Market electronification and FinTech

FinTech, a term broadly used to describe innovation in financial services enabled by technology, and market electronification are areas ICMA has been closely monitoring and discussing with members. The technical issues ICMA is addressing internally and by exchanging information with members cover (i) primary markets, (ii) secondary markets, (iii) post-trade processing, and (iv) RegTech.

Primary markets electronification

While there has been a notable shift towards greater electronification (and automation) in secondary markets and also in post-trade processing, primary markets have to date been less impacted by technology.

ICMA's focus on FinTech solutions in primary markets is on the currently prevailing, syndicated bookbuilding method of executing benchmark size, corporate bond issuance. This method comprises a set of individual processes which remain mostly manual and fragmented, ranging from roadshows, orderbook management, and deal completion to transaction settlement. While a number of solutions have emerged that automate processes at different stages of the issuance process, there is currently no established, single solution spanning the entire lifecycle.

ICMA engages with members on this topic through the Primary Market Practices Committee (PMPC), which gathers the heads and senior members of the syndicate desks of ICMA member banks active in lead-managing syndicated bond issues in Europe. In addition, ICMA staff have also been involved in bilateral discussions with providers of electronic solutions that feed into discussions in the PMPC. To shed light on the landscape of existing and emerging FinTech solutions in primary markets, ICMA will continue to engage with members and providers.

Secondary markets electronification

While "electronification" in fixed income markets is not a new phenomenon, most innovation has been based on creating efficiencies related to the longstanding market structure which revolves around market makers as the main source of liquidity[55]. However, as market structure is now changing due to pressure on the market-making model and the desire for the buy side to have more control over trading, we are seeing the rise of new e-solutions, focused more on "All-to-All" protocols, and "matching", rather than execution (ie axe-driven protocols, rather than quote-driven). The buy side is migrating from a traditionally passive to a more proactive role.

In light of the shift towards electronification, ICMA conducted a mapping exercise of electronic trading platforms (ETPs) and information networks. This initiative resulted in the ETP Mapping Directory, a single source of information on currently over 30 infrastructure providers, which is updated on a regular basis and covers all cash bond classes. Following the publication of the directory, buy-side members of the ICMA Electronic Trading Working Group invited trading venues to present their platforms through interviews and questionnaires.

ICMA has further addressed electronification both under the ICMA Secondary Market Practices Committee (SMPC) and in dedicated working groups.

- The *Electronic Trading Working Group (ETWG)*, which comprises buy-side and sell-side heads of fixed income trading or market structure. This group discusses market structure, platform and protocol, execution, regulation and practical implementation strategy.
- The *Platform Working Group (PWG)*, which brings together non-market makers ie brokers and broker-owned Multilateral Trading Facilities (MTFs), exchange-owned MTFs and future Organised Trading Facilities (OTFs) (eg interdealer brokers). Discussions focus on the practical implementation of MiFID II for cash bonds and other

55. ie 95% of electronic fixed income trading is based on the request-for-quote model (BIS, 2016)

regulations, as well as interaction with ETWG members, particularly on the buy side.

The papers, *The Future of Electronic Trading in European Cash Bonds* and *Bond Trading Market Structure and the Buy Side*, authored by Elizabeth Callaghan and published in 2016 and 2017 respectively, provide an in-depth analysis of changes in bond market trading, technological progress and electronification.

Looking ahead, ICMA will be further focusing on electronic solutions as part of the implementation of MiFID II/R. With respect to trade reporting obligations, ICMA will be carrying out further interviews with registered Approved Publication Arrangements (APAs), a reporting solution for publishing executed trades.[56] Workshops will be held to discuss the practical implementation of best execution requirements, and the role of data management solutions and transaction cost analysis (TCA). In addition, ICMA is looking to engage the platforms more with the buy side and sell side to help shape the future electronic trading market structure landscape.

Electronification of post-trade processes

Technology has an important role to play when it comes to alleviating existing frictions in the banks' back offices and contributing to a more efficient post-trade lifecycle. Members of the Operations Group (Ops) of the ICMA European Repo and Collateral Council therefore decided in 2016 to set up a dedicated FinTech Working Group (FinTech WG).

The aim is to develop a better understanding of existing tools and emerging FinTech solutions in the area of post-trade, including through greater interaction with the relevant providers. As a first step, FinTech WG members have been conducting a mapping exercise of existing FinTech solutions in the market, ranging from collateral management, matching and confirmation, to reconciliation and regulatory reporting.

While the FinTech WG has focused on existing FinTech solutions, ICMA has been monitoring market developments in the FinTech space more broadly, in particular emerging FinTech solutions such as distributed ledger technology (DLT), cloud computing and big data, which have the potential to impact market practice and introduce further electronification.

A dedicated section on the ICMA website provides an overview of key contributions on DLT, focusing on early regulatory initiatives but also referencing some of the most important industry initiatives and selected other research on DLT.

RegTech

In light of regulatory requirements, electronification and the increasing importance of collecting and processing large volumes of data, ICMA plans to focus further on developments in regulatory technology or "RegTech"[57]. Potential RegTech solutions are emerging both in primary markets (eg record-keeping for evidential purposes) and secondary markets (eg trade reporting via APAs under MiFID II / MiFIR transparency obligations), as well as collateral post-trade processing (eg reconciliation and reporting).

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56. Defined in MiFID II, Article 4 (1) (52), as "a person authorised under this Directive to provide the service of publishing trade reports on behalf of investment firms […]".

57. Defined by the FCA as "a sub-set of FinTech that focuses on technologies that may facilitate the delivery of regulatory requirements more efficiently and effectively than existing capabilities."