Assessment of Market Practice & Regulatory Policy

8 July 2021 | Third Quarter

Issue 62 | Editor: Paul Richards

# ICMA Quarterly Report

**Inside this issue:**

The orderly wind-down of LIBOR in the bond market

The new ICMA representative office in Brussels

Sustainable finance

FinTech in international capital markets

Asian international bond markets

ICMA

International Capital Market Association

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

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include public and private sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has some 600 members in more than 60 countries.

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

This newsletter is presented by the International Capital Market Association (ICMA) as a service. The articles and comment provided through the newsletter are intended for general and informational purposes only. ICMA believes that the information contained in the newsletter is accurate and reliable but makes no representations or warranties, express or implied, as to its accuracy and completeness. ICMA welcomes feedback and comments on the issues raised in the Quarterly Report. Please e-mail: regulatorypolicynews@icmagroup.org or alternatively the ICMA contact whose e-mail address is given at the end of the relevant article. ©International Capital Market Association (ICMA), Zurich, 2021. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means without permission from ICMA.
Published by: Corporate Communications, International Capital Market Association Limited, 110 Cannon Street, London EC4N 6EU Phone: + 44 207 213 0310 info@icmagroup.org

# Contents

S Sustainable Finance F FinTech A Asia


**4 MESSAGE FROM THE CHIEF EXECUTIVE**

**6 QUARTERLY ASSESSMENT**
6 The orderly wind-down of LIBOR in the bond market

**12 INTERNATIONAL CAPITAL MARKET FEATURES**
12 Regulatory policy work of the new ICMA representative office in Brussels
13 A Suggested improvements to China's bond repo market
15 S A Japan: a clearer pathway to carbon neutrality
17 Supporting frontier money markets in the pandemic year

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

**24 PRIMARY MARKETS**
24 A Hong Kong SFC bookbuilding consultation
25 CMRP implementation: MiFID II/R product governance
25 S ESG disclosure for new bond issues
27 S Consultation on mandatory TCFD-aligned disclosure
27 Primary market standard language

**28 SECONDARY MARKETS**
28 CSDR mandatory buy-ins
28 ECB corporate bond purchases
*29 ICMA Guide to Definitions and Best Practice for Bond Pricing Distribution*
30 FCA consultation on UK MIFID research and best execution
31 ICE Data Services Corporate Bond Market Liquidity Indicators

**32 REPO AND COLLATERAL MARKETS**
32 SFTR implementation
33 ERCC Operations: settlement efficiency
33 Other repo and collateral market developments
33 Legal updates
33 S Repo and sustainability
34 ERCC events and education

**35 SUSTAINABLE FINANCE**
35 S 2021 update of the Green and Social Bond Principles
37 S Sustainable bond market in 2021
37 S Notable regulatory developments and related initiatives

**40 ASSET MANAGEMENT**
40 S SRI investing: sustained regulatory momentum
41 S ESG transparency: focus on issuers and ABS
42 Lessons from COVID-19 from an investment fund perspective
43 F The digitisation of the asset management industry

**45 FINTECH IN INTERNATIONAL CAPITAL MARKETS**
45 F Common Domain Model for repo and bonds
45 F FinTech Advisory Committee
46 F FinTech regulatory developments
49 F FinTech Newsletter

**50 TRANSITION FROM LIBOR TO RISK-FREE RATES**
50 Tough legacy: FCA consultation on use of critical benchmarks
51 A Legacy LIBOR bonds in Asia-Pacific
52 A Developments in Japanese yen LIBOR transition: the Japanese perspective

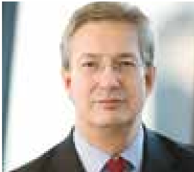
**54 CAPITAL MARKET DEVELOPMENTS IN CHINA**
54 A Capital market regulatory developments in China

**55 ICMA CAPITAL MARKET RESEARCH**

**56 ICMA VIRTUAL EVENTS AND ONLINE EDUCATION**

**61 GLOSSARY**

# Key ICMA initiatives



by **Martin Scheck**

Our AGM this year was again a written affair as a result of the impact of the pandemic and took place on 24 June. A warm welcome to two new Board members voted in by our members, Virginia Laird from Citigroup, and Per Åke Nyberg from Swedbank. They replace Fabio Lisanti and Jakob Groot, whom we thank very much for the support they have shown ICMA over many years as engaged and enthusiastic Board members.

We are planning for a return to a full-scale AGM and Conference next June in Vienna – let's hope this will be possible.

This time last year we were in the midst of the pandemic and I, for one, was not expecting that a year on we would still largely be working from home – and that almost all meetings would still be virtual. The easings last summer in many countries led to limited reopening of our offices (including our new London office at 110 Cannon Street), but this was sharply reversed by the renewed waves of infections in the autumn, when all ICMA staff reverted to remote working. This is still generally the case except for our Hong Kong office.

Coping with the pandemic has involved us all in embracing new technology, requiring us to develop different skills and techniques. ICMA, like many other entities in the financial services industry, adapted early and well. This enabled us to remain efficient and effective during the remote working period. But now that the vaccination programmes are well advanced in each of the countries where our offices are located, and the restrictions are being successively eased, we are hopeful that towards the end of the summer we can again use our offices more normally, with a resumption of social contact and face to face meetings.

This Quarterly Report is packed with information on our many initiatives and activities, and I would just like to highlight five of them this quarter.

First, we are delighted to have opened a representative office in Brussels and to have recruited a first person to work in that office. Following the end of the post-Brexit transition period, it is clear that we need to continue to engage separately and in parallel with the EU and UK authorities, and this new office, augmenting our presence in Paris, will help support the EU work on which we have been engaged for some time already.

