper setting out good practices on AI model risk management, in addition to formal regulatory expectations such as the European Union's AI Act, and pre-existing technology agnostic regulation, including MiFID II.[7]

As a result, the concept of "Responsible AI (RAI)" has emerged as a category of its own, encompassing standards for accountability, explainability ("Explainable AI" (XAI)), transparency and regulatory compliance. Currently, the industry is seeing a significant expansion of RAI teams in firms, reflecting the significant investment needed to maintain AI applications and enforce appropriate governance structures that meet regulatory and responsibility expectations.

RAI teams cannot operate alone, however; they are also dependent on a general duty of collective responsibility across their organisation. This further reinforces the pressing need to upskill and educate employees on AI and the technicalities behind their workflows. Recently, ICMA launched a new AI for debt capital markets training course that aims to address much of this knowledge gap. It explores the ethical and regulatory frameworks that govern AI, how to implement an AI strategy and various use cases in the market for different bond types.

The key points from ICMA's FCA consultation response can be seen in the FinTech and Digitalisation section of this Quarterly Report.

In summary: a delicate balance

Balancing the need for competitive, innovative markets with appropriate safeguards that address the potential risks raised by recent AI developments brings a new era of challenges to debt capital markets, for regulators and market stakeholders alike. Yet it is also important not to overlook that many AI applications have existed in harmony with existing regulatory requirements and innovated much of the industry already. In many jurisdictions, it remains to be seen how far the regulators will decide to go, if at all, and to what extent the benefits of adopting new AI applications will outweigh the work required to implement them responsibly.

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4. See *Secondary Markets, Tracker of New FinTech Applications in Bond Markets, 11 March 2025.*

5. See BIS *Project Raven* and *FCA Sandbox*.

6. For further examples, see ICMA's response to the *FCA AI Input Zone*.

7. See HKSAR policy statement, *Responsible AI in the Financial Sector, October 2024.*
See MAS information paper, *AI Model Risk Management, December 2024.*
See EU publication of the (EU) AI Act, (*Regulation (EU) 2024/1689) in the Official Journal, June 2024.*
See Question 29 in our response to the European Commission consultation on *Artificial Intelligence in the Financial Sector* for further examples of existing pieces of technology agnostic regulation that establish safeguards for responsible use of technology.

Summary of practical initiatives by ICMA

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.

MPRP membership activities

1 The MPRP team engaged in key membership annual meetings, including the ICMA networking lunches in Lisbon on 12 February 2025, Madrid on 13 February, Dublin on 28 February, Milan on 5 March and Rome on 6 March. In addition, the MPRP team actively contributed to bilateral membership meetings and with policy makers in person at these locations. The two Co-Heads of MPRP are Andy Hill and Natalie Westerbarkey.

Regulatory policy

2 *ICMA RPC:* ICMA's Regulatory Policy Committee (RPC) met in London on 5 March 2025 with HM Treasury's Richard Knox as public sector guest speaker to discuss updates on the UK relationship with the US and EU. RPC previously met in Brussels on 3 December 2024 with public sector guest speaker from the European Commission (EC), Deputy Head of Unit Alessandra Tripaldi, who focused on the Capital Markets Union (CMU), the achievements over the last five years and upcoming priorities of the successor policy, the Savings and Investments Union (SIU).

3 *ICMA RPC governance:* The RPC again discussed the possibility of putting in place a Steering Committee composed of three members ideally representing the buy side, sell side and market infrastructures, given that the latter will become an EU policy priority with a wide impact for members. Following a thorough review of candidates, three members were nominated to the RPC Steering Committee: Elisabeth Ottawa from Schroders; Carlo Brenner from Citigroup; and Pablo Portugal from Euroclear. The RPC Board Sponsors, Stephen Fisher from Deutsche Bank and Carey Evans from BlackRock, continue to support the RPC from a senior strategic perspective. Natalie Westerbarkey acts as interim RPC Secretary, and a new joiner at ICMA's Brussels office will support the RPC in future.

4 *ICMA engagement with senior policy makers:* ICMA actively engaged with senior policy makers in bilateral meetings in Brussels during a two-day visit on 14-15 January 2025 by ICMA's CEO Bryan Pascoe and the MPRP Co-Heads Andy Hill and Natalie Westerbarkey with Cabinet members of Commissioner Albuquerque (DG FISMA) and Commissioner Dombrovskis (DG Economy), DG FISMA Director General Sean Berrigan and the FSMA/IOSCO Chair Jean-Paul Servais to discuss ICMA regulatory policy priorities. A meeting with the new IOSCO Secretary General Rodrigo Buenaventura took place in Madrid on 13 February. ICMA also participated in industry events, including the ECMI Board meeting on 26 February in Brussels, a Luxembourg for Finance roundtable on 5 February on the SIU, and an EPFSF session on 5 December 2024 on the CMU.

5 *ICMA response to the EC's call for evidence on SIU:* Following the publication of the EC's call for evidence on SIU on 3 February 2025, ICMA submitted a 20-page contribution combining new insights with recent and previous contributions in support of the EC's SIU plans launched at the outset of its new five-year mandate, 2024-2029. The EC published an SIU paper on 19 March (combined with a policy paper on the EU's defence strategy) outlining the priorities and roadmap led by EU Commissioner for DG FISMA Albuquerque, which will guide ICMA members' policy priorities.

6 *EU Transparency Register:* ICMA updated its data in the European Union Transparency Register.

Primary markets

7 *ICMA PMPC, LDC and related groups:* ICMA's Primary Market Practices Committee (PMPC) met on 6 March 2025, with Ruari Ewing as Secretary. He also acts as Secretary of ICMA's Asia Pacific Bond Syndicate Forum (ABSF), which met on 23 January, and ICMA's Asia Pacific Legal and Documentation Forum (ALDF), which met on 1 April. ICMA's Legal and Documentation Committee (LDC) met on 29 January and 19 March, with Miriam Patterson as Secretary. She also acts as Secretary of ICMA's Securitisation Discussion Forum. Six roundtables (with issuers, vendors, infrastructures, traders, investors and syndicates) have been held regarding primary market innovation, led by former UBS member Armin Peter together with the ICMA Primary Market team.

8 *Regulatory reviews:* ICMA is engaged in the EU notably on the prospectus regime (with an ESMA consultation on supplements and "new types" of securities running until 19 May) and on the retail investment strategy (including PRIIPs and MiFID investor protection topics). ICMA is also engaged in the UK on the prospectus, MiFID product

governance and CCIs (PRIIPs replacement) regimes (with FCA consultations responded to on 14 and 20 March). (See also the Securitisation Taskforce below.)

9 *ICMA's Issuer Forums:* ICMA's Public Sector Issuer Forum (PSIF) met at the Council of Europe Development Bank in Paris on 18 March, where the agenda included a discussion on the consequences of the outcome of the US Presidential Election, DLT issuance and outcome bonds. 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). In addition, ICMA released a podcast with Ferrovie Dello Stato Italiane.

10 The *ICMA/AOS European Primary Bond Markets Regulation Conference* took place on 4 February. Hosted by A&O Shearman and focusing mainly on prospectus regulation, the event attracted 230 participants and included speakers from the European Commission, ESMA, various EU national regulators, the FCA and major stock exchanges as well as leading market practitioners. Following the event, AOS and ICMA jointly recorded a podcast on key takeaways from the conference.

11 *ICMA's Securitisation Taskforce:* Following the formation of ICMA's Securitisation Taskforce at the end of 2024 comprising members from the buy side and sell side, ICMA submitted a response to the European Commission's targeted consultation on *The Functioning of the EU Securitisation Framework* on 4 December 2024. As a next step, ICMA engaged with members to consider co-signing a joint association response to ESMA's consultation paper on the revision of the disclosure framework for private securitisation under Article 7 of the Securitisation Regulation. ICMA co-signed and submitted this response on 31 March 2025.

12 *JIBAR transition:* At the request of the South African Reserve Bank (SARB), ICMA is assisting with the transition from JIBAR (the South African IBOR) to ZARONIA (the local risk-free rate) until JIBAR's expected cessation at the end of 2026. ICMA (Katie Kelly) participated in a virtual panel arranged by the SARB in September 2024.

Commercial Paper and Certificates of Deposit

13 ICMA is conducting a series of interviews with market participants which will help to inform the conclusions of a paper on how to scale up the commercial paper market. Katie Kelly is the Secretary of the ICMA Commercial Paper and Certificates of Deposit Committee (CPC).

Secondary Markets

14 *T+1:* ICMA continues actively to participate in discussions in the UK and the EU related to the shortening of the settlement cycle to T+1:

- On the UK side, on 6 February 2025 the Technical Group of the Accelerated Settlement Taskforce published its final recommendations for a UK move to T+1 on 11 October 2027. ICMA has been an active member of the Accelerated Settlement Taskforce as well as the Technical Group.
- On the EU side, ESMA published its final report in November 2024 which recommended a move to T+1 on 11 October 2027, the same date as the UK. Since then, the focus has been on establishing an effective governance structure to prepare and coordinate the EU transition which was announced on 22 January 2025. ICMA is closely involved in the work, as a full member of the central T+1 Industry Committee, as well as providing the secretariat for two of the underlying technical workstreams, on trading and SFTs.

15 *ICMA BMLT:* The Bond Market Liquidity Taskforce (BMLT), led by Andy Hill and supported by Simone Bruno, is focusing on the European investment grade corporate bond market. The report is being developed in two stages: (i) an initial quantitative analysis; and (ii) qualitative interviews with ICMA members, which will be synthesised and anonymised. ICMA's preliminary statistical analysis will be shared with BMLT members in the coming weeks.

16 *Bond market transparency:* Following publication of ESMA's final report outlining the regulatory technical standards for the EU post-trade bond market deferral regime, due to come into force from December 2025, ICMA has consolidated and shared member feedback with ESMA. In March, ICMA further shared targeted recalibrations of the framework with both ESMA and the European Commission intended to afford more protection to transactions in corporate bonds, while not significantly reducing the overall levels of near real-time transparency. In January 2025, ICMA also provided its response to the FCA discussion paper in its policy statement on the *Future of the SI Regime*. A further FCA consultation on this topic is expected in Q2 2025. Both the EU and the UK are expected to hold their respective bond consolidated tape provider (CTP) tender procedures during H1 2025. Nina Suhaib-Wolf leads on ICMA's work related to bond market transparency and the consolidated tape. She is supported by Simone Bruno who has led ICMA's related data analysis.

17 *CSDR settlement discipline:* On 13 February 2025, ESMA published a consultation paper on amendments to the settlement discipline RTS under CSDR. The consultation covers ESMA's mandates to review the settlement discipline measures and other tools to improve settlement efficiency. But it is also relevant to the T+1 discussion and picks up proposals put forward in the final ESMA report. ICMA, led by its CSDR-SD Working Group, is working on a response to the consultation which will be submitted by the deadline on 14 April. (Alexander Westphal in the lead.)

18 The annual *ICMA Secondary Market Forum* took place in London on 6 December 2024, hosted by Bank of America, and was attended by more than 130 participants. The Secondary Market Practices Committee (SMPC) met on 17 December 2024 and again on 5 March 2025. Andy Hill is Secretary of the SMPC, supported by Nina Suhaib-Wolf.

19 *ETF market:* ICMA published an article in the Quarterly Report in Q1 2025 building on its analysis and roundtable on the ETF market in Q4 2024. This focused on fixed income and active ETF trends representing a key driver for market growth. ICMA also engaged bilaterally with members on the topic. Following member feedback, ICMA will prioritise its engagement in this area.

20 *The ICMA European Secondary Bond Market Data Reports,* which have been published, provide a full-year review of market developments in 2024. A major difference from previous reports is that the sovereign and corporate bond market reports are now published as two separate editions. This adjustment was made in response to valuable feedback from members, and reflects ongoing improvements, as the reports continue to expand and become more detailed in their analysis.

21 *ICMA Pre-Hedging Working Group:* In November 2024, IOSCO published a consultation report on pre-hedging, which followed an IOSCO survey on pre-hedging conducted at the end of 2023. The report included a set of recommendations and further questions to which IOSCO members were invited to respond by the deadline of 21 February 2025. Following an initial call with SMPC members in January, an ICMA Pre-Hedging Working Group was formed to build a response to this consultation and ICMA's response was submitted by the 21 February deadline. Following feedback, IOSCO is expected to publish recommendations by the end of 2025. Nina Suhaib-Wolf leads ICMA's work on pre-hedging.

22 *ICMA's Electronic Trading Working Group (ETWG)* met on 25 March 2025. Nina Suhaib-Wolf is Secretary of the ETWG, with the support of Aman Gill.

Repo and Collateral Markets

23 *ICMA ERCC:* The ICMA ERCC held its 2024 AGM on 15 November in Brussels, in the margins of Euroclear's annual collateral conference. In 2025, it is planned to organise an extended version of the event in Q3 2025 in London. Alexander Westphal acts as the Secretary of the ERCC.

24 *ERCC Committee:* Following the conclusion of the annual elections, the composition of the new ERCC Committee was announced on 7 February 2025. The first meeting of the Committee in its new composition was held on 20 March, hosted by HSBC in London.

25 *ICMA GRCF:* ICMA's Global Repo and Collateral Forum (GRCF) continues to meet virtually on a quarterly basis. The latest meeting was held on 22 January 2025, attended by well over 100 participants across ICMA's different regions. The GRCF launched a new working group to focus on repo in new and emerging markets, which held its kick-off meeting on 15 January.

26 *The European repo market at 2024 year-end:* On 29 January, the ERCC published its annual analysis of how the repo market performed over the 2024 year-end.

27 *Bank of England discussion paper:* On 30 January, the ERCC submitted a response to the Bank of England discussion paper on *Transitioning to a Repo-led Operating Framework*.

28 *NBFI leverage:* The ERCC has been working closely with AMIC on the joint ICMA response to the Financial Stability Board consultation on NBFI leverage which was submitted on 27 February.

29 *Prudential requirements:* Through its Prudential Working Group, the ERCC has been advocating on a number of concerns related to the prudential treatment of SFTs. One important discussion has been around the NSFR treatment of short-term reverse repos. On 10 February, the European Commission published a call for evidence on a proposal to address the issue. On 10 March, the ERCC submitted a short response in support of the proposal.

30 *Repo Best Practice:* On 5 March 2025, the ERCC published an updated version of its detailed *Guide to Best Practice in the European Repo Market.* The latest version introduces a number of updates on important items and replaces the previous version of the Guide, dated November 2023. Separately from the Guide, the ERCC is driving an initiative related to repo manufactured payments and has launched a related member survey.

Asset Management

31 *NBFI:* AMIC, with input from other ICMA Committees and experts, responded to the European Commission consultation on macroprudential policies for NBFI on 20 November 2024. In collaboration with the ERCC, AMIC also responded to the FSB consultation report on leverage in NBFI on 27 February 2025. This is expected to be the final NBFI consultation ahead of macroprudential policy proposals expected in Q3 2025 by the EC, and NBFI leverage policy recommendations expected in July 2025 by the FSB.

32 *AIFMD/UCITS:* On 8 October 2024, AMIC responded to the ESMA Level 2 consultations on AIFMD/UCITS, specifically on the proposed RTS on the characteristics of Liquidity Management Tools (LMTs), as well as the guidelines on the selection and calibration of LMTs. The final report is expected to be published by ESMA on 16 April 2025. Irene Rey coordinated the ICMA response.

33 *ICMA AMIC Committee:* The AMIC Committee met in Madrid on 27 March with Tajinder Singh, Deputy Secretary General IOSCO as the guest speaker. This was preceded by a dinner meeting with the CNMV the evening before. The AMIC Secretariat consists of Irene Rey.

Sustainable Finance

34 *ESG ratings providers:* On 14 January, ICMA submitted its comments to HM Treasury on its draft regulation for ESG ratings providers.

35 *Simplification of EU Sustainable Finance legislation:* On 5 February, ICMA published a new paper providing key recommendations for simplifying EU sustainable finance legislation to enhance usability and effectiveness. Key recommendations include fundamentally addressing

the usability challenges of the EU Taxonomy and its implementation, refocusing the Corporate Sustainability Reporting Directive (CSRD) data requirements, and streamlining reporting under the Sustainable Finance Disclosure Regulation (SFDR) while maintaining its flexible definition to sustainable investments.

36 *ICMA event on 10-year anniversary of the Paris Agreement:* On 4 March, ICMA held an event in Paris hosted by the Banque de France, in conjunction with its France and Monaco ICMA Regional Committee, to review the progress made 10 years after the signing of the Paris Agreement and to consider whether the debt capital market is adequately delivering on its commitments.

37 *Malta Stock Exchange Conference:* On 12 March, ICMA attended a conference hosted by the Malta Stock Exchange, where it participated in a fireside chat with IOSCO and moderated a panel entitled *The Future of Sustainable Finance*.

38 *10-year anniversary of the Nasdaq Sustainable Bond Market*: On 25 March, ICMA attended an event marking the 10-year anniversary of Nasdaq's sustainable bond financing. ICMA delivered welcome remarks and took part in a panel discussion on the future of sustainable finance.

39 *Sustainable fund market paper*: On 25 March, ICMA published a new paper with reflections and recommendations for the sustainable fund market in the context of an evolving regulatory environment. The paper identifies the implications of new regulations and examines current market practices, based on the results of targeted in-house research and building upon ICMA's previous publications.

FinTech and Digitalisation

40 *FinTech Advisory Committee (FinAC):* To ensure that FinAC represents ICMA's diverse membership and reflects ICMA's strategic priorities, a review was concluded and new members invited to join FinAC. The Committee held its first meeting on 27 February 2025.

41 *Tokenisation:* ICMA's DLT Bonds Working Group held its quarterly meetings on 14 January and 1 April to discuss advocacy on wholesale CBDC developments, latest announcements regarding a Digital Gilt, Bond Data Taxonomy and smart contracts and tokenisation initiatives globally.

42 *Wholesale CBDC:* ICMA attended a meeting of the Eurosystem's New Technologies for Wholesale Settlement Contact Group (NTW-CG) on 30 January.

43 *MAS Project Guardian*: ICMA has played an active role in the fixed income workstream, focusing on DvP settlement arrangements as well as custody of tokenised debt securities.

44 *Bond Data Taxonomy (BDT):* ICMA's BDT Working Group held its quarterly meeting on 25 February. The meeting discussed the findings of a recent BDT survey distributed to the group which sought feedback on the key problem areas that require manual intervention in the debt issuance process, and the next steps following the submission to incorporate the BDT into ISO 20022.

45 *Common Domain Model (CDM):* Bringing together over 200 participants, the third annual edition of the CDM Showcase was held on 26 February at State Street in London. The event featured demos of innovative solutions using the open-source CDM for derivatives, repo and securities lending.

46 *Artificial Intelligence (AI):* ICMA's AI in Capital Markets Working Group held its quarterly meeting on 26 March. The meeting featured a review of recent consultations published by regulators on AI and a presentation on the AI regulatory landscape globally with key considerations for compliance teams.

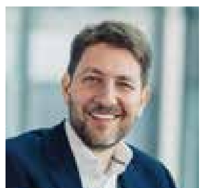
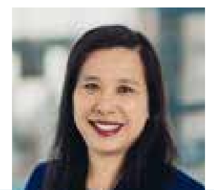
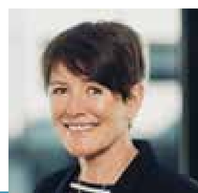
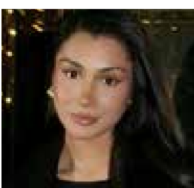
47 *Sustainable finance and FinTech:* ICMA launched a new taskforce to explore how FinTech and digitalisation can further the market drive towards more sustainable financial markets. The inaugural meeting was held on 29 January.

48 *Data collection and reporting:* ICMA participated in meetings of the UK's Industry Data Standards Committee (IDSC) in January and February.

49 *EU post-trade harmonisation:* ICMA attended meetings of the ECB AMI-SeCo Securities Group (SEG) in January, February and March, focusing on remaining barriers to post-trade integration.

50 *Meetings with regulators:* ICMA held a meeting with the Bank of England in February to discuss innovation in capital markets. ICMA and members of its DLT Bonds Working Group discussed aspects of the Digital Securities Sandbox with the FCA and the Bank of England.

Primary Markets

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

POATRS and the UK Listing Rules: ICMA response to the FCA

On 14 March 2025, ICMA submitted its response to the FCA's consultation paper CP25/2, which addresses proposed changes to the public offers and admissions to trading regime (POATRS), the product governance regime and the UK Listing Rules. The response focused on facilitating UK retail investment in bonds while ensuring that the issuance process remains as straightforward as for the current institutional framework.

ICMA emphasised the importance of the FCA taking the necessary time to finalise its requirements to ensure that the new regulations are effective and not unnecessarily burdensome. ICMA recalled the UK's official objectives of "smarter regulation" that aims to use necessary regulation and facilitate swift amendments where needed. Despite potential challenges posed by EU regulations, the UK should proceed with its reforms to enhance retail investment opportunities. Issuers are likely to support retail participation only if it does not complicate their existing institutional processes.

ICMA recommended against the requirement to publish final terms before retail offers, as unnecessary and procedurally complicated. Instead, communication of commercial terms such as tenor, size, and yield would be approved as a financial promotion. Issuers will likely continue to include legends that limit the circumstances under which their prospectus material can be communicated by third parties to investors. Additionally, retail offers conditional on admission might have statutory withdrawal rights, unlike parallel institutional offers. The proposed single disclosure standard was welcomed as it simplifies the process without compromising investor protection.

The current definition of "non-complex listed corporate bond" (NCLCB) was considered too narrow, excluding many quality credits. In the product governance context, ICMA found the proposed PROD guidance unclear in terms of its effectiveness in facilitating retail participation. Therefore, clear exemptions (similar to the FCA's Consumer Duty) are needed across both product governance and consumer composite investments (CCIs) to ensure that retail investors can access a broader range of investment opportunities.

ICMA had no particular objections to the proposed changes to the listing regime.

Generally, several technical corrections to the FCA proposals were identified and detailed in the response annexe.

ICMA will continue to engage with the FCA as it finalises its rule changes.

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Consumer composite investments: ICMA response to the FCA

On 20 March, ICMA submitted its response to the FCA's consultation paper CP24/30 relating to the FCA's new regime on consumer composite investments (CCIs) that is due to replace the legacy packaged retail and insurance-based investment products (PRIIPs) regime.

ICMA emphasised that it should be clearer that the institutional space (including unlisted bonds) continues to be excluded from the CCI regime's investor scope, recapping in passing on some of the failings of the PRIIPs regime.