Second, our activities in Asia led by our Hong Kong office. This last quarter has been one of the most productive ever. A highlight was the response submitted to the Securities and Futures Commission in Hong Kong on the wide-ranging and globally important consultation on primary market processes. This was a complex task involving all of the constituencies involved in our primary market practices – issuers, primary underwriters and investors – and we look forward to continuing to provide advice to the SFC as they consider the various responses and redesign their "code". But this is just one of the reports led by our Hong Kong colleagues. Others include a comprehensive guide to tough legacy bonds in Asia Pacific together with Bloomberg and a significant Asian component in the excellent report comparing sustainable finance taxonomies globally entitled *Overview and Recommendations for Sustainable Finance Taxonomies*. In Japan we have had significant interaction with the Japan Financial Services Agency and the Ministries for Economy Trade and Industry, and the Environment, as they created the *Basic Guidelines on Climate Transition Finance*. This guidance explicitly references our *Climate Transition Finance Handbook*. We were also pleased to work with Ministry of Economy, Trade and Industry to host a well-received seminar promoting transition finance and explaining the Japanese guidelines. This is in addition to the usual technical work speaking with the authorities and with our members in China and in many other Asian countries. Aside from the obvious focus on sustainability, much of the work with the authorities is focused on the repo market.

Third, the sustainability agenda straddles all our activities. We continue to help nurture growth in the sustainable bond market through our role as Secretariat of the Green and Social Bond Principles, the Sustainability Bond Guidelines

and the Sustainability-Linked Bond Principles. But our involvement in sustainability also includes working with national and regional authorities in many regions and countries – amongst which the EU Platform on Sustainable Finance, the ASEAN Capital Markets Forum, the Japanese and Chinese authorities as already mentioned and a number of other advisory groups. Many regions and countries now have taxonomies, all at various stages of development and each subtly different. The paper we published compares major taxonomies and provides advice in terms of common principles for the creation of new ones – further convergence is certainly desirable. You may have seen the AGM for the Green and Social Bond Principles held on 10 June or the associated Conference. These showcased the updates to the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines, along with supporting documents with further advice and guidance, including on the KPIs referenced in the Sustainability-Linked Bond Principles. Regulation of the sector continues at a fast pace. It is complex, far reaching and has significant implications for participants throughout the value chain (issuers, intermediaries and investors), particularly in the context of disclosure legislation. We respond to all relevant consultation papers and expect that this will continue to be a major focus for a number of years. One trend we see is a desire to bring sustainability to the whole financing spectrum of an entity, including the short-term funding markets. In this context we published in June a paper which looks at the role of repo in sustainable finance, at this stage asking questions and exploring views, prior to formulating a position and possibly providing guidance.

Fourth, transition to risk-free rates continues to intensify as the clock counts down towards the discontinuation of LIBOR. We remain highly focused on the transition in the bond market through our work on the Risk-Free Rate Working Groups of the UK, EU and Switzerland. Our focus now is mainly on the tough legacy issues for those LIBOR-linked bonds which are difficult to transition. The mechanics to ensure an orderly wind-down of LIBOR are complex and we will continue to provide extensive technical advice, as well as ensuring that our members are kept fully updated via webinars and briefings. We recently moderated a panel involving the US Federal Reserve Bank of New York, the ECB, the UK FCA and the Swiss National Bank providing the official sector perspective on the transition, which is compelling viewing – you can find this on our website.

The fifth point relates to FinTech. We are coming to the end of the first phase of an initiative to augment the product scope of the Common Domain Model (CDM) by adding repo and collateral trades, and cash bonds. The initiative translates these to software code, working with a third-party software company and contributes the code to the CDM, which is a digital representation of lifecycle events of financial products. We see this initiative as a building block for the digitisation of the capital markets leading to smart contracts and creating future benefits for members.

My colleagues expand on these points and our other initiatives and workstreams in the body of this Quarterly Report.

As a final point I want to mention that this is the last Quarterly Report I will be contributing to as Chief Executive of ICMA. As you will have seen from our recent press announcement, ICMA's Board has successfully concluded a process to find my successor and I am delighted to welcome Bryan Pascoe who will be taking over as Chief Executive on 6 September. It is a testament to ICMA's reputation that we are able to appoint such a senior and experienced market practitioner to this role and I have no doubt that Bryan is the right person to lead ICMA through its next phase of development. I will remain with ICMA as President during a transition period and look forward to supporting Bryan.

It has been a privilege to serve the Association and our members as Chief Executive since 2009, helping to guide ICMA through a period of immense change and expansion and I have enjoyed it greatly. The transition to a new Chief Executive comes at a time when ICMA is particularly healthy – record membership and fabulous member engagement, strong regulatory relationships, a clearly defined strategy and a robust financial position. But this has only been possible with the unwavering support of our members and a marvellous team of colleagues at ICMA – thank you.

**Contact: Martin Scheck**
**martin.scheck@icmagroup.org**

# The orderly wind-down of LIBOR in the bond market

by **Paul Richards**

## The background to the global transition away from LIBOR

The Bank of England and the FCA, among other authorities, have made it clear for a number of years that the market for unsecured wholesale term lending between banks is no longer sufficiently active to support such a widely used reference rate as LIBOR.[1] In July 2017, the FCA's then Chief Executive said that the FCA would no longer intend to persuade or compel banks to submit contributions for LIBOR after the end of 2021. In that context, the FCA plays an international role: partly because the FCA is the regulator and supervisor of the administrator of all the five main LIBOR currencies internationally: ie sterling, US dollars, euro, Swiss francs and Japanese yen; and partly because a large number of financial contracts have been written under English law referencing LIBOR, not just in sterling, but in US dollars and other currencies.