In this respect, the general scoping provision of the CCI regime (in DISC 1A.1.3R) was understood to apply, rightly, only where there are clear institutional-only warnings and no inconsistent conduct by the issuer manufacturer or connected parties (bearing in mind that an issuer preparing no product summary or "core information disclosures" would amount to a *de facto* prohibition on anybody undertaking UK retail distribution).

However, the specific institutional context provisions (in DISC 1A.1.6R) seemed inconsistent with this – in applying cumulative rather than alternative requirements (for non-retail legending, for minimum investment and for offer/communication-limiting steps), in further limiting the context

to just "readily realisable securities" (a defined term involving listing on just some stock exchanges and/or an ambiguous concept of being "regularly traded" – neither of which predicate an institutional context) and in having binding "rule" status. In this respect, ICMA noted that the three specific requirements should instead be alternative, that the "readily realisable securities" qualification be dropped and that the provisions have non-binding "guidance" status.

ICMA noted that the purported exclusion (in DISC 1A.2) of the mainstream, vanilla space from the CCI regime's instrument scope (which is relevant for retail investors) is insufficient and should be clearer. ICMA cited uncertainties in several specific provisions that should be amended in this respect.

ICMA furthermore noted that the CCI regime should also be explicitly limited to the defined concept of "retail market business", as it is understood to clearly exclude both the institutional space (under its second limb referencing "non-retail financial instruments") and the vanilla space (under its third limb referencing financial instruments satisfying specified criteria, notably including stock exchange listing, no additional investor liability and no provision fundamentally impacting risk or pay out). This could extend scope clarity consistently across several regimes (CCI, the FCA's consumer duty and product governance).

ICMA otherwise noted that transitional provisions concerning implementation of the new regime should account for any widening of its scope and also allow for references to the prior legislation in transaction legending. ICMA also suggested FCA guidance could clarify that the definition of "manufacturer" under the regime excludes bond underwriting.

ICMA will continue to engage with the FCA as it finalises this new regime.

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Impact of CJEU case on asymmetric jurisdiction clauses in bond documentation

On 27 February 2025, the Court of Justice of the European Union (CJEU) handed down its judgment in the *Lastre SpA v. Agora SARL* case. In its decision, the CJEU held that asymmetric EU jurisdiction clauses are only valid under EU law if they designate with sufficient precision the alternative jurisdictions in which proceedings may be brought.

Asymmetric jurisdiction clauses are widely used in the international debt capital markets (even though their validity in the EU has been uncertain due to various cases). These asymmetric clauses typically require issuers to refer disputes to a designated court but give the dealers and bondholders the choice to bring proceedings in any competent court. Following on from this judgment:

- Parties with EU law governed asymmetric jurisdiction clauses will want to consider the impact of this judgment on the wording of the clause.
- Asymmetric jurisdiction clauses under English governing law designating the English courts are not directly impacted by the decision, but the court's findings may have a bearing on how Member State courts assess the validity of these clauses. For example, for EU issuers submitting to English courts under English governing law documents, a local law opinion is typically required as to (i) effectiveness of the submission to English courts, and (ii) an English court judgment being enforceable under local law. The impact (if any) of the judgment on these related legal issues and how they are addressed in local law opinions, as well as the consequent potential impact on the drafting of the English jurisdiction clause, is still being worked out in different Member States, and views may vary among law firms.

ICMA is aware that this issue has impacted recent deals, and the concerns raised by this judgment have been discussed by ICMA underwriter members. However, there is not likely to be an ICMA recommendation (certainly not in the near future), as the judgment's impact is still being analysed and assessed in each Member State. Nuanced decision making will need to take place on a transaction-by-transaction basis taking into account the specific fact pattern at hand and the relevant jurisdictions in question in order to decide what the best option is. Options include (i) narrowing the jurisdictions in the flexible limb of the asymmetric jurisdiction clause and (ii) moving to a mutually exclusive clause. Parties should seek legal advice as appropriate.

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Disclosure framework for private securitisation: joint association response to ESMA

On 13 February 2025, ESMA published its consultation paper on the revision of the disclosure framework for private securitisation under Article 7 of the Securitisation Regulation. The consultation paper proposes a new simplified disclosure framework for private securitisations (in the form of a new proposed Annex XVI template) which would replace existing asset class-specific templates required under Article 7(1)(a) of the EU Securitisation Regulation (SECR). ICMA joined a consortium of leading trade associations to discuss ESMA's proposal and was pleased to submit a joint response to the consultation paper on 31 March.

Summary of joint response

The joint response welcomed the move towards simplification of the SECR reporting requirements, but it strongly disagreed with the consultation paper's proposal to introduce a simplified private reporting regime in advance of the wider EU securitisation reforms that are likely to amend SECR requirements on transparency and investor due diligence. (For more on the wider reforms at Level 1, see *The Functioning of the EU Securitisation Framework* in the First Quarter 2025 edition of the ICMA Quarterly Report.)

If ESMA is considering introducing the simplified regime before the amendments to SECR Article 7 and 5 are made under the wider reforms, the joint response raised the following concerns:

- What constitutes "private" securitisation may change under the wider reforms.
- Simplification cannot be achieved if, upon request of investors or competent authorities, template-based loan-by-loan data reporting is required. Mandatory use of template-based investor reporting also reduces simplification.
- Non-EU (third country) securitisation: Market participants have been advocating for a separate private securitisation disclosure regime that includes third country securitisations to enable EU institutional investors to invest in non-EU securitisations. It is disappointing that ESMA's proposal on a simplified regime expressly excludes third country securitisations. If at this stage some solutions are heavily dependent on amendments to the primary legislation, the joint respondents would strongly support fast-tracking the securitisation package of (prudential and non-prudential) reforms.
- The proposed simplified template aimed at EU supervisors' needs (harmonising existing fragmented national notification regimes) may not be appropriate to also meet investors' needs. It is arguably not the right approach to have a template that meets both supervisors' and investors' needs as both of these groups have different foci.

The joint response proposed an alternative approach to simplified reporting for ESMA to consider, suggesting that it be introduced as part of a coherent package of fast-tracked securitisation reforms with relevant amendments in the Level 1 text of SECR relating to the more proportionate application of the Article 7 regime for private securitisations (including more proportionate application of the due diligence on transparency for non-EU securitisations under Article 5(1)(e)) and the corresponding amendments in Article 7 RTS/ITS. The alternative approach includes, among other things, the following:

- It is based on the assumption that the definition of "private" securitisation may potentially remain somewhat broad (eg it will include most, if not all, synthetic securitisations, private warehouse transactions, certain fund finance transactions etc) and will include third country securitisations.
- Annex XVI is amended and developed as a template aimed only at meeting supervisors' needs.
- No mandatory template-based reporting for asset-level and investor reporting by EU and non-EU sell-side parties on private (non-asset backed commercial paper (ABCP)) securitisations would be required (it would be a principles-based approach to reporting as the starting point).

Next steps

The consultation paper states that ESMA plans to publish a final report and submit the draft technical standards to the EC for endorsement by Q2 2025, while coordinating closely with the EC to ensure alignment with the potential Level 1 changes. ICMA will continue to engage with European regulators on this topic.

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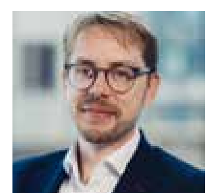
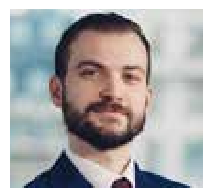
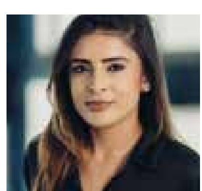
Secondary Markets

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

T+1 update

ICMA continues to be actively involved in the extensive work to prepare for the upcoming shortening of the settlement cycle for securities transactions in Europe. The following provides an overview of the current work being undertaken across the EU and the UK.

EU: regulatory framework and governance structure

In November 2024, ESMA published its final assessment on the shortening of the settlement cycle in the EU, recommending an EU move to T+1 on 11 October 2027.

Following the ESMA report, the European Commission adopted this recommendation in its quick fix legislative proposal, including very targeted CSDR amendments, which was published on 12 February 2025.

EU T+1 governance structure: EU authorities, together with industry participants, have been focused on establishing an effective new governance structure for the EU over recent months in order to prepare and support the transition to T+1, and the official launch of this new T+1 governance structure took place on 22 January in a meeting between authorities and industry bodies in Paris.

The EU T+1 governance structure consists of a Coordination Committee chaired by ESMA, the EU T+1 Industry Committee, led by the independent chair Giovanni Sabatini, as well as a number of technical workstreams with market practitioners covering the various focus areas. Similar to previous work conducted in the EU T+1 Cross Industry Taskforce which preceded the work under EU authorities, there are several workstreams such as Trading, Matching/Confirmations, Clearing, Settlement, Securities Financing, FX, and Legal and Regulatory. Each workstream is co-led by two market experts and is supported by a secretariat provided by trade associations.

Operational timetable: In addition to these individual workstreams, an additional cross-cutting operational timetable workstream has been created**,** which consists of the co-leads and secretariats of the relevant individual workstreams. The task of this important workstream is to work on solutions and a set of recommendations on how to structure the trade/post-trade procedures in the most efficient way, to allow for a smooth post-trade process in the more compressed T+1 cycle, looking at the various post-trade areas, and aiming to define optimal cut-off times and operational windows in each area. It is critical that the organisational timetable workstream provides its input quickly, as the understanding from authorities is that any changes to be made to existing settlement windows would need to be communicated by Q2 this year**.** The work of the operational timetable workstream is therefore one of the first priorities and deliverables this year for EU T+1 governance**.**

Exclusion of SFTs from T+1: Another critical element currently being discussed is the exclusion of SFTs from the scope of T+1, an issue in which ICMA has been particularly involved, engaging directly with EU and UK authorities and as part of the UK Accelerated Settlement Taskforce and EU governance structure. As such, the request for an SFT exclusion is not a new issue. It has already been included as an explicit recommendation in the final report of the UK Accelerated Settlement Taskforce (TF) as well as the industry roadmap on the EU side. Following the launch of the EU T+1 governance structure, the call for an SFT exclusion has also been reiterated by the Industry Committee in a letter sent by its chairman Giovanni Sabatini to EU authorities in February. Nevertheless, as of this moment, and as per ESMA's final recommendation and the EU Commission's amendments to CSDR, SFTs would not be excluded from the scope of T+1. However, there have been ongoing discussions with authorities and there is still hope that an exemption can be granted. More details and background to SFT exemptions are highlighted in our Thought Leadership article in this ICMA Quarterly Report.

UK update

On 6 February 2025, HM Treasury published the final recommendations of the UK AST Technical Group, the *UK Implementation Plan for First Day of Trading for T+1 Settlement – 11 October 2027***.** Following the publication,

the AST also held another T+1 industry event in London to present and discuss the recommendations and hear from HM Treasury, the FCA and the Bank of England. The event took place on 20 February, hosted by KPMG in Canary Wharf. There were keynote speeches from the authorities, basically giving their endorsement for the work of the AST and the implementation plan, and also some panel discussions with some market experts and workstream leads of the AST Technical Group, presenting and discussing some of the main recommendations.

Switzerland

On 23 January, one day after the launch of the EU's T+1 governance structure, the Swiss Securities Post-Trade Council, which brings together relevant market participants in the Swiss (and Liechtenstein) domestic markets, officially announced the intention of those markets to align with the EU and UK, proposing to move to T+1 in October 2027.

ICMA engagement

T+1 has been a substantial feature of ICMA's work since the discussion emerged in the UK in late 2023, and ICMA remains heavily engaged across the various workstreams in the EU and UK. In the EU, ICMA is a full member of the EU T+1 Industry Committee. Furthermore, and in line with our contribution to the past EU T+1 Cross Industry Taskforce, ICMA is providing the secretariat for the trading workstream, which under the EU governance is provided jointly with FESE, as well as providing the secretariat to the SFT workstream, in this case jointly with ISLA. ICMA is additionally engaged in other relevant EU workstreams. Each workstream remains open to new participants and ICMA members are strongly encouraged to participate, contribute or provide feedback to the work in this important phase.

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Pre-hedging: ICMA response to IOSCO

On 21 February 2025, ICMA submitted its response to the IOSCO consultation report on pre-hedging, published in November 2024, and which followed an earlier survey of market participants, conducted by IOSCO, in December 2023. The consultation report invited members to provide feedback on IOSCO's proposed definition of pre-hedging as well as a set of recommendations relating to pre-hedging practices. According to IOSCO, this "seek[s] to build on the work of ESMA, as well as on the existing guidance of the FX Global Code, the Global Precious Metals Code, and Financial Markets Standards Board, to facilitate international regulatory alignment through the proposed recommendations."

Following the publication of the IOSCO consultation report, ICMA hosted an initial call with its Secondary Market Policy Committee (SMPC) in early January to discuss members' initial views. Subsequently, a working group was formed to build ICMA's response to the consultation report, which was submitted by the deadline of 21 February 2025.

In its response, ICMA highlighted the following main points, as reflected in its executive summary:

- ICMA members are of the view that existing codes and guidance, such as the FX Global Code (2021, last updated 2024), and specifically the FMSB Standard for the Execution of Large Trades in FICC markets ("FMSB Standard", 2021) and FMSB Pre-hedging: Case Studies Spotlight Review ("FMSB Spotlight Review", 2024) are sufficient for the markets they cover and that any further recommendations from IOSCO should be aligned with those existing codes and practices. Furthermore, ICMA members believe that no further prescriptive rules should be introduced as a result of any future IOSCO recommendations.
- Given the diverse nature of market dynamics and liquidity, asset classes, execution methods and investor sophistication around the globe, we believe IOSCO should provide high-level principles only and allow firms to tailor their internal procedures accordingly.
- Principle-based recommendations will also make it easier to implement/consider across asset classes (eg equity v. OTC markets) which are structurally different markets.
- Firms and other market participants should ensure that existing codes and guidance are applied consistently. In this context, and as highlighted throughout our response to this consultation, ICMA members would like to refer specifically to the principles and examples under the FMSB Standard and FMSB Spotlight Review. Further and more specific thoughts are provided in our response to the consultation report.
- With respect to the differentiation between execution channels, ICMA members would like to highlight that there should not be any bifurcation or un-level treatment between OTC and electronic trading, referring also to the long-established principle of technology neutrality in regulatory action according to which different media and channels should be treated equivalently.

The above points were highlighted on numerous occasions and in greater detail in each individual response to the questions in the consultation report. Following feedback to the report, IOSCO envisages publishing a final report with recommendations in 2025. ICMA intends to remain engaged with IOSCO and industry stakeholders on this important topic throughout the year.

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Bond consolidated tape tender: EU and UK update

Since the beginning of 2025, both the EU and UK have launched their respective tender procedures for the introduction of a consolidated tape provider (CTP) for bonds.

In the EU, on 3 January 2025 ESMA launched its selection procedure for the EU CTP for bonds. The selection procedure is intended to take six months until July 2025. More details can be found on the dedicated ESMA CTP website, which includes further information around the expected timeline for the EU bond CTP, as well as a link to the procurement documents which provide detailed information on the tender, such as the selection and award criteria relevant to the CTP selection, which form part of the selection procedure. As stated under ESMA's final proposal on CTP providers and feedback statement, published in December 2024, the selection procedure will entail ESMA's assessment of "exclusion criteria as defined in the Financial Regulation (FR), as well as selection criteria and award criteria, further specified based on the list of 14 criteria in Article 27 da(2) of MiFIR".

On the UK side, the bond CTP tender process takes on a different structure. As per the FCA consultation paper CP23/15 on *The Framework for a UK Consolidated Tape* and subsequent FCA policy statement, CP23/33, the tender will follow a two-stage process whereby Stage 1 will consist of a selection around organisational requirements and other qualitative criteria, after which the second stage will then purely consist of an e-auction based on the pricing of the CTP licences. Further details on the tender procedure and exact tender timeline can be found on the FCA procurement portal and, more generally, on the FCA's dedicated bond CT webpage. The UK tender was officially launched on 7 March 2025.

As highlighted in previous Quarterly Reports, ICMA members have expressed concerns with respect to the FCA's two-stage approach, given that with pricing being the only component of the final bidding process, there is a danger that this could prompt a "race to the bottom". The fear is that those attempting to win the bidding might feel forced to lower their bid in each round in order to stay in the running, which might result in the eventual winner possibly not being able to achieve the standard of service and quality that was initially presented in the pre-bidding rounds, all to the detriment of data users.

In terms of next steps, ESMA envisages to complete the selection procedure by July 2025, followed by the authorisation process during H2 2025. The FCA is planning to conclude Stage 1 of the tender in July, followed by the e-auction to be held in August 2025. Once the candidates have been selected on both sides of the Channel, the respective authorisation procedures will take place during H2 2025, such that the CTP providers in both the EU and UK are currently expected to go live during H1 2026.

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Final post-trade referral for bonds: ICMA letter to ESMA and the EC

On 16 December 2024, ESMA published its MiFIR review final report, including the review of RTS2 on transparency for bonds, following its earlier MiFIR consultation package, to which ICMA responded in August 2024. Compared to ESMA's initial proposal in the consultation, ESMA's proposal in the final report ("final proposal") is now reflecting a more granular approach in respect to the groupings of bonds, with the definition of five groups of bonds, whereby:

- Group 1 includes the "most liquid" sovereign and other public bonds, identified as bonds where (i) the issuer is an EU Member State, the EU itself, the US or the UK, (ii) the coupon is fixed, and (iii) the maturity is equal to or less than 10 years;
- Group 2 includes all those sovereign and other public bonds that are not captured in Group 1;
- Group 3 consists of the "most liquid" corporate, convertible and other bonds, which are defined by bonds issued in a major currency and with an Investment Grade (IG) rating;
- Group 4 includes all corporate, convertible and other bonds not captured in Group 3; and
- Group 5 consists of covered bonds.

Each group is further divided into liquid and illiquid segments, determined by each bond's outstanding size. Finally, and based on various trade size thresholds, ESMA defines six deferral categories, with deferrals ranging from 15 minutes to 4 weeks. Further details of ESMA's final proposal on the groupings of bonds, issuance size thresholds and trade size thresholds and – importantly – detailed information about the average daily volumes and resulting "time to trade out", which ESMA added to their analysis, as well as an overview about the effect on real-time and deferred transparency, can be found in the report on pages 35-52.

As highlighted in a previous article in ICMA's Quarterly Report Q1 2025, ICMA noted positively that ESMA's final proposal took on board several suggestions submitted in the consultation responses from ICMA and other market participants, such as further granularity in bond classification, as well as calculating average daily volumes (ADV) and the time to trade out (TOT) as tools to determine liquidity and trade size thresholds for the calibration of the deferrals. ICMA appreciates that this was an improvement on the original proposal. However, based on further discussions with ICMA's members, supported by an extensive analysis and retrofitting of ESMA's proposal conducted by ICMA, it was established that there remained a few key areas of concern which would

be important to highlight. These concerns were communicated by ICMA to ESMA and the European Commission in a letter sent on 12 February 2025.

The letter highlighted that ICMA very much welcomed the changes ESMA incorporated following its initial proposal under its earlier MiFIR consultation package and subsequent consultation feedback from respondents, including ICMA's response, as well as a joint trade association statement signed by ICMA which highlighted the need for a more data driven approach. ICMA also reiterated its longstanding advocacy for the introduction of a consolidated tape for bonds in Europe, supported by a well-designed and suitably calibrated deferral framework aimed at increasing transparency in the European bond markets. This should optimise the scope of real-time post-trade transparency, whilst also providing protection of the liquidity provision of the more sensitive transactions (such as larger trades or transactions in illiquid instruments).

However, whilst broadly welcoming ESMA's final proposal, ICMA also highlighted in its letter that there remained significant concerns, in particular with respect to certain less liquid categories of bond transactions and the related calibration of issue size and trade size thresholds, with substantial discrepancies between the estimated time to trade out (TOT) and deferral times, as proposed by ESMA. The most significant examples could be found under the ESMA deferral Category 1 in Group 3, where the TOT was estimated to be over 300 times higher than the ESMA deferral time, as well as in other bond groups under deferral Category 1. These calculations are based on ESMA's analysis presented in the final proposal, as well as on ICMA's own analysis and retrofitting using MiFID trade data from 2023 and 2024, resulting in a detailed heatmap as presented in ICMA's letter.

Comparison to UK regime: In addition to establishing the TOT of trades under ESMA's final proposal, ICMA also undertook a deeper analysis of the comparison between the EU and UK final proposals. ICMA found that trades under Category 1 were not just of concern due to the excessively high trade out times, but also due to the fact that the deferrals for exactly similar trades are applied very differently according to the UK deferral regime (as per the FCA's policy statement PS24/14).

Request for changes in Category 1: Based on member feedback and the above analysis, ICMA requested in its letter to amend the calibration in deferral category 1, in order to reduce the excessively high ratios as displayed in the heatmap, which can be achieved either by lowering the upper trade size thresholds in Category 1, or increasing the issuance size thresholds of the bond groups (ie the liquidity determinant).

ICMA thereafter followed up on its letter in March in an e-mail communication to ESMA and the European Commission, with more concrete proposals for minor calibration changes to lower the above-mentioned excessive ratios in Category 1. More precisely, ICMA concentrated its efforts on proposing the recalibration of the upper trade size threshold for Category 1 of Groups 3 and 4 (corporate, convertible, and other bonds), with the two-fold aim of preserving a high level of real-time transparency, while lowering the TOT/deferral ratio at the same time. ICMA's proposal here was to lower the Category 1 upper threshold from €7.5 million to €2.5 million for Group 3 and from €5 million to €2.5 million for Category 1 in Group 4, and to leave everything else in the ESMA proposal unchanged. Due to timing constraints, ICMA appreciated that a recalibration of the entire proposal might not be feasible and could cause a delay to implementation. Accordingly, ICMA tried to focus on achieving the maximum impact with the minimum of change in the area that was of most concern.

By introducing this one change, the TOT/volume deferral ratio would decrease from 307 to 102 for Group 3 and the impact on transparency would, according to ICMA's analysis and retrofitting, be minimal. Real-time trades would retain the same degree of transparency, and the number of trades in Category 1 (ie trades disclosed within 15 minutes) would decrease from 9.6% to 4.3%. Under this scenario, real-time trades plus 15-minute delayed trades would still cover 90.2% of total trades. With regards to Group 4, the suggested change would lower the TOT/volume deferral ratio from 262 to 131. Real-time trades would once again remain the same, and the percentage of transactions in Category 1 (15-minutes) would decrease by only 2%, from 8% to 6%.

Hedging considerations: In the context of trade out times, ICMA also noted ESMA's rationale under paragraph 134 of the final proposal, which states: "ESMA considers that the TOT to be a good proxy to measure the time for liquidity providers to unwind their positions and as such to evaluate liquidity providers risk. Nevertheless, the use of TOT should not create a deferral regime in such a way that liquidity providers or market makers trade out of a position "risk-free" and as such the analysis was performed with this in mind." ICMA members expressed their disagreement in the letter with this statement, given that when holding a position, market makers must manage a series of different risks already, before even considering the impact of a trade publication. Such risks include, for example, but are not limited to: (i) interest rate risk; (ii) credit risk; (iii) financing risk. While market makers/liquidity providers can hedge these types of risk via different instruments (eg sovereign bonds/IRS/futures, I-CDS, repo), there still remains the so-called basis risk (referring to any remaining difference between the position and the hedge, which is not static). What transparency does, however, is introduce a new idiosyncratic risk, which is specific to the actual security which market makers hold a position in, and which cannot be hedged. If this risk is too high, dealers might either need to price in the likely impact of information leakage, or pass on the trade completely, both of which would ultimately lead to worse client outcomes, which is contradictory to the aim of the transparency regime and introduction of a consolidated tape.

Deferral treatment of Structured Finance Products (SFPs): Aside from the transparency regime analysis and proposals,

ICMA also stressed, in its letter to ESMA and the European Commission, a few other important observations in regard to ESMA's final proposal such as the treatment of transactions in Structured Finance Products (SFPs). These instruments, as per ESMA's final proposal (see paragraph 164), would be subject to a T+2 price deferral and a two-week volume deferral, forming part of ESMA's Category 4. ICMA members have raised very strong concerns with this approach, given that the secondary market for SFPs is a highly illiquid market. And again, there are differences to the UK framework. Under the FCA final proposal, SFPs have been taken out of scope, when traded outside of a trading venue and as such will no longer be subject to post-trade transparency requirements as per 1 December 2025. The concern is therefore the divergence with the UK market once the new regimes apply. ICMA members therefore urgently requested an amendment to the existing proposal: for example in the form of removal of SFPs from the scope, re-categorisation to apply longer deferrals, or a delayed application of the framework for these instruments, so allowing for more time to review and analyse the market structure with a view to finding a suitable solution.

Outlook: The European Commission is due to make its decision in regard to the endorsement of ESMA's final proposals, the timing of which was three months from publication of ESMA's final report. ICMA hopes that its members' concerns will be taken into account in determining the transparency regime for now, but also for future monitoring and potential adjustments, and is looking forward to further discussions. Similar to the FCA, ESMA plans to implement the new transparency regime by the end of 2025. ICMA is of the view that a well-calibrated transparency regime is essential for the introduction of the consolidated tape and is planning to remain closely engaged with the EU authorities in this important phase.

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The future of the SI regime: ICMA response to the FCA

On 5 November 2024, the FCA published its policy statement PS24/14 on *Improving Transparency in Bond and Derivatives Markets,* which in Chapter 9 included a discussion paper on the future of the systematic internaliser (SI) regime, to which ICMA responded on 10 January 2025. The purpose of the discussion paper was to gather thoughts from industry participants in preparation for a FCA consultation paper on the same topic which is expected to be published in Q2 2025.

Against the backdrop of several changes made to the regime over the last years, the FCA raised questions in the discussion paper around the future use of the SI function in the context of bond and derivatives markets including, but not limited to:

- changes to trade reporting rules which mean SI status no longer plays a role in determining who reports OTC trades in instruments that are traded on a trading venue;
- the new transparency regime for bonds and derivatives set out in PS24/14 which mean that SIs in bonds and derivatives are no longer subject to pre-trade transparency; and
- revisions to the definition of an SI in FSMA 2023 and PS24/14 which mean that the definition of the SI will become entirely qualitative, so that firms do not have to perform calculations to determine whether they are an SI anymore.

ICMA's response was formed with ICMA's MiFID Working Group and provided views solely from a bond market perspective. In its response to the specific questions, ICMA members highlighted that the flag "SINT" does not offer any additional value for the purpose of trade analysis and in identifying the provision of liquidity, that there were no implications for best execution if, in respect of bonds, firms are no longer identified as SIs, and that any changes made to the SI regime would not impact the distinction between bilateral and multilateral trading activity.

Further to the discussion paper in Chapter 9, the FCA intends to publish a consultation paper on the SI regime in Q2 2025. It is the FCA's intention that changes to the SI regime should take effect alongside the new qualitative approach to determining SIs on 1 December 2025. ICMA plans to respond to this forthcoming FCA consultation paper.

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ICMA's Bond Market Liquidity Taskforce

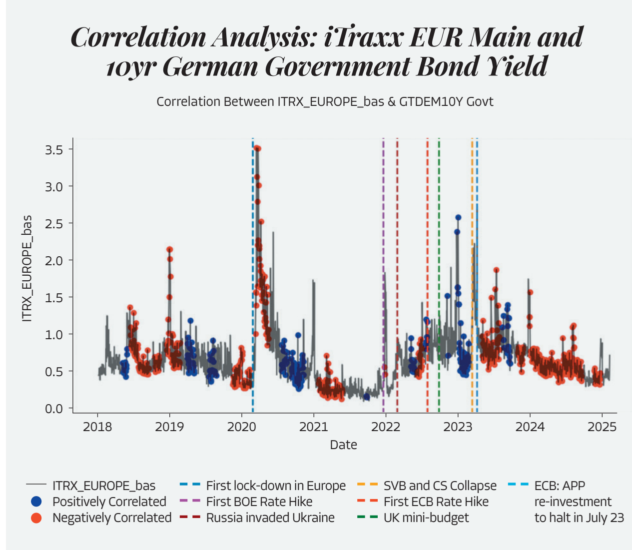
In 2023, ICMA created the Bond Market Liquidity Taskforce (BMLT) in order to leverage its various initiatives related to fixed income market structure and liquidity to take a more holistic market view, looking also at the inter-dependencies of different markets, to identify potential risks and vulnerabilities. This includes an analysis of the impacts and interplay of prudential, market, and fund regulation. This multi-dimensional perspective is intended to inform recommendations to improve overall market resilience and liquidity. The Taskforce is made up of interested ICMA members, representing sovereign, corporate, short-term, or repo markets, including sell side, buy side, and relevant financial market infrastructures

It was decided that the approach should be to focus on

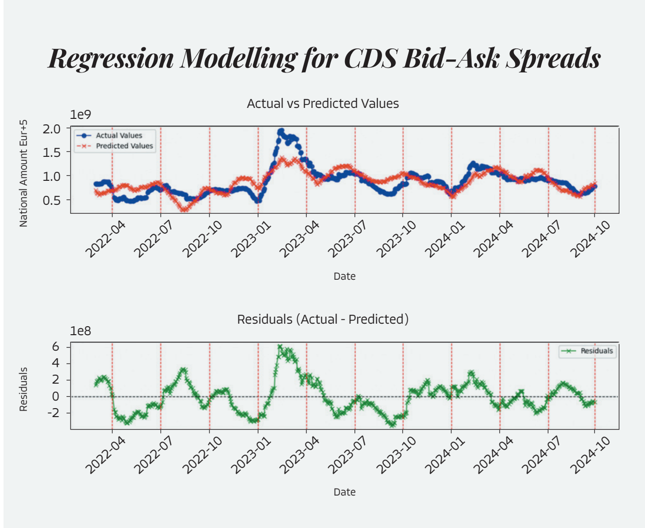
different market segments, sequentially, over a period of time. In March 2024, the BMLT published the report based on the first phase of its work, *Liquidity and Resilience in the Core European Sovereign Bond Markets*, which takes a deep dive into bond market microstructures and liquidity conditions in the Government bond markets of Germany, France, Italy, Spain and the UK, with a view to identifying potential vulnerabilities and providing recommendations to increase resilience. The analysis is based on both quantitative and qualitative data.

Following publication of this report and further consultation with the BMLT, it was decided that Phase II would focus on the European corporate bond market. Over the past months, ICMA has undertaken comprehensive and detailed statistical analysis of relevant market data, including the employment of machine learning, in order to build a profile of market dynamics and liquidity. In the coming weeks this will be shared with BMLT members for their review and feedback, including suggestions for further analysis and additional data points. ICMA will then reach out to the Taskforce, as well as other members active in the European corporate bond markets, to set up a series of interviews. This will be an opportunity to solicit qualitative input from active stakeholders, which will be synthesised to help form a narrative around the observations and conclusions from the data.

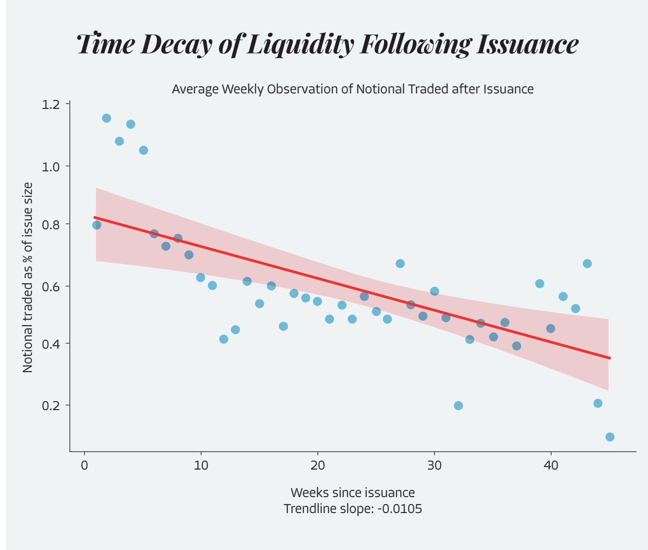
If any ICMA members are interested in participating in this important initiative, they should feel encouraged to reach out to either Andy Hill or Simone Bruno.



Source: ICMA analysis using Bloomberg and S&P data



Source: ICMA analysis using Bloomberg and S&P data



Source: ICMA analysis using data sourced with Propellant software.

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ICMA's Electronic Trading Working Group

ICMA's Electronic Trading Working Group (ETWG) had two meetings in 2024. The aim of the first meeting aim was to introduce key initiatives on ICMA projects and regulatory topics of relevance and discuss potential deliverables to work on within the ETWG over the next months. The second meeting discussed topics such as innovation in bond markets and competitiveness between different regions. This included a presentation of analysis around the new bond market transparency regimes and a comparison between EU and UK regimes, as well as a discussion about recent trends in electronification and trading protocols.

The first ETWG meeting of 2025 was held on 25 March. The agenda included a discussion of recent trends around portfolio trading and other trading protocols, as well as the industry's readiness for the new MiFIR/D bond market transparency regimes and consolidated tapes. Information was also shared on the recent IOSCO consultation report on pre-hedging, including the report's relevance for electronic trading, and ICMA's response to IOSCO. A new Steering Group has been established to help shape the agenda and work of the ETWG going forward and to support the discussions. The Steering Group was involved in the ETWG's meeting on 25 March.

The next ETWG meeting is planned to be an in-person meeting at ICMA's office in London and will take place after Easter.

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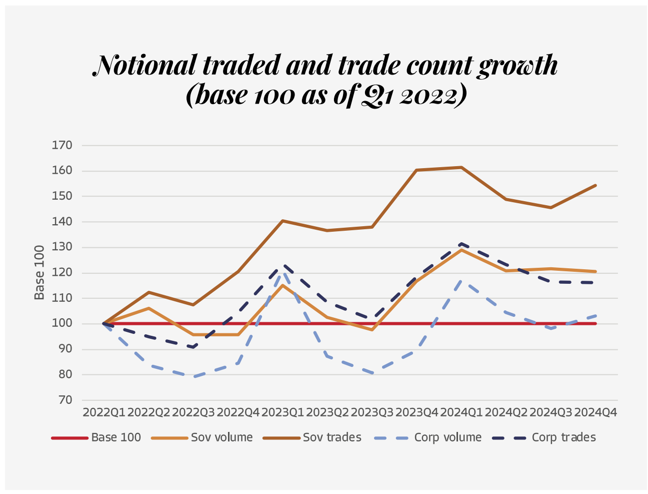
ICMA Secondary Bond Market Data Reports: sovereign and corporate

On 21 March 2025, ICMA published its sixth semi-annual sovereign European Secondary Bond Market Data Report, covering the period from January 2022 through December 2024. This was followed by the corporate edition, published on 3 April 2025. An initiative of the ICMA Secondary Market Practices Committee (SMPC), the report compiled and analysed EU and UK secondary bond market data published under the MiFIR/MiFID II RTS2 requirement. The data was aggregated using Propellant Digital software and enriched using reference data provided by ICE Fixed Income Data Services.

The latest reports have allowed ICMA to: (i) identify new patterns in the data; and (ii) confirm observations identified in previous editions.

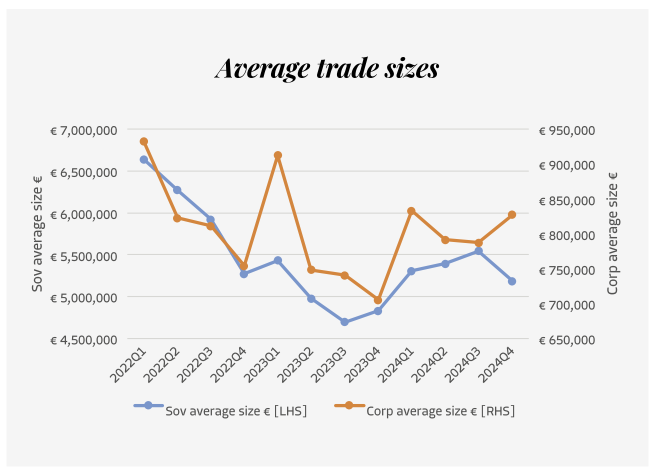
Both the sovereign and corporate market continued to grow, both in terms of notional traded and trade count. Notional traded for sovereign bonds grew to €60 trillion in 2024, an increase of 13.8% over 2023, when notional traded amounted to €53 trillion. In the same period, corporate bonds traded notional volumes totalling €5.4 trillion, reflecting a 12% increase from €4.8 trillion in 2023.

Similarly, the number of trades also increased, though at a slower rate. Sovereign bonds recorded a total of 11.2 million trades in 2024, a 5.9% increase compared to 10.6 million trades in 2023. The trade count for corporate bonds increased by 7.7% in 2024 to 6.6 million trades, compared with 6.1 million in 2023. The chart below shows the growth of trade counts and notional traded by quarter since 2022.



In previous editions of this report, ICMA noted that average trade sizes had been on a downward-sloping trajectory quarter on quarter since the first publication in H1 2022. As highlighted above, in 2024 notional traded grew at a faster rate compared to trade counts, reflecting an increase in average trade sizes. Whilst the overall linear trend for both sovereign and corporate average trade size remained negative, from Q1 2024 there was a trend reversal with average sizes increasing, though remaining below the 2022 Q3 levels.

The reports also analysed trade sizes by the jurisdiction of trades, ie the UK or EU. Average trade sizes were typically higher in the UK compared to the EU (a characteristic already observed in previous editions of the reports).



Bonds denominated in EUR remained the most traded in terms of overall notional value. These accounted for 52% in sovereign bonds and 62% in corporate bonds. However, at an individual jurisdiction level, the patterns differed significantly. For sovereign bonds, 73% of notional traded within the EU was EUR denominated, whilst the UK acted as a hub for USD denominated sovereign debt. USD denominated volumes represented 46% of traded notional in the UK whilst EUR

only represented 34%. From a corporate perspective, EUR denominated notional represented 75% of EU trading activity and 50% of UK trading activity. Although USD denominated bonds were not the most traded in the UK (ranking second after EUR), they still constituted a significant 37%, compared to just 19% in the EU.

Another trend observed in previous editions of the report was the growth in notional traded for UK and Italian sovereign-issued bonds (ie gilts and BTPs). These two issuers exhibited the highest growth compared to all other issuer countries. In Q4 2024, the notional traded, for both issuers combined, was 71% higher compared to their Q1 2022 levels.

For sovereign bonds, 53% of traded notional was transacted via systematic internalisers (SIs), or off-venue, whilst 29% was executed on dealer-to-client (D2C) platforms and 18% on dealer-to-dealer (D2D) platforms. For corporate bonds, 53% of notional was transacted off-venue, with D2C venues supporting a 46% share, while D2D venue trading was a mere 0.4% of total volumes. Broadly speaking, voice dominated when trade sizes were larger, while D2C venue trading was a more common avenue for smaller trades. Historically, however, there was an increasing share of D2C, even for larger-sized trades, while the share of off-venue activity was decreasing, for both sovereign and corporate bonds.

From a corporate bond perspective, investment grade (IG) bonds represented 71% of traded notional both in the EU and the UK. Additionally, bonds issued by financial institutions represented 42% of volumes at an aggregate level. In terms of sector, consumer discretionary followed with a share of 10% and industrials with 6%.

Overall, 64% of sovereign notional traded and 96% of corporate bond notional was indefinitely aggregated or delayed for the purposes of post-trade reporting.

In addition, ICMA retrofitted the 2024 data using the recently published deferral regimes from the FCA and ESMA. The analysis showed that, for sovereign bonds traded within the EU, 90.2% of vanilla bond trades and 93.5% of inflation-linked bond trades would not qualify for any deferral and would be disclosed in real time. In the UK, real-time disclosure would apply to 78% of all sovereign trades.

For corporate bonds, 86% of IG and 84% of HY transactions would be disclosed in real time in the EU. In the UK, real-time disclosure would apply to 80% of all corporate bond trades.

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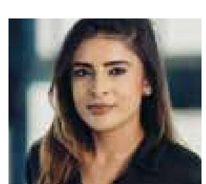
Repo and Collateral Markets

by **Andy Hill, Alexander Westphal, Deena Seoudy, Zhan Chen** and **Aman Gill**



ICMA's ERCC and GRCF

ERCC elections 2025: On 6 February, ICMA announced the results of the 2025 elections to the ERCC Committee. The ERCC Committee is the governing board of the ERCC and is elected on an annual basis by all ERCC member firms. In this year's election, 27 candidates competed for the 20 seats on the new Committee (one more than in previous years), and we were particularly pleased with the very good participation in the voting. In fact, the results are based on valid votes from 89 out of the 120 ERCC member firms, which is a new all-time record. We thank all candidates and members who participated in the process and look forward to working with the Committee in the coming year.

ERCC Committee meetings: On 30 March, the ERCC Committee came together in London for its first meeting in the new composition. The meeting was kindly hosted by HSBC in its Canary Wharf offices and covered a broad range of topics. As this was the first meeting of the new Committee, members discussed the ERCC priorities for the year ahead. However, this was also an opportunity to have an in-depth discussion about the EU's upcoming move to T+1, the impacts on the repo market and potential recommendations to facilitate the move and make sure that this does not disrupt the market. The outcome of the discussion will feed back into the ongoing work of the SFT workstream that has been set up under the EU's T+1 governance structure (see below). The next meeting of the ERCC Committee will be held in early May in London. Minutes of Committee meetings are made available to all ICMA members (login required) once approved by the Committee in its next meeting.

GRCF meetings: On 22 January, ICMA's Global Repo and Collateral Forum (GRCF) held its first quarterly meeting of 2025. As usual, the virtual meeting covered a broad range of topics, including regional repo market developments across Europe, APAC and other regions and a number of relevant global themes. A particular focus this time was on repo clearing and the global ripple effects of the SEC's decision to move to mandatory clearing for US Treasury repo. The topic was introduced by Michalis Sotiropoulos (DTCC), who provided an overview of the rules and latest discussions. 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.

GRCF Emerging Markets Working Group: Ahead of the GRCF meeting, on 15 January a new GRCF working group dedicated to new and emerging repo markets held its virtual kick-off meeting. The initial discussion provided an opportunity for members to exchange ideas on the objectives and potential deliverables for the new group, which will continue to gather on a quarterly basis ahead of the full GRCF meetings.

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ICMA's 48th European Repo Market Survey

On 8 April 2025, the ERCC released the results of its 48th semi-annual survey of the European repo market. The results are based on survey responses received from 61 participating banks, representing the most significant players in the European repo market, and provides a snapshot of the market on the survey date (11 December 2024). In terms of the headline figure, the latest survey shows a total value of outstanding repo transactions of EUR10.86 trillion, a decrease of 2.3% since the previous survey and 0.4% year-on-year. This is the first contraction in the headline figure since June 2020, but it does not come as a surprise given the trend of decelerating growth observed over the previous 18 months. The full survey report along with a summary of key findings is available here.

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Treatment of reverse repos under NSFR

On 10 February 2025, the European Commission released a call for evidence on a targeted amendment to NSFR that would "make permanent the current transitory prudential treatment for SFT and unsecured transactions with a residual maturity of less than six months, with financial customers, for the purpose of the Net Stable Funding Requirement (NSFR) (ie to extend the current treatment also beyond 28 June 2025, and permanently)". This proposed initiative follows months of industry outreach on this topic, including by ICMA, highlighting concerns with the planned re-calibration of the Required Stable Funding (RSF) factors for short-term SFTs under NSFR which are set out in the EU's Capital Requirements Regulation (CRR). While the increase in the factors which is foreseen in the law would bring these in line with the original Basel standards, they would also risk putting EU banks at a serious competitive disadvantage with their peers in other major markets that are not following the same approach. In the absence of a legislative amendment, a so-called "quick fix", the increase in RSF factors for EU banks will come into force automatically in June 2025, so there is some urgency to the issue. In the call for evidence the Commission acknowledged the industry concerns (notably referencing our ERCC Briefing Note on the topic) and also points to similar views expressed by Member States, DMOs and the ECB.

On 10 March, the ERCC submitted its short response to the consultation, which strongly supports the proposed initiative, reiterating some evidence that had been previously provided and highlighting the urgency. Taking into account feedback from the consultation, the Commission will decide whether or not to issue a formal proposal in the next few weeks. One open question which we also highlighted in our response is related to the timing, as any "quick fix" proposal to amend CRR will still likely go beyond June 2025, so there would be a need for a transitory measure to avoid a cliff-edge effect in June.