As LIBOR has for many years been embedded in the international financial system, the transition away from LIBOR is a global initiative. The authorities globally consider that the transition away from LIBOR is an essential task and a priority for the G20. In the five main LIBOR currencies, there are established successors in the form of near risk-free rates: SONIA for sterling; SOFR for US dollars; €STR for euro; SARON for Swiss francs; and TONA for Japanese yen. To take account of conditions in different national markets, some of these risk-free rates are based on secured transactions and some are based on unsecured transactions. But they all have an important feature in common. They are all overnight rates, as these rates are the most robust, measured by the volume of actual transactions. Overnight risk-free rates differ from LIBOR because LIBOR is a forward-looking term rate which includes bank credit risk. Forward-looking term rates based on the successor risk-free rates have been, or are being, developed in some currencies, though not in Swiss francs.[2]

The transition from LIBOR to risk-free rates is being coordinated globally by the Financial Stability Board Official Sector Steering Group (FSB OSSG), which is chaired jointly by Andrew Bailey, Governor of the Bank of England, and John Williams, President of the Federal Reserve Bank of New York.[3] At national level, the transition to risk-free rates is being overseen by Risk-Free Rate Working Groups (RFRWGs) involving the authorities and the market working together.[4]

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

2. Andrew Bailey, Governor of the Bank of England: "Let me be clear – forward-looking term rates can support transition. But let me be equally clear in setting out that a broad-based transition to the most robust overnight rates – for sterling that is compounded in arrears SONIA, underpinned by deep underlying markets - will support a stronger more transparent financial system and ultimately benefit all market participants.": *Descending Safely: Life After LIBOR,* 11 May 2021.

3. The Financial Stability Board published an updated version of its *Global Transition Roadmap for LIBOR* on 2 June 2021.

4. ICMA is represented on the Sterling Risk-Free Rate Working Group, and chairs the Bond Market Sub-Group, the Euro Risk-Free Rate Working Group (as an observer), the Swiss National Working Group, and is in regular contact with the Chair of the FRN Group in the US Alternative Reference Rates Committee (ARRC).

## Introduction

1 This Quarterly Assessment considers plans for the orderly wind-down of LIBOR in the bond market under English law. It focuses on the wind-down of LIBOR in the sterling bond market, as the wind-down of sterling LIBOR is now due to take place ahead of the wind-down of US dollar LIBOR. As a result, the wind-down in the sterling bond market has become a test case. It is also a case in which ICMA is actively involved.

2 The assessment covers: the background to the international transition away from LIBOR (see box); the proposals for an orderly wind-down of LIBOR announced by the authorities on 5 March; an overview of the transition in the sterling bond market; the operation of fallbacks in the bond market under English law; active transition of legacy LIBOR bonds; legislation to seek an orderly wind-down of tough legacy contracts; and the key remaining challenges to ensure that the wind-down works in an orderly way internationally with the minimum of market uncertainty.

## Official announcement on the cessation of LIBOR panel bank settings

3 On 5 March 2021, the FCA announced the future cessation or loss of representativeness of all 35 LIBOR panel bank benchmark settings currently published by ICE Benchmark Administration (IBA), the authorised administrator regulated and supervised by the FCA, using its powers under the UK Benchmarks Regulation.[5]

4 Publication of 26 of these LIBOR settings will permanently cease immediately after publication on the following dates:

- *31 December 2021:* all 7 euro LIBOR settings; all 7 Swiss franc LIBOR settings; the Spot Next, 1 week, 2 month and 12 month Japanese yen LIBOR settings; the overnight, 1 week, 2 month and 12 month sterling LIBOR settings; and the 1 week and 2 month US dollar LIBOR settings;
- *30 June 2023:* the overnight and 12 month US dollar LIBOR settings.

5 In the case of the 9 remaining LIBOR settings:

- the FCA will consult on requiring IBA to continue to publish the 3 remaining sterling LIBOR settings (1 month, 3 month and 6 month) after the end of 2021 on the basis of a changed methodology ("synthetic LIBOR");
- the FCA will consult on requiring IBA to continue to publish the 1 month, 3 month and 6 month Japanese yen LIBOR settings after the end of 2021 on a synthetic basis for one additional year, when they are due to cease permanently; and
- the FCA is continuing to consider the case for using its proposed powers also to require continued publication on a synthetic basis of the 1 month, 3 month and 6 month US dollar LIBOR settings for a further period after 30 June 2023, taking account of views and evidence from the US authorities and other stakeholders.

6 In the case of these 9 LIBOR settings, the FCA has stated that LIBOR will no longer be representative of its underlying market and representativeness will not be restored:

- *immediately after 31 December 2021*, in the case of 1 month, 3 month and 6 month sterling and yen LIBOR; and
- *immediately after 30 June 2023,* in the case of 1 month, 3 month and 6 month US dollar LIBOR.

7 In addition, the FCA has said that "firms should ensure they cease new use of US dollar LIBOR as soon as practicable and no later than the end of 2021, in line with the supervisory guidance issued by US authorities".[6]

## Overview of the transition in the sterling bond market

8 Ahead of the cessation of sterling LIBOR panel bank settings at the end of 2021, the transition away from LIBOR in the sterling bond market involves three main steps:

- The first step has involved encouraging the use of overnight SONIA compounded in arrears instead of LIBOR for new bond issuance as soon as practicable after the original FCA announcement in July 2017 that LIBOR will cease on or after the end of 2021. In the UK, new sterling bond issues both in the form of FRNs and securitisations have now been referencing overnight SONIA compounded in arrears instead of LIBOR for some time. This is in line with the authorities' preference for the use of overnight SONIA compounded in arrears as the most robust rate.[7] The adoption of SONIA in

5. There were accompanying statements jointly by the Bank of England and the FCA; by ICE Benchmarks Administration (IBA) as the administrator of LIBOR; by the US ARRC and by ISDA: (I) FCA announcement on future cessation and loss of representativeness of the LIBOR benchmarks. (ii) IBA feedback statement for the consultation on its intention to cease the publication of LIBOR settings. (iii) Joint Bank of England and FCA statement on the announcements on the end of LIBOR.

6. Dear CEO letter from the PRA and FCA dated 26 March 2021, referring to the statement on LIBOR transition from the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency Statement on LIBOR transition, 30 November 2020.

7. See the Dear CEO Letter from the PRA and FCA dated 26 March 2021: "Wherever possible firms should use the most robust alternative reference rate to LIBOR appropriate for the applicable use case. In sterling this will often be SONIA compounded in arrears in line with existing market practice in derivative and bond markets and with the use cases identified in loan markets by the RFRWG. ... From 1 April 2021 we do not expect to see incremental sterling LIBOR loan, bond, securitisation or linear derivatives business being written by PRA and FCA regulated firms and groups, unless specifically permitted within the RFRWG milestones."

new issues has also had the effect of capping the number of legacy LIBOR bonds outstanding. This number of legacy LIBOR bonds outstanding then diminishes as bonds mature and is also reduced when certain LIBOR bond fallbacks are triggered.

- The second step is actively to transition legacy LIBOR bonds to SONIA, where this is practicable, to reduce them to an irreducible core by the end of 2021, as recommended by the authorities. Active transition in the bond market is currently in progress, where practicable.
- The third step is to address the remaining legacy LIBOR bonds outstanding through the authorities' proposals for "tough legacy" in order to ensure an orderly wind-down of LIBOR in the bond market.

## Sterling LIBOR bond fallbacks

9 As new bond issues have been referencing compounded SONIA for some time, the priority now is to ensure an orderly wind-down of legacy LIBOR bond contracts under English law. This is not straightforward in the bond market, owing to the nature of the fallbacks in legacy sterling LIBOR bond contracts and the difficulty of converting them to risk-free rates:

- Most legacy sterling LIBOR bonds (estimated at around 70% of the total) are expected to fall back to the previous LIBOR fix for the remaining life of the bond, with the result that floating rate bonds become fixed rate bonds at LIBOR cessation ("Type 1" fallbacks).
- Some more recent sterling LIBOR bonds have "Type 2" fallbacks, which broadly provide for an independent adviser to select a successor rate plus a fixed credit adjustment spread, either at LIBOR cessation or earlier in some cases (eg if a prohibition on use applies).
- "Type 3" fallbacks are like Type 2s, but also include a pre-cessation trigger if and when LIBOR is designated as unrepresentative of its underlying market by the FCA.

10 Type 2 and Type 3 fallbacks are estimated to represent around 30% of the total. Some Type 2 and all Type 3 fallbacks are expected to be triggered this year. It is important to note that the three types do not describe every case.

11 On 18 May 2021, following a consultation, the Sterling RFRWG published a recommendation[8] that the successor rate (for Type 2 and Type 3 fallbacks) should be overnight SONIA compounded in arrears. To operate Type 2 and Type 3 fallbacks, a credit adjustment spread needs to be added. In September 2020, following a consultation, the RFRWG recommended[9] the same credit adjustment spread methodology for fallbacks in cash products referencing sterling LIBOR where the relevant language exists as ISDA has proposed in the derivatives market.

12 It is also important to note that ISDA issued a statement on 5 March 2021 confirming that the FCA announcement constituted an "index cessation event" under the IBOR Fallbacks Supplement and the ISDA 2020 IBOR Fallbacks Protocol for all 35 LIBOR settings. As a result, the fallback spread adjustment published by Bloomberg is fixed as of the date of the announcement for all LIBOR settings. ISDA also published guidance related to the announcements.[10]

## Active transition of legacy LIBOR bonds

13 On 26 March 2021, the UK PRA and the FCA published a Dear CEO letter to encourage the active transition of LIBOR-linked contracts before the end of 2021:

- "We expect firms to intensify efforts to execute plans to transition the stock of legacy LIBOR-linked contracts ahead of confirmed cessation dates of panel bank LIBOR, wherever it is feasible to do so. All legacy sterling LIBOR contracts should, wherever possible, have been amended by end Q3 2021 to include at least a contractually robust fallback that takes effect upon an appropriate event, or, preferably, an agreed conversion to a robust alternative reference rate."
- "It remains in the interests of financial markets and their customers that the pool of contracts referencing LIBOR is shrunk to an irreducible minimum ahead of LIBOR's expected cessation, leaving behind only those contracts that genuinely have no or inappropriate alternatives and no realistic ability to be renegotiated or amended."[11]

14 In a supplementary statement on *Active Transition of Legacy GBP LIBOR Contracts* on 23 April 2021, the Sterling RFRWG recommended the active transition of contracts ahead of sterling LIBOR pre-cessation as the primary method to ensure contractual certainty and to retain economic control, and encouraged market participants to:

- prioritise the amendment of contracts which do not contain or have not yet adopted robust fallback arrangements;
- consider the potential benefits of active transition to SONIA, rather than via the adoption and execution of contractual fallbacks;

8. The Working Group on Sterling Risk-Free Reference Rates statement (bankofengland.co.uk)

9. Statement on behalf of the Working Group on Sterling Risk-Free Reference Rates: *Recommendation of Credit Adjustment Spread Methodology for Fallbacks in Cash Market Products Referencing GBP LIBOR (bankofengland.co.uk).*

10. See also: *FSB OSSG Supports Use of the ISDA Spread Adjustments in Cash Products*, 2 June 2021.

11. See also the speech by Andrew Bailey, Governor of the Bank of England, on *LIBOR: Entering the Endgame*, July 2020.

- determine the effectiveness and suitability of fallback provisions: and, unless they are contractually robust and specifically anticipate the envisaged end of GBP LIBOR, not to rely on them as a primary method of transition from GBP LIBOR to SONIA or alternative reference rates; and
- be aware, in the sterling bond market, of potentially long lead times in consent solicitations and capacity constraints and to prioritise accordingly.

15 The sterling bond market has successfully transitioned, through consent solicitations, around one third by value and just over 10% by number by number of legacy sterling LIBOR bonds due to mature after the end of 2021: that is almost 70 out of around 500 legacy sterling LIBOR bonds outstanding in nearly 900 separate tranches.[12] The number is important, as the bond market needs to transition them bond by bond. The bond market cannot use a multilateral protocol like ISDA in the derivatives market. Some legacy bonds are too difficult to transition: for example, if the consent thresholds are too high or there are too many investors, who cannot all be identified and who may not all agree. There are also too many bonds to transition before the end of 2021 at the rate that would be required. They are currently taking on average around two months each. So that leaves the bond market with a "tough legacy" problem.