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CSDR settlement discipline

Following its final technical advice on the CSDR penalty mechanism issued by ESMA on 19 November 2024, ESMA continues to work on its mandates to prepare more specific rules in the context of the CSDR Refit. On 13 February 2025, ESMA achieved an important milestone in this process with the release of a detailed consultation on the CSDR settlement discipline RTS. The consultation covers two key ESMA mandates, in relation to settlement discipline measures as well as tools to improve settlement efficiency. It is also closely linked to the ongoing T+1 discussion, as it picks up some proposals that ESMA had already anticipated in its final T+1 report to facilitate the migration, including shortening the deadline for exchange of written confirmations and allocations, measures to increase Straight-Through-Processing (STP), and new requirements for CSDs to offer hold and release and partial settlement functions. Given ICMA's long-standing focus on CSDR and settlement efficiency, we will of course respond to the consultation, particularly as it touches on several of the optimization tools that the ERCC has always been advocating for, including shaping, auto-partialling and auto-borrowing. A draft response is currently being prepared, led by ICMA's CSDR-SD Working Group and supported by the ERCC Operations Group. In terms of next steps, following the consultation deadline on 14 April, ESMA aims to submit the final report and draft RTS to the Commission by October 2025.

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SFTR reporting

Latest public edition of ICMA's SFTR Guide: On 28 March 2025, ICMA released an updated public version of its *Recommendations for Reporting under the SFT Regulation* (SFTR). This marks the tenth update to the public version of the SFTR Guide since its initial publication in February 2020. Compared to the previous edition, released in April 2023, the latest Guide introduces a wide range of further additions and updates to existing recommendations which are the result of discussions with members of the ERCC's SFTR Taskforce, as well as other member queries. A blackline version has been published alongside the Guide, highlighting all the recent changes.

For context, the *ICMA Recommendations for Reporting under SFTR* aim to help members interpret the regulatory reporting framework specified by ESMA in the EU and the FCA in the UK and set out complementary best practice recommendations to provide additional clarity and address ambiguities in the official guidance. The document has been developed over the past few years based on extensive feedback from members of the ERCC's SFTR Taskforce, which represents over 150 firms covering the whole spectrum of the market. The Guide is not an alternative to the regulatory texts and the practices set out therein are recommendations only. ICMA's SFTR Recommendations will continue to evolve in response to regulatory guidance as well as the ongoing discussions within the ERCC SFTR Taskforce. ICMA members also have access to a range of additional best practice documents that complement the Recommendations.

SFTR review: Looking further ahead, ESMA is expected to launch the process for reviewing EU SFTR. The review was initially expected to start a few years ago but has been postponed since then. While there has been no indication of a timeline by ESMA yet, ICMA is keen to get a head start on the process, also given the extensive list of issues and proposals that have accumulated over the years from discussions with

members. ICMA is therefore currently reviewing its long list of SFTR issues, compiling all the suggestions for possible fixes across the Level 1 text, ie the law itself, as well as the Level 2 Technical Standards and further Level 3 guidance. This work is being done jointly with ISLA with the intention to present some proposals to ESMA and the FCA before summer.

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Repo best practice

New edition of the ERCC's Guide to Best Practice: On 6 March, ICMA published an updated version of *The ERCC Guide to Best Practice in the European Repo Market*. The ERCC Guide is a flagship document for ICMA and provides detailed guidance, best practice recommendations, and clarifications that are intended to support the well-organised trading and settlement of repos. Comprising 170 pages, the ERCC Guide is among the most substantial and well-established industry self-regulatory guidance across the entire financial market. By setting standards and best practices, the Guide helps to avoid uncertainty and disagreements among market participants, helping to foster a more efficient and orderly repo market in Europe and beyond.

This latest document reflects in-depth discussions and consultations with ERCC members which led to updates in several key areas of best practice including:

- Resilience and recovery of trading and post-trading infrastructure.
- The impact of CSD and SSS outages.
- Template agreement for bilateral pair-offs.
- Sanctions.
- Cancellation of trades made in error on automatic trading systems.
- Making prices on automatic trading systems.
- Off-market prices on automated (RFQ) trading systems.
- Repo portfolio transfers between LDI pension fund managers.
- Buy-outs of LDI repo portfolios.

For easier comparison, the Guide itself was published along with a blackline version which highlights all the latest changes compared to the previous version of the document published in November 2023. *The ERCC Guide to Best Practice in the European Repo Market* is authored by Richard Comotto and was first published in 2014. Since then, it has been regularly reviewed and updated to make sure that the document continues to accurately reflect current market practice. The review process is driven by a dedicated working group, the ERCC's Best Practice Working Group, with input from both the ERCC Committee and the ERCC Operations Group.

ERCC initiative on repo manufactured payments: As part of its wider focus on post-trade efficiency, over the past months, the ERCC, led by the ERCC Operations Group, has focused on concerns related to the processing of repo manufactured payments. Concerns with the current manual process and resulting payment delays were initially raised in the UK context, but they are also relevant in other European markets. ICMA has established a working group on the issue, led by Manoj Shah at Lloyds Bank, which has been looking into potential solutions, including the possibility to automate the process at CSD level. We have been working closely on this topic with Euroclear and have also raised the issue in the ECB's Collateral Management Group (CMG). In order to better understand the scale of the issue and market expectations towards potential solutions, the ERCC has been working on a member survey on the topic which was launched on 7 April. The online survey is open for around four weeks: ie members are invited to respond to the survey by 30 April. Please coordinate any input with the relevant member of the ERCC Operations Group or your ERCC Named Repo Contact Members. We are happy to provide further information as well as the relevant contacts from your firm.

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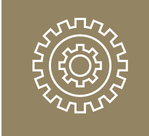
Repo financing framework: ICMA response to the Bank of England

On 9 December 2024, the Bank of England published the discussion paper, *Transitioning to a Repo-led Operating Framework*. The paper follows Governor Andrew Bailey's speech, *The importance of Central Bank Reserves*, as well as that of Vicky Saporta, *Let's Get Ready to Repo!*, which herald the Bank of England's plan to transition its framework for supplying reserves from a supply-driven model to a demand-driven paradigm. This has become important as the amount of reserves in the banking system continues to decline with the unwind of the QE purchases and the roll-off of the Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME). The paper sets out how the Bank envisages a demand-driven, repo-led framework for supplying reserves will operate, and seeks feedback from market participants on its calibration. In particular, the Bank sees two of its suite of facilities under the Sterling Monetary Framework (SMF), namely the Short-Term Repo (STR) and Indexed Long-Term Repo (ILTR) operations, as supplying the majority of stock of reserves going forward, with the ILTR playing a greater role than it has in the past.



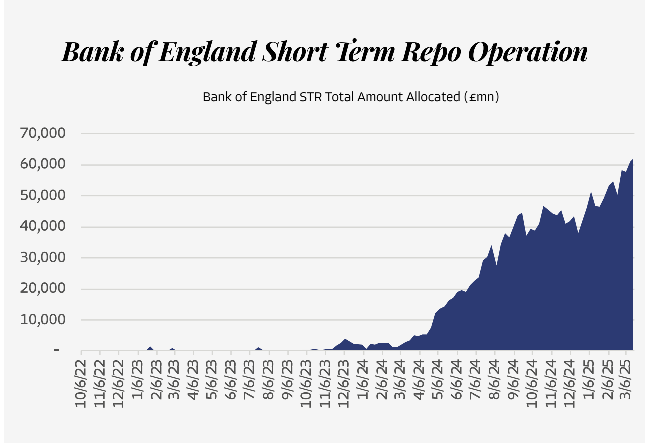
To provide feedback and formulate its response to the Bank, ICMA assembled a Taskforce of member firms from its European Repo and Collateral Council (ERCC) that are active in the sterling repo market and regular users of the Sterling Monetary Framework ("SMF participants"). This constitutes a significant number of the most active banks in the sterling repo and money markets, including Gilt-edged Market Makers (GEMMs). Individual members of the Taskforce include heads of repo desks, sterling repo traders, as well as senior operations experts. The ICMA response highlights a number of key themes and recommendations that constitute broadly consensus views across SMF participants, and which the Taskforce urges the Bank to consider addressing in order to achieve a successful transition to the framework.

In particular, the response highlights the importance of amending the operational structure of the SMF facilities (both STR and ILTR) to a delivery-versus-payment (DVP) triparty model. This would help to address a number of identified vulnerabilities in the existing free-of-payment (FOP) pre-positioning model, that could undermine the successful transition to a demand-driven framework for reserves. Currently these operations require pre-positioning of collateral, which is expensive for participants, requiring intraday drawdowns on unsecured borrowing, and which could be a disincentive to using the facilities, particularly in stressed market conditions. Providing for DVP for all eligible securities would vastly enhance the usability of the SMF, making the operations function as true repo facilities, rather than collateralised loans. Participants also note that not only does the current framework require pre-positioning of collateral, but the cash received is often late in the day, extending the period of the effective liquidity drain.

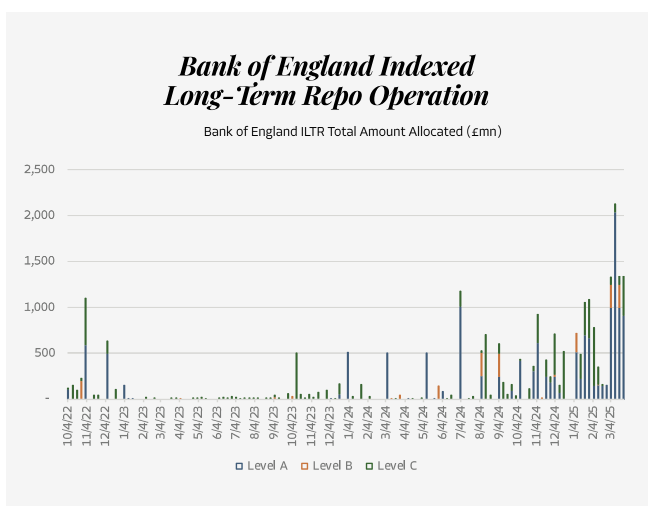
The response includes a number of other recommendations, intended to enhance the appeal and efficiency of the Bank's framework:

- Moving to a triparty model would also allow for partialing, which would decrease operational risk.
- The current FOP frameworks could equally be viewed as a drain on liquidity as much as a source of liquidity.
- The process for confirming collateral eligibility (ILTR) should be significantly expedited and automated.
- More flexibility in the ITLR facility in terms of tenor would make it more attractive as a liquidity management tool. This could be in the form of alternative tenors, or the ability for early repayment.
- The ease of access and functionality of the Btender and Collateral Management Portal (CMP) systems could be improved, including with respect to collateral substitution and margining. The existing processes are manually intensive and difficult to operationalise.
- Significantly longer STR tender windows would be welcomed. There appears to be no reason for limiting this to 30 minutes. Furthermore, by referencing the STR rate to the Bank Rate, there would be no reason to move the window on days of Monetary Policy Committee (MPC) meetings.

ICMA has also made itself available to follow up with the Bank bilaterally in order to provide further clarification on any of the points outlined in the response. ICMA looks forward to Bank's response to the feedback and to working together to support the Bank's core objectives of maintaining monetary and financial stability.



Source: ICMA analysis using Bank of England data



Source: ICMA analysis using Bank of England data

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European repo market at year-end 2024: an assessment

In January 2025, ICMA published its annual analysis of how the repo market performed over the recent calendar year-end. The report is based on available market data as well as qualitative input provided by ERCC members. It covers the EUR, GBP, USD, and JPY repo markets.

The context

Calendar year-end has become a major focal point for repo markets, associated with thin liquidity and heightened rate volatility. Of developed markets, the euro has perhaps exhibited the most sensitivity in recent years, no time more so than in 2016. The legacy of this particularly stressed turn is still felt today in terms of how and when market participants manage their anticipated year-end funding needs.

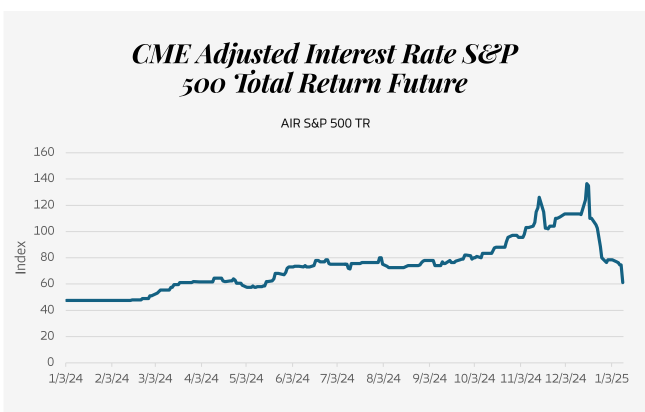
While much of the discourse over recent years has been on demand-supply imbalances in the repo market at year-end, with the banking system flooded with excess reserves and the market facing collateral scarcity, as ICMA's annual analysis has shown, the main driver of the year-end effect is in fact balance sheet scarcity. Banks are subject to a number of regulatory reporting requirements at calendar year-end, such as G-SIB scores, leverage ratio and other capital and liquidity constraints, stress testing, as well as bank levies in certain jurisdictions. While it is difficult to assess the relative extent of impact of each of these, particularly at an aggregate level, all of these effectively incentivise banks to shrink their balance sheets as much as possible. And with repo being a relatively high volume and low-return business, this is usually one of the main targets.

2024 year-end

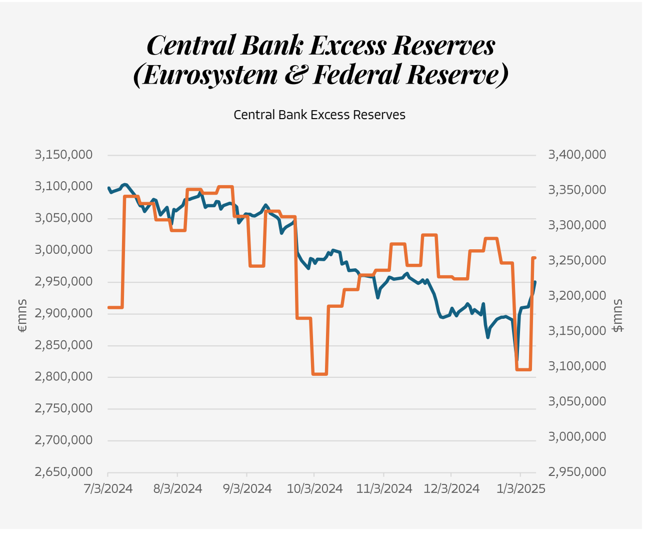
Across the major markets, focus on year-end began in October, with term and forward trades beginning to price in liquidity premium for December 31 to January 2 (a two-day turn). Unlike recent years, particularly in the case of EUR, the markets began pricing repo rates at a significant premium to benchmark rates, rather than the usual deep discount. This was observed over the September quarter-end, when repo rates spiked higher, and was largely seen as a return to normalization, with reduced excess liquidity and increased bond issuance tilting the demand-supply dynamic. At the same time, there was growing concern about the increased pressure on the largest G-SIB banks as a result of the soaring stock market, particularly following the November US election result, which was increasing the demand for prime brokerage balance sheet to fund swelling hedge fund longs, and likely to be at the expense of repo funding capacity for fixed income.

However, as we moved into December the pressure began to abate, and rates began to move closer to normal levels. This was partly because many firms had already locked in much of their year-end funding, but also it became clearer that there was ample liquidity in the market, particularly once we moved under the 30-day LCR window. This should perhaps not be too surprising given that central bank quantitative tightening still has some distance to run, and excess reserves remain comfortable. Furthermore, as we rolled into December, the USD FX basis swap, at least for EUR and GBP, remained close to zero. USDs often carry a relative premium going into year-end, which puts downward pressure on other rates as it becomes attractive for holders of USDs to lend in alternative currencies. Market positioning also played a role, with some hedge fund deleveraging and the rolling off of long basis trades. Finally, the sharp sell-off in equity markets following the hawkish overtones of the December meeting of the Federal Reserve also appears to have taken some pressure off G-SIB balance sheets. The CME Total Return Future of the S&P 500 adjusted for financing rates (based on the Federal Reserve Effective Rate), closely mirrors the rise and fall of year-end repo rates observed in the major currencies from October to the end of December.

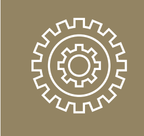
In short, it is fair to say that the 2024 year-end for repo was certainly interesting, but ultimately uneventful.

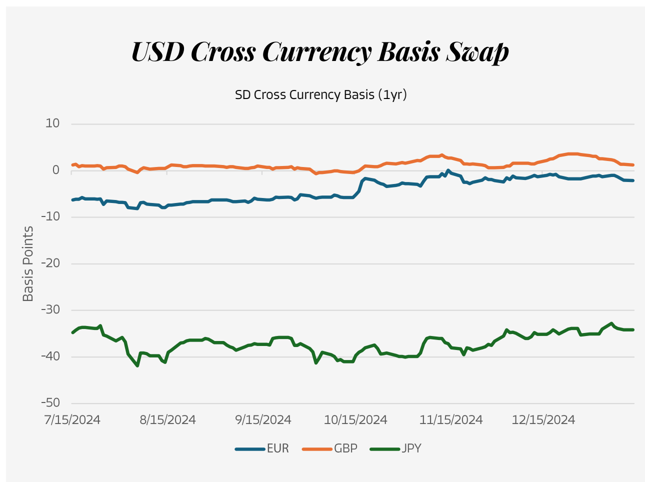


Source: ICMA analysis using CME data sourced from Bloomberg



Source: ICMA analysis using Bloomberg data





Source: ICMA analysis using Bloomberg data

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Repo clearing: SEC

On 25 February 2025, the US Securities and Exchange Commission (SEC) extended the compliance dates for the mandatory clearing for US Treasuries[1] by one year to 31 December 2026 for eligible cash transactions, and 30 June 2027 for eligible repo market transactions.

Under the rule, a covered clearing agency that provides central counterparty services for US Treasury securities must establish, implement, maintain, and enforce written policies and procedures reasonably designed to require that every direct participant of the covered clearing agency submit for clearance and settlement all eligible secondary market transactions in US Treasury securities to which it is a counterparty. The rule also requires a covered clearing agency to identify and monitor its direct participants' submissions of transactions for clearing, including how the covered clearing agency would address a failure to submit transactions.

Market participants had become increasingly concerned about the relatively short timeline for implementation, which in many cases would involve investment firms establishing clearing arrangements, either directly with FICC, or with a sponsoring clearing member.

ICMA will continue to work with members and other stakeholders to help support compliance with the mandatory clearing obligation by the new timelines.

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Repo clearing: FSB

On 28 February 2025, ICMA AMIC submitted its response to the Financial Stability Board's (FSB) consultation report on addressing financial stability risks arising from leverage in Non-Bank Financial Intermediation (NBFI). Part of the response, which was formulated in collaboration with the ERCC, focuses on the FSB's recommendation to mandate central clearing of securities financing transactions in government bond markets (part of Recommendation 5).

In its response, ICMA clarifies that it and its members are fully supportive of removing regulatory barriers to non-bank access to central clearing for outright and repo transactions in appropriately liquid cash securities, such a government bonds. Central clearing provides several potential benefits in the context of SFTs, including increased settlement efficiency, and improved access to market liquidity. However, ICMA opposes the notion of mandating central clearing for cash securities, noting that the decision to clear should be based on commercial considerations and sound risk management without undue constraints. There are several reasons why ICMA considers the recommendation of mandating central clearing for SFTs to be misguided and risky.

Firstly, it is not entirely clear whether increasing clearing for SFTs would help to constrain leverage. As noted in the consultation report, different models exist to facilitate non-bank access to a CCP. In some models, the sponsoring or agent bank posts the initial margin, which would defeat the main argument underlying the recommendation. Also, again as recognised in the consultation report, cross-product margining arrangements provided by many CCPs, which requires margin against a net exposure, could actually increase the availability of leverage to some entities. For example, the much-reported basis trades popular with certain investor types (which involve both a bond futures and repo position) could be more efficiently (ie cheaply) margined if the repo is centrally cleared, compared to it being transacted bilaterally.

Secondly, and very importantly, mandating central clearing for SFTs would introduce procyclicality risks to the market. As already highlighted, the repo market in particular is an importance source of market stability, facilitating short term liquidity and collateral transformation. Financial institutions (bank and non-bank) rely on the repo market in order to meet margin calls against their derivatives exposures, which are often hedges. By subjecting repo positions to the risk of significant spikes in variation margin in times of heightened volatility, compared to bilateral repo arrangements, would require even more collateral being required to raise cash to meet margin calls more broadly. This is particularly pertinent in the case of

1. Rule 17ad-22(e)(18)(iv)(A) and (B) under the Securities Exchange Act.

non-bank entities that are predominantly one-directional in terms of repo activity (ie lending securities to raise cash), such as pension funds. This would heighten the probability of margin calls being missed, so increasing counterparty credit risk, while diminishing the repoable value of institutions' high quality liquid assets, thereby increasing market risk.

Thirdly, it is important to recognise the important role that the repo market plays in maturity transformation, allowing financial institutions to secure term funding against their assets. Centrally clearing term repo trades, without the potential for margin netting, can be prohibitively expensive due to the high levels and associated uncertainty of variation margin. This creates a natural bias to very short-dated repo transactions when centrally cleared, which can be observed, for instance, in the US Treasury repo market. Mandating central clearing for SFTs would severely restrict the ability of many non-banks to access term funding, creating a systemic reliance on very short-dated repo financing. Such a lack of diversity in financing tenors would be an additional risk to financial stability, particularly in the case of short-term funding shocks.

Fourthly, and also associated with the relative cost of transacting cleared SFTs compared to bilaterally, this would create a potential barrier to accessing the repo market. It is often purported that CCPs create more balance sheet netting opportunities for banks, which should help support more intermediation and deeper liquidity. However, recent studies reveal that on average the benefits of uniform clearing would be relatively modest and largely limited to very short-dated repo.[2] What receives less attention is the fact that increasing banks' exposures to CCPs would also have impacts with respect to liquidity, risk weighted capital, and single counterparty credit limits. In other words, the Leverage Ratio is not the only limiting constraint on banks' balance sheets.

For many non-banks, the cost of clearing SFTs will be prohibitively expensive. As with minimum haircuts for bilateral transactions, consideration needs to be given to the impact on pricing, liquidity, intermediation, and investor diversification in the underlying market, and the wider impacts on government borrowing costs as well as financial stability.

While some jurisdictions are beginning to explore the possibility of mandating central clearing for government bond markets, many will share the concerns ICMA has outlined in its response and will most likely wait to assess the impacts and lessons learned from its projected implementation in the US. ICMA would therefore, as a minimum, suggest waiting for the full effect of the US mandate to be realised and digested before recommending broad adoption.