## Tough legacy legislation

16 The authorities are addressing the tough legacy problem through legislation for the orderly wind-down of LIBOR. Tough legacy contracts are described by the FSB as "contracts that have no or inappropriate fallbacks, and [which] cannot realistically be renegotiated or amended."[13]

17 In the UK, legislative changes to the UK Benchmarks Regulation (BMR) were enacted at the end of April 2021 under the Financial Services Act. The Financial Services Act amends the UK BMR to enable the FCA to manage a situation in which a critical benchmark has become or is at risk of becoming unrepresentative and in which it may be impractical or undesirable to restore its representativeness. In particular, the FCA may designate a benchmark that is unrepresentative or is at risk of becoming unrepresentative under Article 23A, with the result that its use (as defined in the UK BMR) is prohibited by virtue of Article 23B, except where legacy use is permitted by the FCA under Article 23C. The Article 23A benchmark may be published under a changed methodology, which may no longer be representative of the underlying market or economic reality that the benchmark sought to measure, using powers under Article 23D, in order to facilitate an orderly cessation.[14]

18 As a result of the changes to the UK BMR under the Financial Services Act, the FCA can exercise its new powers to require continued publication by IBA of LIBOR on a synthetic basis, if and when the FCA decides that panel bank LIBOR is no longer representative of its underlying market. In those circumstances, LIBOR will no longer be intended for use in new contracts. It will be intended for use only in tough legacy contracts. The FCA has indicated that the methodology it proposes to use for any settings published on a synthetic basis would be a forward-looking term rate version of the relevant risk-free rate plus a fixed credit spread adjustment calculated over the same period and in the same way as proposed by ISDA.[15]

19 By comparison, in the US the New York State Senate and Assembly passed NY State Senate Bill S297 relating to LIBOR discontinuation. The Bill was subsequently signed by the Governor and has become law. This development was welcomed by the Alternative Reference Rates Committee (ARRC).[16] The ARRC noted that, while the mid-2023 cessation date will address a substantial portion of legacy contracts, there will still be a significant portion of contracts that would mature after that, including those that have no effective means to replace LIBOR upon its cessation. The legislation addresses those legacy US dollar LIBOR contracts maturing after mid-2023 without effective fallbacks that are written under New York law. This is important because New York law governs many of the financial products and agreements referencing US dollar LIBOR. The legislation will provide legal clarity for these contracts and will lessen the burden on New York courts, as legal uncertainty surrounding the transition would have been expected to prompt disputes.[17] US legislation of the same kind at Federal level is also being considered.

20 Similarly, the EU has amended the EU Benchmarks Regulation to empower the European Commission to designate a replacement for LIBOR when this is necessary to avoid financial market disruption in the EU.[18]

12. Estimates as at the end of June 2021.

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

14. HM Treasury, *Supporting the Wind-Down of Critical Benchmarks: Consultation,* February 2021.

15. FCA announcement on future cessation and loss of representativeness of the LIBOR benchmarks: 5 March 2021. On 24 June, the FCA launched a consultation on its proposed decision to require synthetic LIBOR for 6 sterling and Japanese yen settings.

16. For a high-level overview of the New York, and other legislative initiatives, please see *Tough Legacy Legislative Proposals: A Snapshot,* ICMA, October 2020.

17. ARRC welcomes passage of LIBOR legislation by the New York State legislature, 24 March 2021.

18. European Commission statement: *The EU Prepares for the End of LIBOR:* 30 November 2020.

## Key remaining challenges

### *Qualifying for synthetic LIBOR*

21 In our view, there are three main tough legacy challenges in the sterling bond market. The first is that the bond market will not be able to transition all the outstanding legacy sterling LIBOR bonds by the end of this year. As around 70% of them are expected to fall back from a floating rate to a fixed rate for the remaining life of the bond at LIBOR cessation, doing nothing about this runs the risk of market disruption. The UK authorities' proposal to address the problem through legislation will allow "synthetic LIBOR" to continue as a floating rate for tough legacy contracts when panel bank sterling LIBOR ceases at the end of 2021.

22 The FCA published on 20 May 2021 a consultation on the use of critical benchmarks in the orderly wind-down of LIBOR, with a deadline for responses on 17 June. This is due to lead to a policy statement by the FCA in the third quarter on (a) permitting some or all legacy use of unrepresentative critical benchmarks that have been designated under Article 23A of the UK Benchmarks Regulation and (b) restricting new use of other critical benchmarks. The FCA then aims to consult in the third quarter on its proposed decisions on precisely what legacy use to allow in the case of any synthetic sterling and yen LIBOR, and how it might restrict new use of LIBOR rates, including US dollar LIBOR, before confirming its final decisions as soon as practicable in the fourth quarter (ie shortly before they take effect).[19] Under Article 23C(2) of the UK Benchmarks Regulation, the FCA has the power to permit some or all legacy use of LIBOR after it has been designated under Article 23A and is unrepresentative. ICMA has argued that the FCA should allow all outstanding legacy bonds where fallbacks have not already been triggered to use synthetic LIBOR, not just some of them. If sterling LIBOR is available on screen but some legacy sterling LIBOR bonds outstanding are prohibited by the FCA from using it, this could create market uncertainty and potential legal problems. ICMA responded to the FCA consultation on 16 June.

### *Minimising market uncertainty and the risk of litigation*

23 The second challenge is the need to minimise market uncertainty and the risk of litigation. In particular, when sterling panel bank LIBOR ceases, it will be important to ensure that synthetic LIBOR is treated in the market as the continuation of the previous LIBOR panel bank rate.

24 On 15 February 2021, HM Treasury launched a consultation on whether to introduce contract continuity and safe harbour provisions to support the orderly wind-down of LIBOR, with a deadline for responses of 15 March. The purpose of the Treasury consultation was to understand the extent to which there is uncertainty over the continued application of LIBOR to contracts where the FCA has exercised its power to direct a change in how the benchmark is determined under the UK BMR, and the risk of associated litigation. The ICMA response to the consultation supported the introduction of continuity of contract and safe harbour provisions. It also noted that the legislation that has already been passed under New York law includes continuity of contract and safe harbour provisions; and that there are a very large number of legacy US dollar contracts under English law: many more in US dollars than in sterling.

25 On 21 April, the Chair of the Sterling RFRWG sent a letter to the Economic Secretary to the Treasury to ask for a formal update from the UK Government on the feedback received to the Treasury's consultation, and on how the Government intended to proceed. The letter stated that "the Working Group would welcome the addition of safe harbour provisions to complement the existing tough legacy provisions included in the Financial Services Bill, to provide more express protections for contracts governed by UK law."

26 On 7 May, the reply from the Economic Secretary was accompanied by an announcement that, following the HM Treasury consultation, "the Government intends to bring forward further legislation, when the Parliamentary time allows, to address issues identified in the consultation. The legislation will seek to reduce disruption that might arise from LIBOR transition with regard to the potential risk of contractual uncertainty and disputes in respect of contracts that have been unable to transition from LIBOR to another benchmark (so-called "tough legacy" contracts), where the FCA has exercised the powers given to it in the Financial Services Act."[20]

### *Ensuring international alignment*

27 The third challenge is the need to ensure international alignment between different currencies and jurisdictions to support an orderly wind-down in the transition away from LIBOR. This does not mean that the timetable and the approach to the orderly wind-down of LIBOR needs to be identical. There are some differences between currencies and jurisdictions in the timetable planned for the orderly wind-down. LIBOR settings in euro and Swiss francs are due to cease permanently at the end of 2021. Japanese yen LIBOR may continue on a synthetic basis for certain legacy contracts after the end of 2021 for one further year.[21] Synthetic

19. See FCA consultation on *Use of New Powers to Support Orderly Wind-down of Critical Benchmarks,* 20 May 2021.

20. HM Government response to the HM Treasury consultation on further measures to support the wind-down of critical benchmarks, 7 May 2021.

21. FCA announcement on future cessation and loss of representativeness of the LIBOR benchmarks.

sterling LIBOR is due to continue after the end of 2021 for certain legacy contracts for a maximum of ten years, subject to annual review. Panel bank LIBOR in US dollars is due to continue to be representative for use in legacy contracts until 30 June 2023. And while there are plans for the replacement of EONIA by €STR by 3 January 2022, there are currently no plans for the discontinuation of EURIBOR, though robust fallback language addressing permanent cessation, temporary non-availability and non-representativeness of EURIBOR has been recommended in case this is needed in future.[22]

28 There are also some differences in the approach to the orderly wind-down in the different LIBOR currencies and jurisdictions. While the UK is proposing to address tough legacy contracts through synthetic LIBOR when panel bank LIBOR ceases, the US is proposing a different approach. The difference arises because the UK is keeping the same benchmark (ie LIBOR) for certain legacy transactions, but changing the methodology to be used for its composition from panel bank LIBOR to synthetic LIBOR, whereas the US is proposing to replace the LIBOR benchmark with a commercially reasonable substitute for, and a commercially substantial equivalent to, LIBOR.[23] It will be important to establish whether the result is the same, given the large number of legacy dollar contracts under English law. An additional difference is that, while the use of synthetic LIBOR under English law is limited to a maximum of ten years, subject to annual review, there is no time limit on the use of the replacement benchmark under New York law.

29 Although the timing and approach differ between LIBOR currencies and jurisdictions, the overall direction of travel away from LIBOR towards risk-free rates is much the same.[24] And there is international coordination between the authorities through the FSB Official Sector Steering Group, chaired by Andrew Bailey, as Governor of the Bank of England, and John Williams, as President of the Federal Reserve Bank of New York. As a result of international coordination, for example, global agreement has been reached by the FSB and IOSCO and was announced on 2 June 2021 to stop the use of LIBOR in new transactions, including in US dollars, by the end of 2021. And while tough legacy legislation needs to be introduced and implemented at national level, the authorities have shown that they are aware of the importance of avoiding a conflict of laws between the UK, the US and the EU.

**Contact: Paul Richards**
**paul.richards@icmagroup.org**

22. As recommended by the Working Group on Euro Risk-Free Rates.

23. See New York legislation 297 on LIBOR discontinuance.

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

# Regulatory policy work of the new ICMA representative office in Brussels

by **Julia Rodkiewicz**

ICMA's new representative office in Brussels opened in May 2021, marking an important step for ICMA in extending its physical presence in continental Europe and reflecting the Association's extensive membership across the EU. Just over 40% of ICMA's members are based in the EU, including 15 EU central banks.

The primary role of ICMA's representative office in Brussels is to facilitate communication with the EU institutions, EU Member State authorities and Members of the European Parliament on topics affecting the international debt capital markets, building upon ICMA's existing strong relationships. In cooperation with members, ICMA will strengthen its existing engagement with policy makers at all levels by sharing market data and regulatory analysis with relevant stakeholders.

In the short time in which the office has been operating we have furthered dialogue with the European Commission, German and French Ministries of Finance and Members of the European Parliament.[1] We have been engaging on several key regulatory issues, for instance the CSDR mandatory buy-in provisions, MiFID II/R bond market transparency requirements, alleviations of the product governance regime under MiFID II/R "quick fix" and sustainable finance via the EU Platform on Sustainable Finance. For more detailed information on these matters, please see the sections of this Quarterly Report dedicated to primary markets, secondary markets and sustainable finance. We have already seen the benefits of being able to coordinate messages from ICMA's primary and secondary communities and deliver them in a more integrated manner to policy makers. This holistic approach is particularly pertinent in the context of the EU's Capital Markets Union initiative and the importance of avoiding unintended consequences or unnecessary market fragmentation generally.

The office is staffed initially by new hire Julia Rodkiewicz, who has joined ICMA as a Director in the Market Practice and Regulatory Policy team, where she contributes to ICMA's policy work and is Secretary to ICMA's Regulatory Policy Committee. The Regulatory Policy Committee recently held a meeting with Jean-Paul Servais, Vice-Chair, International Organization of Securities Commissions (IOSCO) and Chairman of the Belgian Financial Services and Markets Authority (FSMA) to discuss international supervisory cooperation and sustainable finance developments at global, EU and national levels.