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Legal updates

Annual GMRA legal opinion update: The 2025 annual legal opinion update is almost complete, with the 2025 updates due to be published on or around 14 April 2025. The suite of ICMA GMRA legal opinions has been expanded this year to include a new legal opinion to address certain counterparty types in Northern Ireland, as well as updates to the more recently added jurisdiction of Ghana.

The ICMA legal opinions cover over 70 jurisdictions and provide members with access to a substantive body of legal knowhow covering both the enforceability of the netting provisions of the GMRA as well as the validity of the GMRA as a whole.

The ICMA GMRA legal opinions are accessible on aosphere.com. Members who have not yet registered with aosphere can do so by contacting aosphere directly.

More information on the ICMA GMRA Legal Opinion subscription can be found on ICMA's website here. Alternatively, if you have any questions, please do contact our membership team.

ICMA GMRA Repo Legal Working Group: The ICMA GMRA Legal Working Group is composed of legal representatives from member firms. The working group provides a forum in which to discuss legal developments relevant to the GMRA and related matters, as well as potential and future initiatives. Meetings are held at least once a quarter and *ad hoc* as required.

If you would like to be, or would like to nominate, your legal representative to be an active participant in the Legal Working Group or have any questions on the legal updates, please do reach out to Deena Seoudy directly.

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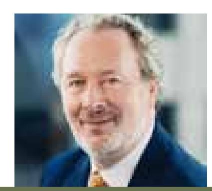
2. See: *Balance-Sheet Netting in U.S. Treasury Markets and Central Clearing,* David Bowman, Yesol Huh, and Sebastian Infante, Federal Reserve Board, June 2024; and *The Potential Impact of Broader Central Clearing on Dealer Balance Sheet Capacity: a Case Study of UK Gilt and Gilt Repo Markets,* Yuliya Baranova, Eleanor Holbrook, David MacDonald, William Rawstorne, Nicholas Vause, and Georgia Waddington, Bank of England, June 2023.

Asset Management



by **Irene Rey** and **Andy Hill**

Leverage in NBFI: ICMA AMIC response to the FSB

Background

On 28 February 2025, ICMA AMIC submitted its response to the Financial Stability Board's (FSB) consultation report on addressing financial stability risks arising from leverage in Non-Bank Financial Intermediation (NBFI).

The consultation was published in December 2024, building on the observations of the 2023 FSB report on the financial stability implications of leverage in NBFI. The proposed policy recommendations in the consultation report aim to enhance the ability of authorities and market participants to: (1) monitor vulnerabilities from NBFI leverage; (2) contain NBFI leverage where it may create risks to financial stability; and (3) mitigate the impact of these risks.

This work is part of the broader FSB work programme on enhancing NBFI resilience, and the final policy recommendations are expected to inform policy action by securities regulators.

The ICMA response was led by the Asset Management and Investors Council (AMIC), the European Repo and Collateral Council (ERCC), as well as feedback from the broader ICMA membership.

ICMA response: key messages

As ICMA previously highlighted in its response to the European Commission consultation on macroprudential policies for NBFI (highlighted in a previous QR article), we consider that the critical starting point is for policy makers to acknowledge the heterogeneity of the NBFI sector, and avoid attempting to adapt banking regulation to all entities that have been captured as an NBFI. It would be helpful for the FSB to clearly define the scope of firms intended to be captured under its proposals. Care should also be taken to exclude firms which do not use leverage (eg MMFs, non-leveraged pension funds and investment funds).

The ICMA response highlights that the FSB and other authorities should consider the markets and key institutions that are most critical to financial stability, rather than applying broad measures across all entities. Instead of an exclusively narrow focus on leverage, financial stability should be considered in the context of other factors driving market participants that can, together, contribute to an increase in systemic risk. This is particularly important in light of existing leverage caps and leverage reporting obligations in the highly regulated investment fund space.

The FSB should also consider where measures have already been taken in recent years by global regulators, and for the focus to shift instead to aligning jurisdictions' standards, and harmonising reporting requirements, before there has been the opportunity to observe the impact of recently adopted rules and improvements to risk management frameworks.

With regards to the specific activity-based and entity-based measures proposed by the FSB, we reflected that:

From an *activity* perspective, ICMA does not support the introduction of the additional activity-based measures as outlined in Recommendation 5[1], either in isolation or in combination. None of these proposed measures directly or conclusively address the particular risk that the FSB identifies and instead introduce new risks and market inefficiencies that could undermine market stability.

The additional risks and unintended consequences associated with the recommended activity-based measures include: (i) creating additional costs, frictions, and barriers to entry to the repo market, which is a key source of financial stability; (ii) feeding procyclicality risks in times of heightened market volatility or stress; (iii) not addressing leverage, and in some cases actually facilitating leverage provision (through enhanced cross-netting opportunities); (iv) disincentivising hedging and restricting efficient risk

1. Activity-based measures include: (i) minimum haircuts in SFTs, including government bond repos; (ii) enhanced margining requirements between non-bank financial entities and their derivatives counterparties; and (iii) central clearing mandates in SFT and derivatives markets.

transfer; (v) reducing the availability of term funding; and (vi) detrimentally impacting pricing, liquidity, and investor diversification in core bond markets.

From an *entity* perspective, entity-based measures[2] would not address the source of any real issues and risk adding regulatory burden to entities that pose minimum risk or employ no leverage at all. This is well demonstrated in the LDI funds example, where pension funds were not highly leveraged at an entity level; it was the structural issues within the gilts market in combination with the specific LDI strategy which was the source of risk. Applying entity-level leverage limits at the fund level would not have contained the actual risk.

Instead of broad entity-based measures, the measures should be targeted to specific products where risks may manifest. These products should be identified via system-wide, cross-border, systemic counterparty risk assessments performed jointly by authorities.

In addition to system-wide monitoring, authorities should focus on maximising the use of the data collected from the existing extensive reporting requirements, as well as reducing barriers to data sharing both across and within jurisdictions.

Next steps

The final FSB report on NBFI leverage, based on the consultation policy proposals, is expected to be published in July 2025. IOSCO has also highlighted in its 2025 work program its plans to contribute to the FSB work particularly in the area related to non-bank data availability, use and quality, as well as enhancing data and policy frameworks to monitor and mitigate financial stability risks stemming from NBFI leverage. The European Commission has now published the summary report of the responses received to its consultation on the adequacy of macroprudential policies for NBFI, and will take stock of feedback to inform any future policy proposals, which are expected to be published in autumn 2025.

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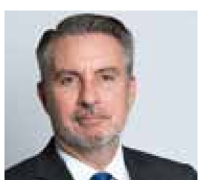
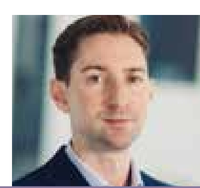
2. Entity-based measures include (i) direct limits on leverage, and (ii) indirect leverage constraints linked to risks that on-bank financial entities are exposed to.

Sustainable Finance

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

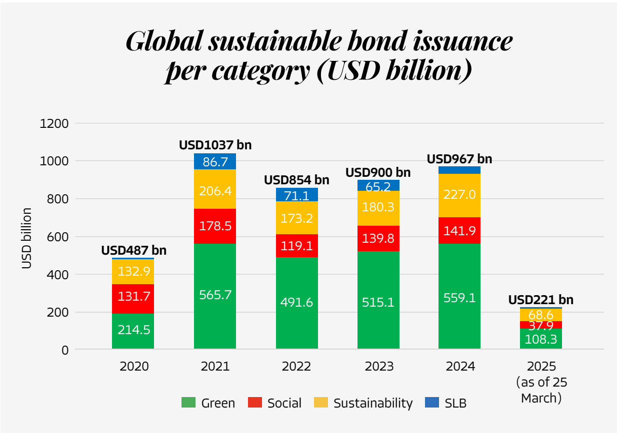
 

Summary

We analyse issuance volumes and trends of the sustainable bond market in the beginning of 2025. We review the important proposals of the EU Commission concerning legislative simplification packages concerning sustainability regulation for which we made specific recommendations in a dedicated publication in February. We highlight an important recent publication concerning the impact of UK and EU regulation on the sustainable fund market and our recommendations for the future. We also summarise regulatory developments internationally.

Sustainable bond market update

As of 25 March 2025, sustainable bond issuance surpassed USD221 billion, reflecting a 16% decrease compared to the same period in 2024. Year-to-date, sustainable bonds account for 9% of total bond issuance, down from 11% in 2024. Issuance by SSAs made up 53% of total sustainable issuance, up from 48% in 2024, followed by financials at 24% and corporates at 23%, the lowest corporate share since 2018.

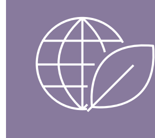


Source: ICMA based on LGX DataHub and Bloomberg data as of 25 March 2025

Green bonds remain the dominant segment of the sustainable bond market, with USD108 billion issued year-to-date, representing 49% of total sustainable bond issuance. Notable transactions include A2A and Île-de-France Mobilités, which issued the first green bonds aligned with the EU Green Bond Standard, totalling EUR500 million 10-year and EUR1 billion 20-year, respectively. In addition, the Kingdom of Saudi Arabia completed its inaugural green bond issuance with a EUR1.5 billion 7-year offering. Also, in February 2025, the Chinese Ministry of Finance released the People's Republic of China Sovereign Green Bond Framework structured in accordance with the China Green Bond Principles (2022 Edition), and ICMA's Green Bond Principles, and with green expenditures to follow China's Green Bond Endorsed Projects Catalogue (2021 Edition). In April 2025 China issued its inaugural sovereign green bond, RMB6 billion (USD825 million) across 3-year and 5-year maturities, listed on the London Stock Exchange. This comes after high-level economic and financial discussion between China and the UK in Beijing in January.

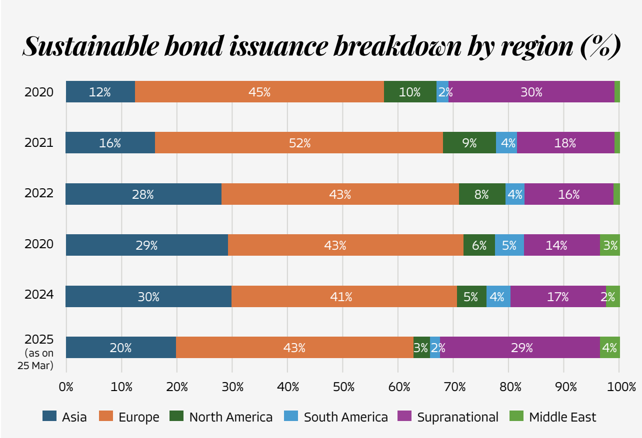
Social bond issuance exceeded USD37 billion, accounting for 17% of total sustainable bond issuance. Standard Chartered became the latest entrant to the social bond market with its debut EUR1 billion 8-year transaction. Other major social bond transactions include CADES with EUR and USD2.5 billion 5-year issuances; BNG Bank with a USD2.5 billion 5-year bond; and Unédic with a EUR2 billion 8-year offering.

Sustainability bond issuance topped USD68 billion, comprising 31% of total sustainable bond issuance so far this year. As in previous years, SSAs remain the dominant issuers in the sustainability bond segment, accounting for 84% of issuance year-to-date. Highlighted transactions include IBRD issuing USD6 billion 5-year and 7-year bonds. Moreover, Agence Française de Développement issued a EUR2 billion 10-year bond, while IADB completed a USD4.25 billion 5-year sustainability bond sale.



Sustainability-linked bond issuance remains low, with only USD7 billion issued year-to-date. Enel returned to the sustainability-linked bond market with a EUR2 billion triple-tranche transaction, comprising EUR750 million 3-year and 6-year bonds, and a EUR500 million 11-year issuance.

In terms of regional breakdown, issuance from supranationals has notably increased, rising to 29% year-to-date from 17% in 2024, reaching levels last seen during the pandemic in 2020. While issuance in Europe has remained stable, the share of North American issuers declined to 3%, down from 5% in 2024 and a peak of 10% in 2020. Asia's share of issuance also declined, primarily due to reduced activity among non-China issuers.



Source: ICMA based on LGX DataHub and Bloomberg data as of 25 March 2025

10th anniversary of the Paris Agreement: Is the debt capital market delivering on its commitments?

On 4 March 2025, the ICMA Regional Committee for France and Monaco held a conference in Paris, hosted by Banque de France, to review the progress made 10 years after the signing of the Paris Agreement and to consider whether the debt capital market is adequately delivering on its commitments (recording available here). The Paris Agreement was adopted by 196 parties at the United Nations Climate Change Conference (COP21) in Paris, France, on 12 December 2015. Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels".

Bryan Pascoe, ICMA Chief Executive, provided welcome remarks along with Jean-Luc Lamarque, Managing Director, Chairman Primary Credit at Crédit Agricole CIB, ICMA Deputy Chair and Chair of France and Monaco ICMA Regional Committee.

Elie Lewi, Head of Markets Directorate at Banque de France, Marc-Etienne Sébire, Global Co-Head of Banking and Finance at CMS Francis Lefebvre. and Ibrahima Kobar, Head of private debt strategy and business development at Natixis Investment Managers, all three vice-chairs of the ICMA Regional Committee France acted as masters of ceremony.

The opening speech was provided by Laurence Breton, Managing Director at the European Climate Foundation. Bernard De Longevialle, Global Head of Sustainable Finance at S&P Global Ratings provided a keynote on geopolitical risks and climate change. Cecilia Tam, Head of Energy Investment Unit at the International Energy Agency (IEA) delivered the closing remarks and presented the IEA's analysis of the market financial needs for clean technologies.

The first panel considered the role of policy makers and central banks in the development of sustainable finance. It was moderated by Nicholas Pfaff, Deputy Chief Executive and Head of Sustainable Finance at ICMA. Hélène Bussières, Head of Asset Management Unit at the European Commission, Yann Marin, Deputy Director for Financial Stability at Banque de France and NGFS Head of Secretariat, as well as Robert Youngman, Team Leader, Green Finance and Investment, Environment Directorate at OECD, presented their contribution in their respective fields. More specifically, Hélène summarised the objective of the recently published EU omnibus package.

The second panel moderated by Tanguy Claquin, Global Head of Sustainability at Crédit Agricole CIB, addressed the question of whether the sustainable debt capital market was delivering on its commitments. Pauline Gonthier, Deputy Chief Financial Officer at Agence Française de Développement (AFD), Benedicte Peyrol, Sustainability Group Director of SAUR, Marco Swan, Financial Institutions Engagement Manager at the Science Based Targets initiative (SBTi), together with Jean-Baptiste Tricot, Chief Investment Officer at AXA, agreed that while the debt capital market is offering a complete range of useful financial instruments, the broader ecosystem would benefit from more innovative projects. There were also testimonies from representatives of ICMA Future Leaders (Alina Shaptefrats, Fixed Income Product Manager at Euronext, Florie Poisson, Senior Associate in the Capital Market team at CMS Francis Lefebvre Avocats and Gabrielle Ferhat, Impact and ESG Analyst at Mirova) about the daily impact of climate change. The conference ended with a friendly networking cocktail sponsored by S&P Global Ratings.

The EU's Omnibus simplification packages

Following recommendations made by Mario Draghi in his report on the future of Europe's competitiveness published in September 2024, in January 2025, the European Commission presented the Competitiveness Compass to steer its work to achieve innovation, decarbonisation and security. This was followed on 26 February 2025 by the announcement of the Clean Industrial Deal (replacing the EU Green Deal) and the launch of the first of a series of Omnibus packages which focused on sustainability.

The proposed Omnibus simplification package consisted of amendments to the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) and the Taxonomy Delegated Acts which we look at in more detail below. Furthermore, amendments to the Carbon Border Adjustment Mechanism (CBAM) were proposed and a second package on investment simplification launched. Amendments related to sustainable finance reporting and sustainability due diligence are envisaged to reduce the administrative burden by at least 25% for all companies and 35% for SMEs, for "a simpler and faster Europe".

Commentary and recommendations for the simplification of the EU Sustainable Finance legislation

ICMA, in the lead-up to the announcement of the Omnibus package, published a paper providing key recommendations for simplifying EU sustainable finance legislation to enhance usability and effectiveness. Note that we also included the Sustainable Finance Disclosures Regulation (SFDR) which, although not part of the EU package, is due for amendments later in the year.

The key recommendations in our paper were:

1. Fundamentally address the usability and other challenges of the EU Taxonomy and its implementation by, among other measures, (i) limiting the mandatory reporting obligations to large, listed entities (ie ex-NFRD) and, for the time being, to climate change objectives (with "best effort" reporting for the remaining four objectives), (ii) introducing additional alignment approaches for the assessment of DNSH and MS based on an entity-level and risk-based testing, as well as of Substantial Contribution, and (iii) urgently assessing for equivalency treatment of other official sector and leading market-based taxonomies.
2. Refocus mandatory reporting for all organisations in scope of CSRD to essential data points and disclosures (eg on the model of EFRAG's existing LSMEs) without compromising the double materiality perspective and the consistency with the ISSB standards.
3. Streamline SFDR reporting in line with (i) the refocused data from CSRD, (ii) reporting based on ISSB and (iii) other official sector and leading market-based taxonomies, while avoiding misaligned sequencing between CSRD and SFDR obligations.
4. Maintain a flexible definition of sustainable investments, as currently exists under SFDR, that allows for a wider approach to sustainability than under the EU Taxonomy alone.
5. Adjust timelines for pending legislation to allow for logical sequencing and implementation feedback while providing certainty on interim requirements or suspended enforcement notably for reporting.

CSRD, which entered into force on 5 January 2023, is the legislation which is arguably the most affected by the simplification proposals. This is illustrated by the drastic reduction under discussion of companies in scope. CSRD was supposed to apply to all companies which cross two out of the three following thresholds: over EUR50 million net turnover, over EUR25 million balance sheet total, or 250 employees. With the simplification proposal now, it could apply *only* to large undertakings with more than 1,000 employees and EUR50 million in turnover or EUR25million balance sheet total. This could result in an 80% reduction of entities subject to mandatory reporting. The number of entities subject to mandatory EU Taxonomy reporting would also be substantially reduced as the regime would only be strictly mandatory to entities with over 1,000 employees and EUR450 million turnover, in line with the scope of the CSDDD.

Other proposed changes are:

- Reporting requirements will be delayed by two years for companies that have not yet started to implement CSRD.
- Out-of-scope entities (ie those with up to 1,000 employees) may use the proportionate voluntary standard to be adopted by the Commission as a delegated act, based on the VSME standard. Importantly, to reduce the trickle-down effect, the

Commission also proposed to further extend and strengthen the "value chain cap" for entities with less than 1,000 employees as the Commission's upcoming voluntary standard will act as a shield, by limiting the information that companies or banks falling into the scope of the CSRD can request from companies in their value chains.

- Substantially reduce the number of mandatory data points to be reported under the European Sustainability Reporting Standards (ESRS) and completely scrap sector-specific standards. The Commission intends to adopt without delay a delegated act to revise the first set of ESRS. Double materiality will be retained.
- Reasonable rather than limited assurance would be required for reporting.

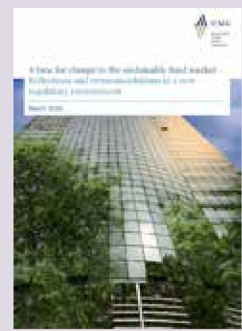
Importantly, a requirement under Article 22 of the CSDDD to adopt transition plans with implementing actions is included in the Commission's proposal. Other changes under review for CSDDD are:

- The postponement of the deadline for EU Member States to transpose the CSDDD into national law by one year to 26 July 2027 and the first phase of application to 26 July 2028.
- The obligation for in-depth assessments of adverse impacts to be limited to direct business partners unless there is plausible information on adverse impacts in other parts of the value chain.
- Assessment of the effectiveness of due diligence measures to be conducted only every five years (instead of yearly).
- Letting EU Member States decide, based on their own laws, whether their civil liability rules take precedence over the laws of the country where a company's actions cause harm, rather than having a harmonised EU-level rule.
- Deletion of the review clause on inclusion of financial services.

Unlike CSRD and CSDDD, changes to the Taxonomy will only happen in Level 2. Beyond the significant reduction of companies in scope resulting from the proposed changes to CSRD described above, other key changes under consideration are:

- A materiality threshold, to make disclosure of alignment for companies with < 10% eligible activities not mandatory.
- All Technical Screening Criteria (TSC), notably for "Do No Significant Harm" (DNSH) to be examined more closely in 2025, with an aim to streamline some of the most challenging requirements. In the current package, the Commission only proposed amendments to the generic DNSH TSC criteria for the use and presence of chemicals for DNSH in pollution prevention and control in Appendix C of the Climate and Environmental Delegated Acts.
- The Green Asset Ratio (GAR) is to be adjusted in that banks will be able to exclude exposures that relate to undertakings which are outside the future scope of the CSRD from the denominator of the GAR.
- The reduction of data points for reporting templates by almost 70%.

In next steps, the Council, which had called on the co-legislators to adopt the proposal on the stop-the-clock mechanism on sustainability reporting and due diligence without delay and at the latest by June 2025, already agreed the stop-the-clock Directive on 26 March 2025.



Reflections and recommendations for the sustainable fund market in a new regulatory environment

ICMA published on 25 March 2025 a new paper with reflections and recommendations for the sustainable fund market in a new regulatory environment. The publication is also covered in greater detail in a Thought Leadership article of this Quarterly Report.

Recent regulatory initiatives in the EU and the UK around fund categorisation, labelling, and naming will significantly impact a largely European industry that already reorganised in response to the EU's SFDR in 2019. The paper identifies the implications of these regulations while looking at current market practices based on the results of a targeted research and building on our prior publications.

The paper concludes with priorities for a common roadmap for regulators and the market, while also making several recommendations relating, among others, (i) to consistency for a future SFDR review to avoid future disruption and/or discouragement of the sustainable fund market which will have substantially rebranded because of recent initiatives, (ii) to inclusiveness for the assessment of sustainable investments which should be feasible thanks to official and leading market taxonomies, as well as other established assessment tools, and, (iii) to the need to identify investments, such as those in the fossil and "hard-to-abate" sectors, that cannot necessarily be accommodated by other sustainable funds to grow transition-themed funds resulting from EU and UK regulations.

Other regulatory developments

In November 2024, IOSCO published a report, which sets out how transition plan disclosures can support the objectives of investor protection and market integrity, shares challenges and key findings which point towards a series of coordinated actions for IOSCO and other stakeholders to consider in the future concerning four main aspects: (i) where transition plans are published, encouraging consistency and comparability through guidance on transition plan disclosures; (ii) promoting assurance of transition plan disclosures; (iii) enhancing legal and regulatory clarity and oversight; and (iv) building capacity.