We look forward to developing the work of the Brussels representative office in collaboration with ICMA's Regulatory Policy Committee members. We will be engaging in workstreams related to the primary markets, secondary markets, repo and collateral markets, short-term markets, sustainable finance, asset management, FinTech, the transition from IBORs to risk-free rates and other topics affecting the international debt capital markets. These activities will be carried out in close co-ordination with the other ICMA offices in Zurich, Paris, London and Hong Kong, taking into account national, regional and international market practice and regulatory policy issues.

**Contact: Julia Rodkiewicz**
**julia.rodkiewicz@icmagroup.org**

1. ICMA's EU Transparency Register number: 0223480577-59.

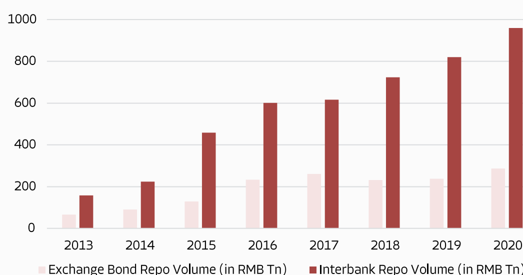
# Suggested improvements to China's bond repo market

By **Ting Zhang**

## A The current status of China's bond repo market

China's bond repo market has developed rapidly to become the key hub of liquidity management for Chinese financial institutions. The annual trading volume has increased rapidly from RMB 224.3 trillion (USD 34.4 trillion) in 2013 to RMB 1,246.5 trillion (USD 191.0 trillion) in 2020, with an average annual growth rate over 30% (Figure 1). Market participants now include banks, funds, securities, insurance, and asset management firms.

**Figure 1: 2013-2020 China's Bond Repo Market Trading Volume**




*Data sources: People's Bank of China, Shanghai Stock Exchange, Shenzhen Stock Exchange*

China's bond repo market consists of an interbank repo market, and an exchange bond repo market. The main trading types of the interbank market are pledge-style repo and outright-style (title transfer) repo. In 2020, the interbank market witnessed a total trading volume of RMB 959.7 trillion (USD 147.1[1] trillion). As for the exchange market, trading volume totalled RMB 286.8 trillion (USD 44.0 trillion) at Shanghai Stock Exchange and Shenzhen Stock Exchange combined in 2020.

With the rapid development of China's bond repo market, investors look forward to a higher level of market efficiency and risk management, including the following:

*Dynamic adjustment of collateral:* Since for now the dynamic adjustment of collateral has not been fully implemented, collateralisation cannot be quickly adjusted for mark-to-market valuation, resulting in possible insufficient coverage. Besides this, to compensate for the risk premium, some repo transactions are over-pledged. Based on interbank market statistics from January 2017 to March 2019[2], for pledge-style repo, the proportion of transactions with insufficient coverage[3] is 4.3% on average, and that of transactions over pledged is 44.9%[4] on average. For outright-style repo, the average proportion of transactions with insufficient coverage and over pledged are 30.2% and 13.0% respectively.

*Better utilisation of credit bonds and small-holding bonds:* At present, the most used bonds for collateral in repo trades are (semi) sovereign bonds. By the end of May 2021, government bonds and policy bank bonds used in the pledge-style repo of the interbank market accounted for more than 85% of the total value of collateral, while credit bonds, small-holding bonds[5]

1. The calculation is based on the RMB central parity rate at 12/31/2020, which is 6.5249, and the following USD amounts also apply.

2. It refers to the bond repo transactions where the underlying collateral is under the custody of CCDC, the same applies below.

3. Insufficient coverage refers to the case that the ratio of the market value of the collateral to the repo claim amount is less than 100%.

4. Over pledge refers to the case that the ratio of the market value of the collateral to the repo claim amount is greater than 105%.

5. Small-holding bonds refers to the bond assets with small amount in one's holding.

and the use of collateral portfolios[6] accounted for a relatively low proportion.

*Further opening-up of China's bond repo market:* Currently there is only bilateral repo in the interbank market, and tri-party repo has not yet been substantially carried out. In terms of market access, due to restrictions on foreign participation in repo trades and lack of equivalence between the protocols such as the NAFMII master repo agreement and GMRA, foreign participation in China's bond repo market is still limited in general.

## Tri-party repo: global and China's practices

It is believed that tri-party repo, with the advantages of tri-party collateral management services, can increase efficiency and reduce risks in China's bond repo market.

Tri-party repo is prevalent in the global market and aims to provide a more standardised money market instrument where the CSDs or custodians, acting as the third party, provide integrated collateral management services. For the time being, major tri-party collateral management service providers in the global market are large custodian banks or (I)CSDs. These institutions can combine their strength in bond custody and settlement with an automatic collateral management system, so as to effectively utilise small-holding bonds and achieve significant economies of scale.

In 2018, tri-party repo was first introduced in China to the exchange market. Later that year, the People's Bank of China announced the introduction of tri-party repo in the interbank market, although no timeline has been given when it should be launched. Based on in-depth studies of global practices and domestic market structure, CCDC, as an important financial infrastructure in China's bond market, has completed a series of systematic and technical accommodations to prepare for the substantial implementation of tri-party repo in the interbank market.

- *CCDC formulates a tri-party repo parameters schedule to ensure safety and efficiency:* An eligible collateral list and haircut schedule are key to tri-party repo transactions. Taking market needs, operational efficiency, risk control and other factors into consideration, CCDC has formed a tri-party repo parameters schedule, which can be adjusted according to market conditions.
- *CCDC provides participants with multiple risk management tools during the process of a tri-party repo transaction:* The toolkit includes mark-to-market valuation, automatic supplement or return of collateral, collateral substitution and adjustment, so as to facilitate risk management.
- *CCDC supports quick collateral enforcement in the event of default to complete the collateral management cycle.* In June 2019, CCDC issued guidelines on collateral enforcement where CCDC acts as the third party to ensure a fair and timely disposition of collateral. This completes the collateral management cycle and reduces the costs of credit default.