In December 2024, the ASEAN Taxonomy Board (ATB) released an updated iteration of the ASEAN Taxonomy Version 3 providing more clarity on technical screening criteria for the Construction & Real Estate and Transportation and Storage sectors.

In March 2025, the Monetary Authority of Singapore published an Information Note on the Application of the Singapore-Asia Taxonomy in the Financial and Corporate Sectors, which highlights how the SAT has been adopted by various market participants since its launch in December 2023.

Towards the end of 2024 and in Q1 2025, the EU Platform on Sustainable Finance published several reports, including on (i) EU PSF's proposal on categorisation of products under the SFDR (December 2024), (ii) Transition benchmarks (December 2024), (iii) core elements for assessing corporate transition plans (January 2025), (iv) simplifying the EU Taxonomy to foster sustainable finance (in response to the EC's Omnibus proposal) (February 2025), (v) monitoring capital flows to sustainable investments (March 2025), (vi) streamlining sustainable finance for SMEs (March 2025), (vii) an updated version of the Handbook of Climate Transition Benchmarks and Paris-Aligned Benchmarks (March 2025), and (viii) technical criteria for new activities and first review of the Climate Delegated Act (April 2025).

New ICMA course on transition finance

ICMA launched a new training course focused on climate transition finance in an online livestreamed format held from 24 to 27 March 2025.

Notably, the training course focuses on the role of the financial and specifically the fixed income markets in financing credible decarbonisation projects, activities, and trajectories through sustainable bonds and other financial instruments and products. The syllabus gives an overview of the key global frameworks, guidance and tools developed by both market and regulatory initiatives (eg ISSB, GFANZ, SBTi, NZIF, UK TPT), as well as practical implementation and case studies.

The launch session also featured external speakers from GFANZ, IFC, Moody's, SBTi, and TPI. The dates for the second session will be announced in due course and be available on ICMA's website.

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Financing the energy transition in Japan

by **Kosuke Kajiwara,** Japan Credit Rating Agency.

The Japanese Government renewed its energy policy as the Seventh Strategic Energy Plan, approved at a Cabinet meeting in February 2025. The Strategic Energy Plan is established by the Government under the Basic Act on Energy Policy to indicate the basic direction of energy policy.

Japan's energy situation

Japan's energy self-sufficiency rate is currently at a moderate 15.2% (IEA base, FY2023). Japan was hit by several crises in the past on its stable energy supply. Government has given careful thought to ensuring a stable energy supply.

Following the Great East Japan Earthquake and the Fukushima Daiichi Nuclear Power Plant accident in 2011, many nuclear power plants were shut down, and dependence on fossil fuels became an issue. Russia's attack on Ukraine in 2022 raised concerns about inflation in the energy sector and raised concern about the structural vulnerabilities of energy policy shown on the tighter electricity demand and supply and surging energy prices, and uncertainty regarding the procurement of fossil fuels.

In addition, there are predictions that electricity demand will increase along the way due to advances in digital transformation (DX) and electrification through green transformation (GX), making the energy situation even more uncertain.

As energy is the basic factor of economic activity, the Japanese Government is aiming to restructure its policies with a focus on energy security in order to move away from excessive reliance on fossil fuels and towards an energy transition that will endure in the event of an energy crisis.

Japan's efforts towards carbon neutrality

Japan has signed the Paris Agreement on climate change. In 2020, Japan announced a goal of achieving carbon neutrality by 2050. In 2021, Japan announced its National Determined Contribution (NDC) for 2030, a 46% reduction in greenhouse gas emissions compared to FY2013 levels in order to achieve carbon neutrality. The new NDC published in 2025 sets milestones for 2035 and 2040 as reductions of 60% and 73%, respectively.

Japan's Seventh Strategic Energy Plan aims to maximize the introduction of renewable energy as a main power source, while aiming for a balanced power source mix that does not depend on any specific power source or fuel source for the long term, in order to achieve both a stable supply and decarbonization of energy, in light of the expected increase in electricity demand due to DX and GX.

While promoting thorough energy saving and fuel conversion in manufacturing, there is a need to focus on energy security, such as renewable energy and nuclear power, and to make maximum use of power sources with high decarbonization effects, and to transition to clean energy.

The Seventh Strategic Energy Plan envisions that the power source mix in FY2040 will be approximately 40-50% renewable energy, 20% nuclear power, and 30-40% thermal power.

Japan's green transformation

Japan has been working to put in place a system to enable the public and private sectors to work together towards achieving carbon neutrality by 2050. After proposing GX, the GX Executive Council, represented by the Prime Minister and composed of members from the public and private sectors, as well as academic and other experts, was held in 2022, and in 2023, Japan compiled the *Basic Policy for Realization of GX.* The GX Promotion Act and the GX Decarbonized Power Source Act were also enacted in the same year, establishing a system for promoting strategies toward a "growth-oriented carbon pricing initiative". As a concrete strategy for continuous policy implementation, the GX Promotion Strategy was established.

As mentioned above, the Seventh Basic Energy Plan was approved by the Cabinet in February 2025, and the GX2040 Vision was formulated as a revision of the GX Promotion Strategy. The GX Promotion Strategy and GX2040 Vision call for a combined public and private investment of JPY150 trillion over 10 years, aimed at achieving carbon neutrality by 2050 through the formation of supply chains for GX products and structural transformation of "hard-to-abate" sectors.

Transition finance and GX transition bonds

In May 2021, the Ministry of Economy, Trade and Industry, Ministry of Environment and Financial Services Agency of Japan established the *Basic Guidelines for Climate Transition Finance* as guidelines for Japan, based on the contents of the Climate Transition Finance Handbook developed by ICMA.

Based on this policy, and with a view to a technological roadmap for achieving carbon neutrality in "hard-to-abate" sectors from 2022 to 2023, the report outlines a path for reducing CO2 emissions, along with a path for introducing low-carbon and decarbonization technologies, to achieve carbon neutrality by 2050 for some of the "hard-to-abate" sectors, such as iron and steel, chemicals, electricity, gas, petroleum, paper and pulp, cement, and automobiles. The technology roadmap has shown a vision and plan for the phased conversion, suspension, and decommissioning of technologies and facilities aimed at reducing emissions and, by making advance investments toward this goal, it is planned to avoid lock-in to fossil fuels.

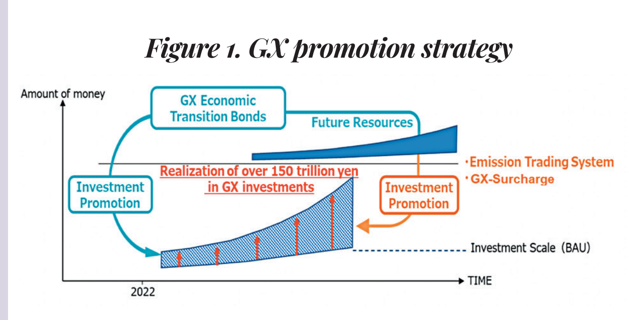
In Japan, transition finance started from the private sector referring to the sector technology roadmap. Following active issuance from the private sector, the Japanese Government has launched its world's first climate transition finance framework in February 2024, which reflected GX strategy and aims to stimulate more private finance flow into the energy and industry transition to realize the private sector's investment target at JPY150 trillion by 2030. The Government announced that it will issue transition bonds as GX Economy Transition Bonds annually to reach JPY20 trillion by 2030 to support R&D for new net zero technologies and capital investment into existing zero emission technologies by the entities which try to reach net zero by 2050. The Government is working to gradually implement a growth-oriented carbon pricing concept from 2026. The Government is first providing subsidies into green/transition projects by utilizing funds raised by GX bonds in the first phase from 2024 to 2040. Then as a second phase, the Government will introduce carbon pricing in 2026, long-term decarbonized power source auctions in 2028. The Government aims to make revenues from the carbon pricing system to redeem sources of GX bonds.

JCRA's role in transition finance

Japan Credit Rating Agency (JCRA) has provided many second-party opinions (SPOs) on transition finance for both the private and Government sectors in Japan. JCRA believes that transition finance is a financing instrument that has high potential to enable dialogue with issuers from a medium- to long-term perspective while supporting issuers' transition strategies.

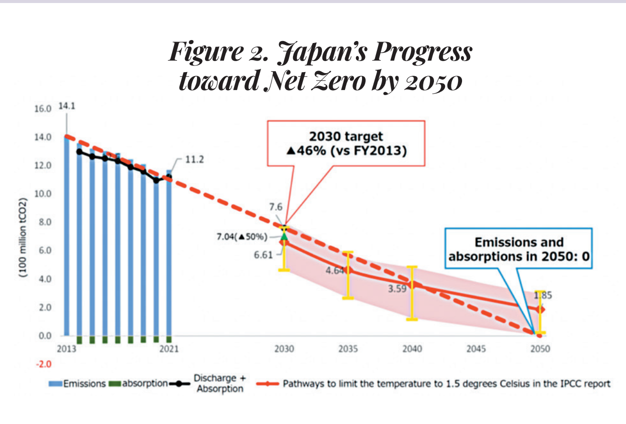
JCRA not only focuses on the environmental improvement effects of the use of proceeds, but also strives to compose SPOs that ensure market participants recognise key points such as whether each issuer's transition strategy is integrated with science-based global targets and is consistent with national transition technology roadmaps.

Figure 1. GX promotion strategy



Source: Ministry of Economy, Trade and Industry.

Figure 2. Japan's Progress toward Net Zero by 2050



Source: Ministry of Economy, Trade and Industry

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FinTech and Digitalisation

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

Use of AI in UK financial services: ICMA response to the FCA

In November 2024, the FCA launched a call for evidence on current and future uses of Artificial Intelligence (AI) in UK financial services, as well as the financial services regulatory framework. As part of its response, ICMA's AI in Capital Markets (AICM) Working Group highlighted the UK Government's recent announcement of the cross-sector *AI Opportunities Action Plan*, which demonstrated the desire to create an environment that encourages innovation and investment in AI technology. Likewise, ICMA members are in principle supportive of innovation in the debt capital markets and are exploring use cases in their own organisations.

The key points from the response are set out below:

- Establishing an agreed definition of AI is an essential step to embark on a meaningful discussion. This response references the 2024 OECD definition on AI, which extends to include machine learning (ML), natural language processing (NLP), generative AI (Gen AI), and other techniques.
- ICMA members highlight the importance of distinguishing between AI techniques that have existed within firms for a long time and are being applied to new processes, and new AI techniques such as Gen AI, applications of which are still largely in the proof-of-concept stage.
- ICMA members emphasise the role of internal frameworks and teams to manage the risks associated with AI. They also emphasise the importance of encouraging a general duty of understanding and responsibility for AI use across the firm.
- Understanding the interplay between the various frameworks that make up the current regulatory regime could be a challenge for firms looking to responsibly implement AI. This can be especially complex when considering the non-financial regulation that firms are subject to, such as GDPR, and upcoming UK or EU regulation such as the cyber security and resilience bill (CS&R) and DORA that impose additional considerations for the use of technology such as AI.
- As wider provisions already capture safeguards on the use of technology including AI, any potential changes to the regulatory regime should consider firms' competitiveness and be communicated transparently and in a timely manner to the industry.
- Further clarity from the regulator may be useful on whether firms that operate in the financial services industry through the provision of services for AI applications are subject to the same stringent level of regulation as traditional financial institutions. These firms often fall outside the perceived scope of financial services regulation, yet operate within the industry through third-party services for AI applications.

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Settlement of DLT-based transactions in central bank money in the Eurosystem

ICMA welcomed the announcement by the Governing Council of the European Central Bank (ECB) on 20 February 2025 to expand its initiative to settle transactions recorded on distributed ledger technology (DLT) in central bank money.

ICMA and its DLT Bonds Working Group have consistently highlighted the critical importance of a wholesale CBDC (or DLT-based central bank money settlement solution) and have long advocated for it as a way of realising the benefits and fostering the market development of DLT-based securities.

Expected benefits include:

- Next level automation through programmability, reducing costs and fragmentation.
- More efficient securities settlement and post-trade processing, reducing settlement fails and risk.

- Increasing the attractiveness of capital markets and facilitating the funding for the real economy.
- Future proofing and maintaining control of the currency in light of the proliferation of "stablecoins".

While the ECB's announcement addresses a number of members' key considerations, collaboration with the industry, notably on harmonisation and standardisation, remains of paramount importance to avoid market fragmentation. We look forward to engaging further with the Eurosystem and all relevant stakeholders. Further information on ICMA's DLT Bonds Working Group as well as guidance on tokenisation and DLT-based debt securities can be found here. If you would like to become involved, please get in touch.

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Common Domain Model Showcase 2025

Bringing together over 200 participants, the Common Domain Model (CDM) Showcase returned for its third annual edition on 26 February 2025. Hosted by State Street in London and led by ICMA this year, but organised in collaboration with ISDA, ISLA and FINOS, the event featured a series of keynotes, panel discussions and presentations of innovative solutions using the open-source CDM for derivatives, repo and securities lending.

The event covered innovation in trading and lifecycle management, optimising collateral management as well as tokenisation, digital regulatory reporting (DRR), and the future of the market more broadly. Various presenters took to the stage to highlight where and how they have implemented the CDM, through demonstrations and presentations. ICMA's presentation focused on DLT and tokenisation in repo and collateral markets and how to leverage the CDM in conjunction with smart contracts.

The slides and recordings of the CDM Showcase can be found on ICMA's website. Further resources on the CDM and upcoming meetings are available on ICMA's website as well as the FINOS website.

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Incorporating the Bond Data Taxonomy into ISO 20022

In March 2025, ICMA and Swift jointly submitted a proposal to the International Organisation for Standardisation (ISO) to incorporate the Bond Data Taxonomy with the ISO 20022 messaging standard. ISO 20022 is becoming widely adopted by financial institutions across capital markets for trading, settlement, payments, and reporting processes. To expand the coverage of ISO 20022 in primary markets as well as throughout the lifecycle, ICMA's Bond Data Taxonomy will be made available in the ISO 20022 format. As a reminder, ICMA's Bond Data Taxonomy provides a standardised, machine-readable language of key economic terms and related information such as governing law and applicable selling restrictions of a bond. Incorporating the BDT into ISO 20022 will expand the scope of ISO messages between relevant parties to a transaction, notably issuers, agents, banks, investors and service providers. The intention is to provide a standardised message format throughout the entire issuance process, from origination and announcement through to bookbuilding, allocation, pricing and settlement. For the next phase of the process, ICMA's BDT Working Group has created a sub-group to focus on the design and development of ISO 20022 messages.

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AI regulatory developments

BIS: Paper No 154 on the AI supply chain

On 18 March 2025, the BIS published a paper on the AI supply chain. This paper examines the market structure of each layer and highlights the economic forces shaping them: rapid technological change, high fixed costs, economies of scale, network effects and, in some cases, strategic behaviour by dominant firms. It also highlights the expanding influence of big tech companies across the AI supply chain. Finally, the paper discusses the challenges for consumer choice, innovation, operational resilience, cyber security and financial stability.

IOSCO: Consultation report on AI in capital markets: use cases, risks and challenges

On 12 March 2025, IOSCO published a consultation report on *Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges*. The report is based on a combination of direct feedback from IOSCO's members and industry participants via a survey, and it now invites the public and financial market participants to provide input. The report identifies five key findings, including the increasing use of AI in robo-advising, algorithmic trading, investment research, sentiment analysis, and surveillance and compliance functioning. It also highlights the risks most commonly cited by companies using AI, current industry practices and regulatory responses to the growth of AI.

FCA and ICO: Open letter to Trade Association Chairs and CEOs

On 10 March 2025, the FCA and ICO sent an open letter to Trade Association Chairs and CEOs, highlighting their alignment to the UK Government's desire for regulators to help foster economic growth, and inviting the Chairs and CEOs to join a roundtable to further develop their understanding of the challenges faced by firms. In particular, the letter notes a lack of confidence amongst some firms to develop and adopt AI technology, as well as potential uncertainty around the interactions between regulatory regimes. The roundtables will cover the broad areas of regulatory uncertainty and challenge faced in respect of AI adoption and wider innovation, the specific areas of data protection and financial regulation in which greater regulatory support is needed, and how the ICO and FCA can work together with the industry.

European Commission: Guidelines on an AI system's definition, EU AI Act

On 6 February 2025, the European Commission published guidelines on an AI system's definition to explain the practical application of the legal concept, as anchored in the AI Act. By issuing guidelines on the AI system definition, the Commission aims to assist providers and other relevant persons in determining whether a software system constitutes an AI system to facilitate the effective application of the rules. The guidelines on the AI system definition are not binding, they are designed to evolve over time and be updated as necessary. The definition comprises seven main elements: (1) a machine-based system; (2) that is designed to operate with varying levels of autonomy; (3) that may exhibit adaptiveness after deployment; (4) and that, for explicit or implicit objectives, (5) infers, from the input it receives, how to generate outputs (6) such as predictions, content, recommendations, or decisions (7) that can influence physical or virtual environments.

European Commission: Guidelines on prohibited AI practices, EU AI Act

On 4 February 2025, the European Commission published guidelines on prohibited artificial intelligence (AI) practices, as defined by the AI Act. These guidelines aim to increase legal clarity and provide insights into the Commission's interpretation of the prohibitions in Article 5 in the AI Act with a view to ensuring their consistent, effective and uniform application. The guidelines are non-binding, and the application of Article 5 will require a case-by-case assessment and so the examples given in these guidelines are merely indicative. Article 5 prohibits the placing on the EU market, putting into service, or use of certain AI systems for manipulative, exploitative, social control or surveillance practices, which by their inherent nature violate fundamental rights and Union values.

BIS: Report on governance of AI adoption in central banks

On 29 January 2025, the Consultative Group on Risk Management (CGRM) published a report on the governance of AI adoption in central banks, to provide guidance on the implementation of AI in central banks and propose a governance and risk management framework. The use cases for AI span a broad range of critical functions of a central bank, including data analysis, research, economic forecasting, payments, supervision and banknote production. The potential risk exposure for central banks can be significant, owing to the criticality and sensitivity of the data they handle as well as their central role in financial markets. The report proposes an adaptive governance framework and recommends ten practical actions that central banks may want to undertake as part of their journey in adopting AI.

President Trump: Rescinded Executive Order 14110

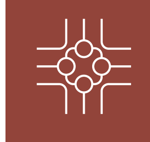
On 20 January 2025, the President of the United States of America, Donald J. Trump, rescinded Executive Order 14110 on the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence. The Executive Order was introduced by the previous Administration on 30 October 2023.

EBA: Staff Paper No 21 on using machine learning to predict bank distress in Europe

On 15 January 2025, the EBA published a paper on predicting bank distress in Europe – using machine learning and a novel definition of distress. The paper develops an early warning system for predicting distress for large European banks. Using a novel definition of distress derived from banks' headroom above regulatory requirements, it investigates the performance of three machine learning techniques against the traditional logistic model. Overall, the paper covers important practical implications for bank supervisors and macroprudential authorities who can utilise the findings to identify bank weaknesses ahead of time and adopt pre-emptive measures to safeguard financial stability.

FCA: Research note on bias in natural language processing

On 9 January 2025, the FCA published a research note on a pilot study into bias in natural language processing. Word embeddings are widely used in NLP and LLM systems, yet they have the potential to encode harmful biases against demographic groups, such as on the basis of gender, disability, or ethnicities. These biases could cause tangible harm if word embeddings are deployed in consumer-facing applications. Although there has been research into bias in such settings, there is no consensus on the best way to tackle it. This research seeks to uncover how biases in word embeddings could be identified and removed at source



through current methodologies. The research finds that while it is possible to measure some aspects of language bias and mitigation techniques can remove some elements of gender and ethnicity bias, there are limitations to current methods.

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Other FinTech and Digitalisation regulatory developments

UK Government: Announcement of plans for a Digital Gilt Instrument

On 18 March 2025, The UK Chancellor of the Exchequer, Rachel Reeves, confirmed the start of the procurement process for a Digital Gilt Instrument (DIGIT), to test the demand for and use of DLT, which has the potential to modernise financial markets by increasing efficiency, reducing costs, and enhancing security. HM Treasury has published additional information, engagement questions and has issued a Preliminary Market Engagement Notice to provide further information on the scope of the DIGIT pilot and seek views from potential suppliers including the financial services sector, to inform the development and delivery of DIGIT.

ECB: Expansion of Eurosystem initiative to settle DLT-based transactions in central bank money

On 20 February 2025, the Governing Council of the European Central Bank (ECB) announced its decision to expand its initiative to settle transactions recorded on DLT in central bank money. The initiative will follow a two-track approach. First, as soon as feasible, the Eurosystem will develop and implement a safe and efficient platform for such settlements in central bank money through an interoperability link with TARGET Services. Second, the Eurosystem will look into a more integrated, long-term solution for settling DLT-based transactions in central bank money. This will also include international operations, such as foreign exchange settlement.

UK Government: The Financial Services and Markets Act 2023 (Digital Securities Sandbox) (Amendment) Regulations 2025

On 30 January 2025, the Financial Services and Markets Act 2023 (Digital Securities Sandbox) (Amendment) Regulations 2025 was laid before Parliament to come into force on 3 March 2025. The legislation modifies the effect of the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 and makes other minor amendments to the DSS Regulations. Specifically, it temporarily disapplies the provisions of the Money Laundering, Terrorist Financing and Transfer of Funds Regulation (MLRs) that apply to crypto-assets for activities in scope of the Digital Securities Sandbox (DSS). It does this by inserting a fifth table into the schedule to the DSS Regulations. The MLRs would continue to apply to firms outside of the DSS as appropriate.

IMF: FinTech Note on tokenisation and financial market inefficiencies

On 29 January 2025, the IMF published a FinTech Note on tokenisation and financial market inefficiencies. The note introduces a taxonomy and a conceptual framework centred on market inefficiencies to understand the consequences of growing tokenisation in financial markets. It finds that some inefficiencies could decline across the asset lifecycle, but others would remain, and new ones could emerge. Issuing, servicing, and redeeming assets might involve fewer intermediaries and thus become cheaper and costs of trading assets may also decrease as tokenisation lowers some counterparty risks and offers flexibility in settlement. Tokenisation may also amplify shocks if it induces institutions to become more interconnected and hold lower liquidity buffers or higher leverage, potentially jeopardising financial stability.

President Trump: Executive Order 14178 on Strengthening American Leadership in Digital Financial Technology

On 23 January 2025, the President of the United States of America, Donald J. Trump, signed an Executive Order to establish regulatory clarity for digital finance technology. The Executive Order establishes the President’s Working Group on Digital Asset Markets to strengthen US leadership in digital finance. It also prohibits agencies from undertaking any action to establish, issue, or promote central bank digital currencies (CBDCs). The Working Group will be tasked with providing regulatory clarity and certainty built on technology-neutral regulations, frameworks that account for emerging technologies, transparent decision making, and well-defined jurisdictional regulatory boundaries, all of which are essential to supporting a vibrant and inclusive digital economy and innovation in digital assets, permissionless blockchains, and distributed ledger technologies.

AMF: Overview of how the French legal framework for DLT financial instruments operates in relation to the European Pilot Regime

On 16 January 2025, the AMF published an overview on how the French legal framework for DLT financial instruments and intermediation operates in relation to the EU DLT Pilot Regime Regulation. The article also sets out the scope of the Pilot Regime Regulation, its main measures, and how to apply for permission under the Pilot Regime Regulation.

MAS: Global-Asia Digital Bond Grant Scheme

On 15 January 2025, the MAS launched the Global-Asia Digital Bond Grant Scheme (G-ADBGS) to catalyse the issuance and broader market adoption of digital bonds in Singapore. The funding under the scheme will be provided for up to two qualifying digital bond issuances. The scheme is valid until 31 December 2029, and participants must meet the criteria set out by the MAS. The criteria include alignment with internationally-recognised digital bond standards, a minimum issuance size of S$100 million, and the bond being issued and listed on a designated digital asset platform in Singapore.

OECD: Report on the tokenisation of assets and distributed ledger technologies in financial markets

On 9 January 2025, the OECD published a report on the tokenisation of assets and distributed ledger technologies in financial markets. The report highlights how market participants and policy makers have shown strong interest in DLT-based financial applications such as tokenisation. However, despite growing enthusiasm by market participants and the emergence of a clearer divide between crypto-assets and regulated tokenised assets, adoption of tokenisation remains scarce. This report analyses possible reasons for the absence of a market for tokenised assets and puts forward policy considerations for financial supervisors and policy makers.

HKMA: Supervisory Incubator for Distributed Ledger Technology

On 8 January 2025, the HKMA launched the Supervisory Incubator for Distributed Ledger Technology to help banks responsibly unlock the transformative potential of DLT. The Incubator is a new supervisory arrangement designed to help banks maximise the potential benefits of DLT adoption by effectively managing the associated risks. At the individual bank level, the Incubator will offer a one-stop supervisory platform that enables banks to reaffirm the adequacy of their risk management controls prior to the full launch of a DLT-based initiative. The Incubator will also promote industry awareness and understanding of best practices in DLT risk management through a range of targeted initiatives, such as supervisory guidance, industry sharing sessions, and forward-looking research projects.

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Capacity building in the Saudi capital market

by **Bryan Pascoe**

Saudi Arabia's capital market is undergoing a period of dynamic transformation. Under the banner of Vision 2030, the Kingdom has made remarkable strides toward economic diversification, with the development of deep, resilient, and internationally integrated capital markets at the heart of this strategy. As ICMA, we are proud to support these efforts alongside our members, regulators, and market practitioners across the region.

Our recent visit to Riyadh earlier this year, for a joint event with ISDA and ISLA, provided a clear lens on the progress achieved and the scale of ambition that lies ahead. It also reaffirmed the central role that international collaboration can play in helping to unlock the full potential of Saudi Arabia's domestic markets.

Strong foundations and a strategic vision

Saudi Arabia's credit fundamentals provide a compelling foundation for capital market growth. These include strong sovereign ratings, a low debt-to-GDP ratio, favourable macroeconomic indicators, and low correlation with other leading developing markets. These attributes are further enhanced by a demographic profile skewed toward youth, a relatively robust economic growth outlook, and a state-led investment agenda targeting infrastructure, technology, and industrial development.

The debt capital markets are increasingly positioned as a core financing channel for this transformation. The Capital Market Authority (CMA) and other official sector stakeholders have played an essential role in supporting issuance growth, with welcome regulatory reforms aimed at streamlining issuance processes and encouraging corporate market entry. Notably, the simplification of public offering requirements and supporting documentation has already helped foster broader participation in the sukuk and debt markets.

Sukuk in particular have emerged as the bedrock of the Kingdom's fixed income landscape. Saudi Arabia is now among the world's leading sukuk issuers, catering to both local and international investors and reinforcing the central role of Islamic finance in the global capital market.

Sustainability and innovation in the debt market

The integration of sustainable finance principles into the Saudi market represents another important leap forward. The Public Investment Fund's US$500 million green sukuk issuance is just one example of how ESG considerations are being actively embedded into financing strategies. ICMA was pleased to work with the Islamic Development Bank and the London Stock Exchange Group on the *Guidance on Green, Social and Sustainability Sukuk*, launched in Riyadh last year, which aligns sukuk issuance with global sustainable finance frameworks. This guidance has been well received across the region and provides a credible basis for further market development.

From an international investor perspective, the continued evolution of ESG-labelled instruments within Saudi Arabia's market ecosystem will be crucial. There is growing demand globally for financial instruments that align with environmental and social goals, and by further promoting transparent, high-quality sustainable issuance, the Kingdom can enhance its attractiveness to a broad base of global capital.

The critical role of repo markets

A well-functioning repo market is essential to market liquidity, stability, and efficiency. It facilitates funding, collateral management, and secondary market activity across fixed income markets. ICMA has long supported the development of repo markets globally, particularly through the Global Master Repurchase Agreement (GMRA), which underpins cross-border activity and provides a legal and operational foundation for transactions.

In Saudi Arabia, the development of the repo market is gathering momentum, and its growth will play a vital role in supporting the bond, derivatives, and securities lending markets. ICMA's experience in helping other jurisdictions establish best-in-class repo infrastructure – aligned with

international standards but tailored to local needs – can be a valuable asset in this effort.

A landmark development in this context is the recent announcement of netting legislation by the Saudi Central Bank (SAMA). As highlighted in our latest Quarterly Report, this legal reform represents a foundational step toward enabling a robust and efficient repo and derivatives market. It is expected to enhance risk management, improve the legal certainty of close-out netting arrangements, and broaden the range of international participants willing to engage in the Saudi capital market.

International collaboration and next steps

Saudi Arabia's market development journey is marked by openness and partnership. At ICMA, we see strong and growing engagement with members across the MENAT region, including Saudi Arabia. We are increasingly working with local institutions, regulators, and market participants to share expertise, align on best practices, and support local capacity building.

Importantly, capacity building extends beyond market structure. It involves nurturing the skills, institutions, and collaborative frameworks that underpin a healthy capital market. Whether through training initiatives, market consultations, or legal documentation support, ICMA remains committed to being a long-term partner in this process.

In line with that commitment, we continue to encourage the uptake of global standards such as our *Primary Market Handbook*, *Secondary Market Rules & Recommendations*, and of course, the *Green and Social Bond Principles*. These provide internationally recognised frameworks that facilitate market confidence, consistency, and investor trust.

Conclusion

Saudi Arabia stands at a pivotal moment in its capital markets evolution. The progress achieved to date – in regulatory reform, sustainable finance, sukuk issuance, and market infrastructure – speaks to the Kingdom's commitment to building a modern and resilient financial system. But just as importantly, the ambition to engage globally and build through partnership provides a model that others may seek to emulate.

Capacity building in this context is both a technical and strategic endeavour. It demands a long-term vision, collaboration across sectors, and a commitment to embedding the highest standards. As ICMA, we look forward to continuing this journey with our partners in the Kingdom, supporting the development of a capital market that delivers both national prosperity and global connectivity.

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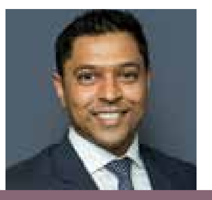
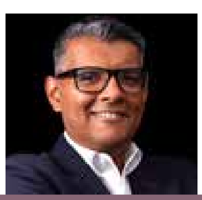
Benchmark rate reform in South Africa

by **Kumeshen Naidoo** and
Ajay Bhowan, Absa Bank Limited

Key take-aways

- JIBAR will be phased out by the end of 2026 and replaced by ZARONIA.
- The South African market has successfully navigated the IBOR transition in the preceding years and there is comfort in being able to manage the JIBAR transition effectively.
- The MPG, together with the South African market, have laid the foundations to commence transacting in ZARONIA.
- The industry is coordinating to ensure readiness of key infrastructure participants, including third-party administrators supporting institutional investors.
- Market participants are encouraged to familiarize themselves with the use of ZARONIA using the SARB's timelines as a strong guide to ZARONIA adoption and JIBAR contract remediation. Monitoring the SARB's website and engaging with local banks for ZARONIA developments and updates will enable a smooth overall industry transition.

Introduction

As a G20 member, South Africa is required to ensure local interest rate benchmarks align with global standards and incorporate necessary reforms. As such, South Africa, like many emerging market economies, has been navigating the global shift toward benchmark rate reform, a process driven by the need for greater transparency, reliability and accuracy in financial markets. Historically, global financial systems relied on the Interbank Offered Rates (IBORs), but credibility waned as global regulators sought new, more reliable alternatives. As a key player in Africa's financial landscape, South Africa's response to this reform has been crucial in ensuring the stability and continued attractiveness of its financial markets.

South Africa has traditionally used its own domestic interbank offered reference rate, the Johannesburg Interbank Average Rate (JIBAR), for local lending and financial instruments. However, JIBAR faces similar challenges to other IBORs regarding its transparency and methodology, prompting local reform efforts.

Further to a 2015 review of JIBAR by the South African Reserve Bank (SARB), the robustness, representativeness and credibility of JIBAR did not meet the International Organization of Securities Commissions' (IOSCO) requirements on data sufficiency and benchmark design. This culminated in the decision taken in 2018 by the SARB to transition the South African financial market from JIBAR to the South African Overnight Index Average (ZARONIA), a near risk-free overnight rate, by December 2026, as per the SARB's current timeline.

The context of benchmark reform in South Africa

JIBAR is the key reference interest rate for South African rand-denominated financial contracts. Contracts set against JIBAR (of which three months is the most widely-used tenor) are estimated to amount to in excess of approximately ZAR57 trillion[1].

In 2018, the SARB established the Market Practitioners' Group (MPG) – consisting of the SARB, the Financial Sector Conduct Authority (FSCA) and senior professionals from various domestic financial market groups – to lead the South African market's benchmark reform process, ensuring reforms are well understood and smoothly implemented.

1. Dr Rashad Cassim, Deputy Governor of the SARB

On 3 November 2023, the SARB officially endorsed the use of ZARONIA as the successor rate to JIBAR as per the MPG's recommendation. This followed a market consultation where four alternative rates were also considered.

ZARONIA's calculation methodology compared to JIBAR

ZARONIA is the trimmed, volume weighted mean of the central 80% distribution of interest rates remunerated by commercial banks for eligible unsecured overnight deposits obtained by commercial banks in South Africa. Transactions used to calculate ZARONIA are reported daily by commercial banks to the SARB, which then publishes the overnight ZARONIA rate to the market. Transactions amount to approximately ZAR350 billion – ZAR400 billion daily[2].

In comparison, JIBAR is derived from rates quoted for Negotiable Certificate of Deposits (NCDs) by participating banks. For three-month JIBAR, transactions amount to less than approximately ZAR10 billion per month across the industry[3].

Key industry milestones and developments

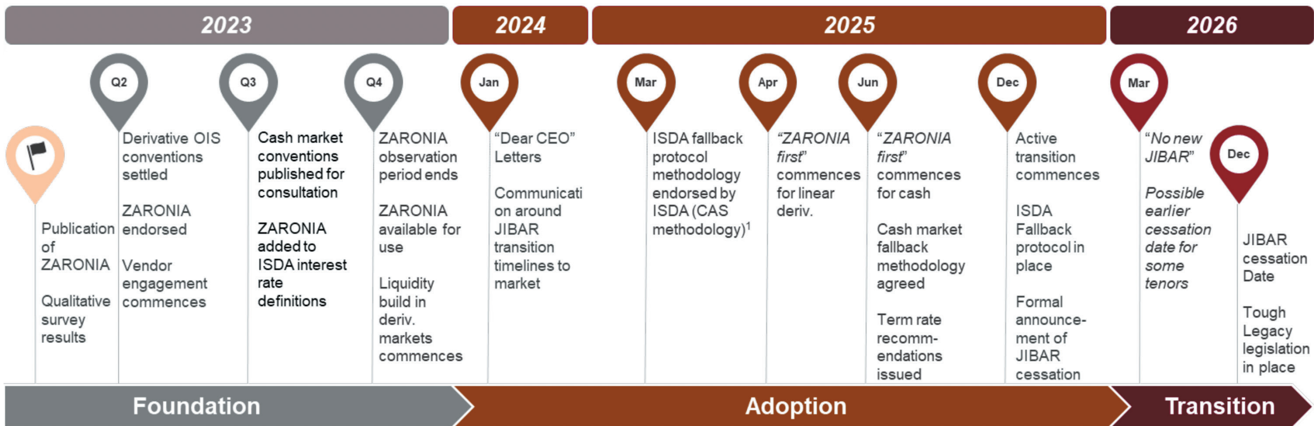
The MPG has derived key transition milestones, conventions, governance and other issues relevant to the transition with a view to preserving the financial market's structural integrity during the transition to ZARONIA.

The approach to transition includes four critical junctures (see timeline below):

- *Foundation:* aimed at identifying the new alternative reference interest rate;
- *Pillar 1:* adoption in derivatives markets, including infrastructure readiness;
- *Pillar 2:* adoption in cash markets, including infrastructure readiness; and
- *Pillar 3:* transition of legacy positions.

The foundation phase has now been concluded. Key achievements include the following:

- The SARB provided a set of ZARONIA reporting instructions to commercial banks, including the controls and governance procedures that will be applied to its calculation. From 2022, commercial banks have adhered to this and ZARONIA is now published daily.
- Historical transactional data from the four largest commercial banks and the Johannesburg Stock Exchange (JSE) was used as historic proxy data for ZARONIA from 2016 to 2022, which allowed for back-testing of ZARONIA as well as observation of the rate over a longer term.
- ZARONIA underwent an observation period from 2 November 2022 to 3 November 2023, which has shown that ZARONIA remains stable and responsive to SARB policy rate hikes and cuts.
- In order to establish a standard for the use of ZARONIA and to foster certainty in the market, non-prescriptive market conventions leveraging SONIA (Sterling Overnight Index Average for sterling) and SOFR (Secured Overnight Financing Rate for dollars) for derivative, money market, loans and bond instruments have also been developed and published.
- Critical vendors that support the financial market have also been engaged to ensure readiness in line with transition timelines:
  - For the derivatives market, MarkitWire, the London Clearing House (LCH), relevant clearing brokers and pricing platforms (such as Bloomberg and Refinitiv) have since indicated readiness. Industry vendor readiness has culminated in three successful test rounds conducted by the big four local banks.
  - For the cash market (including loans, money market and bond instruments), STRATE and the JSE are key vendors



Source: Industry milestones as published by the SARB, 6 May 2024. (Note: an amended timeline will likely be published by the SARB before the end of May 2025.)

2. SARB

3. Dr Rashad Cassim, Deputy Governor of the SARB

targeting readiness by May 2025. There will also be consideration made for readiness of third-party fund administrators upon which institutional investors rely.

- In support of the syndicated loan market, the Loan Market Association (LMA) has published a replacement of screen rate clause and user guide for use in the South African investment grade market. The intention of the clause is to include discretionary transition from JIBAR to ZARONIA at some point in the future (ie soft fallback language) in new syndicated loan contracts.
- Additionally, the LMA has published a rate switch exposure draft agreement for South Africa which includes rate switch mechanics for transition from JIBAR to ZARONIA (ie trigger events to initiate the switch to ZARONIA) and is aligned with market conventions for ZARONIA-linked instruments. The proposed rate switch mechanics are largely based on those determined for the LIBOR transition.

What to look out for in 2025

Having laid the groundwork for the transition through the foundation phase, the market is now focused on phase 2, the adoption of ZARONIA. The critical milestones for this phase are the "ZARONIA first" initiatives which mandate the market to prioritise use of ZARONIA over JIBAR and take inspiration from other international markets. Whilst recommendations for the roll-out of ZARONIA first for derivatives have been agreed by the MPG, the same for cash instruments is still a work in progress.

Building liquidity in the derivatives market has been prioritized to facilitate price discovery, risk management and trading activity to build a robust ZARONIA curve. Not only do derivatives have the most exposure to JIBAR, but liquidity in the derivatives market will support price discovery in the cash markets (deposit, bond and loan instruments) as well as determination of a forward-looking term rate.

2025 critical milestones (currently in deliberation/yet to be agreed) include:

- *The determination of a Credit Adjustment Spread (CAS) and related fallback methodology.* Similar to IBOR transitions globally, due to differences in (term) premium, ZARONIA observations have on average reflected lower levels than JIBAR. The transition of legacy instruments from JIBAR to ZARONIA will therefore require a spread adjustment to maintain equivalence. The methodology to calculate the CAS has been published and endorsed by the SARB as of March 2025. This has been identified as critical for the adoption of ZARONIA as it will provide market makers confidence in pricing.
- *The determination of a forward-looking term rate.* A few options are still under deliberation by the MPG. As the critical requirement is a deep and liquid market to ensure compliance with IOSCO requirements on data sufficiency and benchmark design, the seemingly best option at this stage are derivative instruments (as other options such as term deposit rates and T-bills have been observed to have lower levels of liquidity for this use case).
- *Implementation of tough legacy legislation.* This will aim to incorporate mechanisms such as a safe harbour provision to support transition of tough legacy contracts.

Conclusion

The next two years will be critical; however, the industry progress so far suggests that South Africa is well-positioned to manage the transition successfully. By modernising its benchmark rates and infrastructure, South Africa has the opportunity to strengthen its financial markets, improve investor confidence and maintain its role as a leading emerging market economy in the global financial system.

Where to find out more

For more information on the transition and related announcements, follow the links below to the SARB website:

- Market Practitioners Group: Market Practitioners Group
- ZARONIA publication: ZARONIA interest rate benchmark
- MPG FAQs: MPG frequently asked questions (resbank.co.za).

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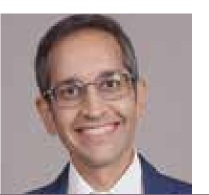
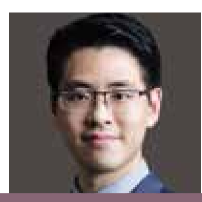
Ajay Bhowan is Head of Treasury Execution Services & Absa Bank Treasurer, Absa Bank Limited.

The Asian international bond markets: issuance trends and dynamics

by **Mushtaq Kapasi, Alex Tsang** and **Christhoper Matthew**

On 12 March 2025, with the support of the Hong Kong Monetary Authority (HKMA), ICMA published *The Asian International Bond Markets: Issuance Trends and Dynamics*. This is the fifth edition of the annual report, providing global market stakeholders with an updated overview of the latest primary market activity and issuance trends shaping the Asian international bond markets through the end of 2024. A webinar was held the following day, during which Georgina Lok, Head of Market Development at the HKMA, delivered a keynote speech. This was followed by a presentation on the main findings of the report, offering commentary and additional market insights on key themes broadly related to the development of the Asian international bond markets. The report will also be published in Chinese soon.

Market growth and issuance trends

The annual issuance volume of Asian international bonds grew at an average annual growth rate of 21% from 2009 to 2021, which peaked at US$630 billion in 2021. In comparison, the issuance volume of global international bonds grew at an average annual growth rate of less than 4% over the same period. Issuance volume in the Asian international bond markets subsequently declined in 2022 and 2023, before rebounding in 2024 with a 20% year-over-year growth to reach US$460 billion. Despite this growth, Asia's share of global international bond issuance remains relatively modest. It has risen from low single digits in 2006 to high single digits in 2024, but it continues to lag the Americas and the EMEA region.

Regional shifts and arrangement locations

For our analytical purposes, a bond is arranged in a location if it hosts most of the arranging activities, wherein more than 50% of the lead banks of a deal are based. If two jurisdictions tie for a deal, both jurisdictions will be attributed by taking an average of the nominal amount of the bond. For deals having no emergence of dominant jurisdictions, they are classified under the category of "consortium". Under this classification method, the dominance of the US and the UK as key hubs for arranging Asian international bond issuances has declined over the years. Their combined share fell from close to 80% in 2006 to just over 40% by 2024 by issuance volume. In contrast, Asia has emerged as another leading hub, arranging approximately 35% of total issuance volume over the past four years. Across the same period, consortium made up the bulk of the remaining.

Since 2014, Hong Kong has consistently been the leading location for arranging international bond issuance from Asian issuers by issuance volume, except for 2023 (primarily due to a decline in Chinese international bond issuance). In 2024, nearly 30% of Asian international bonds were arranged in Hong Kong. Hong Kong has also solidified its position as the primary location for arranging debut and sustainable bonds, arranging for nearly 70% of debut and 45% of sustainable bond deals in 2024 by respective issuance volume.

Jurisdictional highlights

Several Asian jurisdictions experienced significant growth in international bond issuance in 2024. India's issuance rebounded strongly, increasing by 53% year-over-year to US$13 billion, driven primarily by financial institutions and the materials sector. ASEAN jurisdictions collectively saw a 37% year-over-year increase in issuance, totalling US$77 billion, with the Philippines emerging as the largest contributor (with about three-quarters of issuance volume contributed by the Asian Development Bank), accounting for 54% of ASEAN issuance volume. In China, issuance rebounded

strongly, growing 29% year-over-year to US$141 billion, driven mainly by financial institutions. Japan experienced a 7% year-over-year growth in issuance, reaching US$122 billion, with financial institutions contributing 84% of the total volume. South Korea set a record with US$64 billion in issuance, led predominantly by financial institutions and state-owned enterprises.

Debut issuances

The growth of the international bond markets in Asia has been partly driven by new issuers entering the markets, with debut issuances accounting for 4% of total issuance volume in 2024. China has led as the primary source of debut deals over the past decade, accounting for 68% of total debut issuance volume in 2024 with 137 new issuers. Notably, contributions from jurisdictions such as Uzbekistan, India, and Taiwan underscore the increasing diversification of the markets.

Currency distribution and tenor trends

G3 currencies – USD, EUR, and JPY – continue to dominate Asian international bond issuance, accounting for 78% of total volume in 2024, though this represents a drop from a high of 90% between 2017 and 2021 amid rise of non-G3 diversification. In 2024, USD-denominated bonds remain the most prevalent, comprising 67% of total issuance, followed by RMB at 11% and EUR at 10%. Bonds with shorter maturities (1–5 years) remained the most popular, representing 70% of total issuance volume in 2024.

Sustainable bond market

Sustainable bonds have become an important segment of Asia's international bond markets, representing 21% of total issuance volume in 2024. This figure is more than double the global ex-Asia average of 9%. The Asian international sustainable bond markets experienced a resurgence in 2024, with issuance increasing by 17% year-over-year to nearly US$100 billion. Chinese issuers led this segment, contributing 43% of the total volume, followed by South Korea, Japan, and Hong Kong. By industry, financial institutions have dominated sustainable bond issuance, contributing 60% of total supply since 2014. However, there has been increasing diversification, with governments, utilities, industrial companies, and real estate developers also contributing to the markets.

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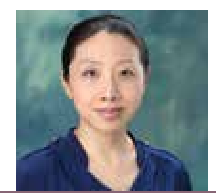
Infrastructure investment in Asia and the Middle East



by **Jackie Chen, ICBC (Asia),**
and **Sharon Wang, CLP**

A Traditionally dominated by mature OECD markets, infrastructure development is now increasingly active in emerging economies, particularly across Asia and the Middle East. These rapidly growing markets offer diverse opportunities in areas such as urban renewal, smart transportation, digital connectivity, and sustainability. Simultaneously, the investor base for infrastructure has broadened, with a growing influx of capital from ESG funds, socially responsible investment (SRI) funds, sovereign wealth funds, as well as retail investors. This diversification reflects a paradigm shift, as infrastructure investment aligns more closely with sustainability goals and long-term value creation.

Infrastructure financing: diversification in a rapidly evolving landscape

The infrastructure financing landscape has undergone significant transformation in recent years, driven by the increasing granularity of project classifications and the diverse needs of borrowers and their stakeholders. Under frameworks such as the UN Sustainable Development Goals and ICMA's Green Bond Principles, infrastructure projects are no longer limited to traditional categories such as roads and bridges. Instead, they now encompass a broader, more sophisticated spectrum of asset types, integrating sustainability, climate adaptation, and cutting-edge technology to attract international capital and align with government policy objectives. Climate adaptation for instance is a critical component of project execution, offering investors greater confidence in the long-term viability of assets. Moreover, infrastructure financing includes tech-focused categories such as data centres and cloudification, providing a more diverse exposure for both issuers and investors.

Over multiple investor roadshows, we found that local official sector guidance (eg the Hong Kong Taxonomy for Sustainable Finance) and transparent financing frameworks (eg the HKSAR Government Sustainable Bond Programme and Infrastructure Bond Programme) have been instrumental in promoting domestic infrastructure markets – optimising resource allocation and achieving economies of scale across public and private sectors despite the high costs and long execution timelines associated with such projects.

Yet challenges persist. Mid-sized markets with total project values below USD1 billion sometimes struggle to secure funding, as they fall into a gap between large-scale institutional interest and smaller, more localised financing. Additionally, banks face constraints imposed by regulatory mandates under Basel III and FSB guidelines, which often conflict with the long tenors, illiquidity, and rating profiles inherent to infrastructure investments. Execution risks, coupled with relatively lower returns compared to conventional asset classes, remain a deterrent for many investors. Due diligence and transparency issues further complicate the landscape, particularly for cross-border or emerging market projects.

As infrastructure financing continues to evolve, addressing these challenges will require greater collaboration between governments, financial institutions, and private investors. A more refined regulatory environment, coupled with government platforms such as the Hong Kong Monetary Authority's Infrastructure Financing Facilitation Office, offer opportunities to attract more investors.

A broader investor base

As infrastructure investment portfolios diversify alongside growing volumes, the investor base has undergone a profound transformation as well. Previously dominated by a narrow set of institutional players, the market now consists of a wider array of participants. This diversification reflects the growing recognition of infrastructure as a resilient, long-term asset class capable of delivering stable returns while addressing global priorities such as decarbonisation, digitalization, and sustainability.

Institutional investors – pension funds, insurers, and sovereign wealth funds (SWFs) – remain the backbone of infrastructure financing. Pension funds, with their expansive

liabilities, focus on inflation-linked and long-term returns, making infrastructure an ideal match for their portfolios. Insurers, meanwhile, favour low-risk projects with stable cash flows, such as mature toll roads or renewable energy installations. Notably, sovereign wealth funds from Asia and the Middle East have emerged as influential players, increasingly allocating capital to infrastructure as part of their diversification strategies. These SWFs are seeking opportunities that align with regional development goals while generating attractive returns. Banks and MDBs continue to play a catalytic role in infrastructure financing, especially during the early stages of development. Syndicated loans and project finance remain critical mechanisms for funding large-scale projects, while MDBs provide essential support through guarantees, concessional loans, and capacity-building initiatives. Yet compliance with regulatory frameworks such as Basel III and MDB capital adequacy requirements are key considerations for structuring deals, requiring careful consideration of capital structures.

Beyond institutional heavyweights, retail investors are also gaining access to the sector. Infrastructure-oriented mutual funds and exchange-traded funds provide average citizens with exposure to this asset class. This democratization of infrastructure investing reflects a broader trend toward inclusivity, as individuals seek to participate in long-term projects tied to a city's growth and sustainability.

With most of EM infrastructure denominated in local currencies, onshore investors are becoming a more active force. This growing participation has stimulated the development of related fixed-income and equity derivatives markets, offering investors better tools to hedge risks and optimize returns.

In the Middle East, infrastructure investment authorities have increasingly prioritized regional and international alignment. By leveraging their capital reserves and strategic geographic position, these entities are encouraging local infrastructure projects to take on a more prominent role in domestic markets. Meanwhile, cross-border alignment among Gulf member states and more unified capital markets (with more banks providing all-in-one solutions as Mandated Lead Arranger, Hedging Provider, Equity Bridge Loan Provider, Social Loan Coordinator, Facility and Security Agent Bank and Account Bank) are critical to sustain the momentum and ensure that the sector develops in a virtuous cycle of growth and reinvestment.

A higher standard for bankers and intermediaries

In line with the notable growth in asset categories and the investor base, infrastructure financing demands a higher standard for bankers and intermediaries. The need for a more adaptive skill set and knowledge base is paramount. As financial institutions consolidate their understanding of government guidelines and available resources, bankers are increasingly expected to possess a nuanced grasp of infrastructure dynamics, issuer expectations, and target investor demographics.

During the pitching process, investment bankers must demonstrate their capacity to structure diverse financial products while capitalizing on market opportunities over the long term. Equally important is the ability to leverage the comprehensive resources of the entire banking group. Observations indicate that lead syndicate banks play a crucial role in guiding borrowers through execution challenges, particularly when market conditions or policy support falter. The provision of bond services entails several critical functions:

1. *Identifying investment requirements:* Bankers must accurately assess investment and spending needs, including government annual budget plans, revenue and cost projections, and financing gaps. Conducting thorough pre-deal due diligence is essential to evaluate the risk landscape at the country, project, policy, and sanction levels.
2. *Engaging a comprehensive originator team:* A dedicated team should lead and consolidate resources to address the full lifecycle of infrastructure development. This includes assessing financing instruments, incorporating ESG considerations, and devising currency hedging strategies.
3. *Establishing financing frameworks:* Investment bankers are tasked with creating robust financing programmes that incorporate drawdown timelines within the overall project lifecycle. This involves integrating bond financing with other funding sources, such as public revenue and MDB credit enhancements.
4. *Monitoring and disclosing investment plans:* Continuous oversight of infrastructure investment plans, cash flow projections, sustainable use-of-proceeds reports, stakeholder assessments, and government subsidies is vital for maintaining transparency and fostering investor confidence.
5. *Forming risk mitigation strategies:* Investment risks predominantly arise from negative carry, policy shifts, capital disruptions, currency volatility, and project management challenges. These factors can deter real-

money investors, particularly traditional bank portfolios. To counteract these concerns, compliant disclosure practices and transparent communication can alleviate investors' concerns and expand the investor base. Additionally, leveraging documentation such as negative assurance letters, comfort letters and subscription agreements can facilitate effective risk allocation among all parties involved.

To mitigate currency risk, strategies such as long-dated CCS or natural hedges should be considered. A well-structured revenue and debt profile is instrumental in fostering the development of infrastructure projects.

In conclusion, as the investment banking landscape evolves, the ability to adapt, leverage resources, and employ strategic risk mitigation techniques will be essential for success in delivering infrastructure bond services.

The road ahead for infrastructure

The infrastructure market has become larger and more granular than ever before, presenting both challenges and opportunities for lawmakers, investors, borrowers, and rating agencies. Mechanisms for risk sharing, transparency, reporting alignment, as well as infrastructure taxonomy and tax/subsidy incentives will further promote market development. The conventional perception of Asian capital markets, in both USD and local currencies, has been updated due to the evolving market landscape. This landscape has already been influenced by ESG requirements and is expected to be reshaped once again by generative AI.

As indicated by a UN Office for Project Services report, infrastructure is currently responsible for 79% of greenhouse gas emissions and accounts for 88% of all adaptation costs. As the foundation of global development and social benefits, a closer look at infrastructure investment is no longer an option – it is a necessity.

Jackie Chen is Managing Director and Head of Capital Markets, ICBC (Asia), and Sharon Wang is Group Treasurer, CLP.

China Debt Capital Market Annual Forum: event round-up and analysis

On 19 March 2025, ICMA held its second China Debt Capital Market Annual Forum in Beijing. The Forum attracted over 350 industry professionals, including key representatives from the official sector, as well as issuers and investors. The full-day event featured a series of keynote speeches and panel discussions examining the latest market and regulatory developments in the domestic Chinese and international bond markets, facilitating meaningful dialogue and fostering connections across the industry.

Opening-up of China's bond market

Ms Jiang Huifen, Deputy Director-General, Financial Market Department, People's Bank of China (PBOC), shared how the People's Bank of China has made substantial progress in enhancing the investment environment for foreign investors in the bond market. Significant deliverables include the establishment of various channels for investment, such as Bond Connect and Swap Connect, which facilitates participation in the bond and derivatives markets. Other priorities of the central bank include optimising the investment process by simplifying account opening, enhancing tax policies, and providing a range of risk hedging tools. Moving forward, the PBOC aims to promote RMB bonds as high-quality liquid assets, deepen cross-border market connectivity, and improve the investment environment to support foreign participation in China's bond market.

Sustainable finance as a key theme onshore

Mr Wang Xin, Director General of Research Bureau of People's Bank of China, announced the latest official sector work on the development of sustainable finance standards in the onshore market. He commended ICMA's contributions to China's sustainable bond market by promoting connectivity between domestic and international green finance standards and facilitating cross-border bond market integration and investments.

Mr Wang noted that, in the realm of transition finance, the People's Bank of China has made significant progress by establishing specific standards for industries such as coal power, steel, building materials, and agriculture. Since 2021, the PBOC has developed a comprehensive framework based on the G20 Transition Finance Framework focusing on five core pillars, including the creation of transition finance standards. These standards aim to guide financial institutions and enterprises in formulating transition plans. Overall, these efforts are made to foster a robust transition finance market that supports China's industrial transformation and aligns with global sustainability goals.

Following Mr Wang's speech, Ms Wei Hanguang, General Manager, Corporate Banking and Investment Banking Department, Bank of China, shared her view on China's practices in green finance and global cooperation. She discussed how integrating green finance into economic frameworks is essential for facilitating the transition to a low-carbon economy.

She specifically mentioned how the green sovereign bond framework issued by China's Ministry of Finance in February 2025 would not only lay the foundation for overseas issuance of RMB-denominated green sovereign bonds, but also provide a clear pricing benchmark for the cross-border issuance of green bonds by Chinese companies and for international investors to allocate RMB assets.

She also highlighted several policy outcomes from the 2025 UK-China Economic and Financial Dialogue, where China would issue its inaugural yuan-denominated sovereign green bond this year to be listed in London, the first in a programme of Chinese green sovereign issuances in the UK. Ms Wei also mentioned that biodiversity finance is a key focus for Bank of China, recognising the importance of capital mobilisation towards nature-based solutions that enhances environmental outcomes.

Priority for offshore regulators to position Hong Kong as the offshore RMB business hub

Dr Eric Yip, Executive Director, Intermediaries, Hong Kong Securities and Futures Commission (SFC), provided a keynote speech analysing China's internationalisation of the RMB, which has brought new opportunities for international investors to utilise offshore RMB as a financing option,

especially in the context of the interest rate gap between China and the United States.

In 2024, both the scale and proportion of offshore RMB bond issuance hit record highs, showing strong market demand and confidence. Dr Yip outlined how the Hong Kong SAR Government has actively promoted the development of fixed income and money markets through a series of policy measures, such as increasing offshore RMB liquidity, providing diversified financing channels and investment products, and working with the HKMA to jointly promote market prosperity and innovation.

In addition, Mr Kenneth Hui, Executive Director (External), Hong Kong Monetary Authority (HKMA), shared his analyses of the global debt capital markets over various time horizons, with a focus on the Chinese markets. In the short term, the shift of many central banks towards looser monetary policies has created a differentiated global interest rate environment, offering new investment opportunities.

Mr Hui noted that the yield on offshore RMB bonds is currently lower than that of US dollars, making them attractive for issuers and leading to a significant increase in offshore RMB bond issuance in Hong Kong. Recent enhancements in southbound Bond Connect have further facilitated capital flow, improving accessibility for domestic institutions.

Looking at medium- to long-term trends, the reshaping of global trade patterns – especially the close cooperation between China and ASEAN – has led to increased investment flows, with China's investment in ASEAN securities markets growing rapidly. Additionally, technological advancements in areas like AI and the recent US Stablecoin Innovation Act to promote the establishment of a regulatory framework for the development of stablecoins are also worth noting. These trends clearly demonstrate that technological progress is driving the innovation and upgrading of the global financial system at an unprecedented speed.

China-UK financial cooperation and China-ASEAN trade relations

The Right Honourable Lord Mayor of London, Alderman Alastair King, highlighted the close cooperation between China and the UK in promoting global economic growth and financial market development. He said that as a world-leading international financial centre, London provides global investors with a high-quality capital allocation platform through its deep capital market, advanced financial services and expertise in professional fields such as green finance.

The Lord Mayor noted in particular that London has become the largest offshore RMB clearing centre outside Greater China, and that more than 40 Chinese financial institutions have established branches in London.

In addition, the London Stock Exchange has become an important listing place for many Chinese green bonds, demonstrating the cooperation achievements of both sides in the field of green finance. Looking ahead, he pointed out that China and the UK will continue to deepen cooperation in key areas such as green finance, market connectivity, pension management and wealth management, and work together to achieve net zero emissions and build a more robust and sustainable global economic system. This cooperation will not only effectively promote bilateral relations, but also lay a solid foundation for innovation and prosperity in the global financial market.

Following this, Mr Richard Yorke, Executive Officer & Head, Global Corporate & Investment Banking, Asia Pacific, MUFG Bank, shared his insights on Chinese and regional economic development. He said that China's technological breakthroughs and policy support are driving it towards a new stage of development against the backdrop of challenges facing the global economy.

He particularly mentioned that under the current complex international situation, Chinese companies have shown extraordinary adaptability and innovative spirit, especially in the significant growth of investment in high-tech manufacturing, such as green technology and electric vehicles. Mr Yorke emphasised the increasingly close economic ties between China and ASEAN, which are reflected not only in the growth of trade volume, but also in the increase of China's direct investment in ASEAN and the diversification of the manufacturing supply chain.

Complementary to the keynote speeches, the panel sessions featured a diverse array of speakers who provided both the local and international perspectives. Among our speakers were representatives from the Asian Infrastructure Investment Bank (AIIB), the Asian Development Bank (ADB), the Japan GX (Green Transformation) Acceleration Agency, and the EU Delegation to Beijing. The panels explored themes central to ICMA's work, including issuance and trading trends in the onshore and cross-border bond markets, regulatory developments and enhancements in mutual market access schemes for risk management, the growing role of private capital in sustainable investments, as well as innovations in financial technology.

Our thanks go out to all participants and especially our sponsors who made this event possible.

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ICMA Capital Market Research

ICMA Report: European Secondary Bond Market Data Corporate Edition (H2 2024)
Published: 3 April 2025
Author: Simone Bruno, ICMA

The Asian International Bond Markets: Issuance Trends and Dynamics (Fifth Edition)
Published: 26 March 2025
Authors: Mushtaq Kapasi and Alex Tsang, ICMA, with support from the Hong Kong Monetary Authority

A Time for Change in the Sustainable Fund Market: Reflections and Recommendations in a New Regulatory Environment
Published: 25 March 2025
Authors: Nicholas Pfaff and Özgür Altun, ICMA

ICMA Report: European Secondary Bond Market Data Sovereign Edition (H2 2024)
Published: 21 March 2025
Author: Simone Bruno, ICMA

ICMA DLT Bonds Reference Guide
Published: 11 December 2024
Author: Gabriel Callsen, ICMA

ICMA Report: European Secondary Bond Market Data Corporate Edition (H1 2024)
Published: 4 December 2024
Author: Simone Bruno, ICMA

ICMA Report: European Secondary Bond Market Data Sovereign Edition (H1 2024)
Published: 5 November 2024
Author: Simone Bruno, ICMA

ICMA Guide to Asia Pacific Repo Markets: Australia
Published: 30 October 2024
Author: Richard Comotto

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, Özgür 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

ICMA Events, Education and Training

Highlights from the ICMA, ISDA and ISLA joint conference: Capital Markets & The Kingdom of Saudi Arabia – Delivering Liquidity Through Derivatives, Repo & Securities Lending.

ICMA, the International Swaps & Derivatives Association (ISDA) and the International Securities Lending Association (ISLA) together with the Saudi Tadawul Group held a one-day conference, attracting over 300 international and local market participants.

The conference began with an opening keynote address, which provided a strategic overview of Saudi Arabia's evolving financial ecosystem. Following this, sessions looked at how derivatives, repo, and securities lending are building deep and liquid secondary markets; the Kingdom's bond market including primary market issuance and key trends; as well as how market infrastructure developments - including legal and regulatory reforms and post-trade developments - are attracting global investors.

Highlights from the ICMA China Debt Capital Market Annual Forum 2025.

Our flagship event in China brought together almost 400 delegates including official sector representatives, issuers and investors to examine the latest market and regulatory developments in the domestic Chinese and international bond markets.

The Forum explored themes central to ICMA's work, including issuance and trading trends across the broader Chinese bond market; updates on the development of investment and risk management tools, the progress of green and sustainable finance initiatives; as well as innovations in Financial Technology. The full-day agenda featured leading market figures and esteemed experts representing the breadth of market stakeholders in the Chinese bond markets.

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 390 podcasts and an impressive 148,000 downloads to date from across the globe, the ICMA Podcast series remains a valued service for the market.

Forthcoming events

ICMA will continue to deliver a full schedule of in-person conferences, addressing the latest developments across asset management, sustainable finance, FinTech and Digitalisation as well as primary and secondary markets.

14 APRIL, ZURICH
ICMA Switzerland and Liechtenstein Regional Committee.

The ICMA Switzerland and Liechtenstein regional committee invites members and all interested market participants to attend this regional general meeting, featuring a speech from Roman Baumann, Head Money Market and Foreign Exchange, Swiss National Bank (SNB), who will discuss SNB's monetary policy implementation framework.

8 MAY, SINGAPORE
ICMA and SGX Fixed Income joint conference: Advancing Sustainable Finance and Climate Transition in Asia – How capital markets are supporting the evolving agenda

This half-day conference will assess and explore solutions to increase capital market investment in sustainability and climate transition.

The conference agenda combines keynote speeches and panel discussions from leading market figures and experts in sustainable finance. It features a global update on market developments and voluntary best practice from the Principles; practical guidance on transition finance through implementation of the Singapore-Asia Taxonomy, and discussions on the role of sustainable bonds to support the development of blended finance.

13 MAY, STOCKHOLM
ICMA Women's Network: A collaborative approach to achieving gender equality.

Speakers will focus on driving positive change from two key perspectives: how the industry can support gender equality and how women can empower themselves. Attendees can expect valuable insights, sharing of best practices, and actionable strategies for creating a more equitable and inclusive future.

26 JUNE, FRANKFURT
ICMA, The Covered Bond Report and the Association of German Pfandbrief Banks (vdp): Covered Bond Investor Forum.

The agenda for this year's annual conference will cover macroeconomic and geopolitical developments and their impact on primary and secondary market dynamics in euros and other currencies; credit issues affecting covered bonds and banks; regulatory matters facing the asset class in Europe and globally and more.

Details of upcoming ICMA events are available at www.icmagroup.org/events or contact events@icmagroup.org

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

ICMA Diploma in Sustainable Finance

About our NEW Diploma

This series of training courses provides new market participants with a comprehensive understanding of how sustainable debt instruments can be used to finance environmentally sound and sustainable projects that foster a net-zero emissions economy, protect the environment and support projects with positive social outcomes.

Contact Us

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ICMA Diploma website

Structure

- **Four programmes** to be completed over **two years.**
- Available in a **variety of formats** to suit your personal learning style
- Supported by sophisticated digital infrastructure and underpinned by our **globally accredited training** department

Courses

- **Foundation: Financial Markets Foundation Qualification**: recommended 24 CPD hours
- **Foundation: Introduction to Sustainable Bonds**: Available in online self-study, livestreamed (3 x 3.hr sessions) or in-person (2 days)
- **Advanced: Sustainable Bond Certificate**: Delivered livestreamed (8 x 3.5hr sessions) and in-person in London (4 days)
- **Specialist: Transition Finance**: Livestreamed only over 4 x 3.5hr sessions

A FCA-approved training provider

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 Council	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
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
CCI	Consumer Composite Investment
CCP	Central counterparty
CDM	Common Domain Model
CDS	Credit default swap
CIF	ICMA Corporate Issuer Forum
CJEU	Court of Justice of the EU
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)
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 and Documentation Committee
LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
LTRO	Longer-Term Refinancing Operation
LMT	Liquidity management tool
MAR	Market Abuse Regulation
MENA	Middle East and North Africa
MENAT	Middle East, North Africa and Turkey
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 (or Intermediaries)
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
POATRS	Public offers and admissions to trading regime
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
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	Systematic internaliser
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
SWES	System-wide exploratory scenario exercise
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

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