## Looking forward: three suggestions on the future development of China's bond repo market

Based on global practices and the development of the domestic market, we have three suggestions for the development of China's bond repo market in the future:

*1. To launch tri-party repo in the interbank market:* Tri-party repo, as a core trading type in the international repo market, is a useful supplement to traditional bilateral repo and is more in line with the trading habits of overseas investors. However, domestic investors are not yet familiar with tri-party style repo trades. In order to smoothly launch tri-party products, it is vital to work on market awareness and education in the short term and the standardisation of repo transactions in the long term.

*2. To liberalise the participation of foreign institutions in China's bond repo market:* Currently, only certain types of overseas investors are eligible to participate in the interbank market, including central banks, overseas RMB participating banks and clearing banks. However, asset managers that focus on the optimisation of funds and assets are also motivated to participate in repo trades. To this end, it is recommended that restrictions on foreign participation in transactions such as bond repo could be further relaxed in due course. Also, it is crucial to promote the harmonisation of domestic and foreign market rules and the compatibility between international protocols such as the GMRA and domestic ones like the NAFMII master repo agreement.

*3. To promote the utilisation of RMB bonds as collateral in repo transactions in the global market:* With the continuous opening-up of China's bond market and the increasing demand for cross-border bond collateral, investors are actively seeking opportunities to utilise high-quality RMB bond assets in international markets. With improved market liquidity, enhanced operational efficiency and robust market infrastructures, onshore RMB bonds are ready to play their part in the global market. In the future, it is necessary to build cross-border channels for collateral recognition, strengthen interconnections at the market infrastructure level, and promote the use of high-quality RMB bond collateral in global repo transactions.

*Ting Zhang is Deputy Director, China Bond Collateral Management Center, China Central Depository & Clearing Co., Ltd.*

6. Collateral portfolio refers to the case where the collateral provider uses more than one bond.

# Japan: a clearer pathway to carbon neutrality

By **Motoko Ogawa**

S A

## Background

Today, achieving carbon neutrality by 2050 is a common goal for many countries. To those climbing to the carbon neutrality summit, the path to the top, that is, transition, is difficult, but critical. There are many different routes to the summit, and not all the climbers are starting at the same point.

Climate measures are urgent. In Japan, Prime Minister Suga declared Japan's intention to achieve carbon neutrality by 2050 in October 2020. The Japanese Government formulated the Green Growth Strategy in December 2020 as a means of envisioning the path towards achieving carbon neutrality. It is a set of industrial policies that will create a positive cycle of economic growth and environmental protection, where transition finance is positioned as an important tool.

A Taskforce on Preparation of the Environment for Transition Finance was established in January 2021 by the Ministry of Economy, Trade and Industry (METI), the Financial Service Authority (FSA) and the Ministry of Environment (MOE). In May METI, FSA and MOE published the *Basic Guidelines on Climate Transition Finance* to promote transparency in transition finance and its wider recognition in the market. This shows the way for the "climbers".

Japan's Basic Guidelines are aligned with ICMA's four elements from its Climate Transition Finance Handbook: 1.Strategy and governance, 2. Environmental materiality, 3. Science-based strategy with targets and pathways, and 4. Transparency. The key is that transition finance should support the implementation of a company's climate change strategy and not just finance individual assets and achieve KPIs.

As transition finance needs an incubation period, Japan's Basic Guidelines have added some practical interpretation to the ICMA Handbook for clarification. In this sense, the Basic Guidelines are not only regional rules; they are available to anyone who needs to use transition finance.

## Japan's policy towards the Basic Guidelines and the global movement

These actions echo the global movement to transition finance. While several financial institutions around the world have published their own transition bond criteria, ICMA set up a transition finance working group in June 2019. They are the pioneers of transition finance and more reports and frameworks by international financial institutions followed thereafter. Some external reviewers have also established their own review policies for transition.

In Japan, to explore approaches to climate finance, METI established a Study Group on Environmental Innovation Finance in March 2020, and then in May 2020 the Study Group published a *Concept Paper on Climate Transition Finance Principles.* In essence, transition finance can contribute to

the mitigation of climate change. Traditional green initiatives are not the only methods of mitigation. Also, an inclusive and flexible approach can be taken in each country and region, as they all face unique sets of circumstances.

In September 2020, the Study Group published the *Climate Innovation Finance Strategy 2020.* To achieve the SDGs and the goal of the Paris Agreement, transition should be advanced while pursuing green initiatives, innovation, and financing. Simultaneous promotion of TGIF (Transition, Green, Innovation and Finance) is essential.

In December 2020, ICMA published its *Climate Transition Finance Handbook* in response to demand from the market for sharing a common understanding of how transition finance should best be implemented. The Handbook states that transition pathways must be tailored to sectors and operating geographies of issuers who are at different starting points. The introduction of the Japanese TGIF initiative is an example.

## Basic Guidelines

ICMA's *Climate Transition Finance Handbook* emphasizes the importance of strategies and governance for sustainable finance. Japan's Basic Guidelines take the same approach.

The recently revised Green Bond Principles and Sustainability-Linked Bond Principles suggest referring to the Handbook for issuers who wish to finance projects directed towards implementing a net zero emissions strategy aligned with the goals of the Paris Agreement.

Transition finance demands more from issuers. The Handbook and the Basic Guidelines do not list specific asset classes applicable as transition assets. Neither do they identify specific targets as the condition of successful transition. Rather, a company needs to envision the strategy and select assets and targets that will allow for achievement of carbon reduction as a whole. While this approach provides more transparency, it is more challenging for issuers, as transition pathways need to be explained. Such efforts should be evaluated appropriately by investors.

Although the Basic Guidelines are quite similar to the Handbook, there are some differences. In addition to scenarios which are widely recognized by the international community, such as IEA's Sustainable Development Scenarios, Nationally Determined Contributions that are aligned with the goals of the Paris Agreement have been added, and roadmaps by industry sector formulated by public organizations can be used as reference. This will provide more practical options in trajectories which meet the goals of the Paris Agreement. As indirect finance is more common in Japan, loans are included in the Basic Guidelines as well.

## Further approaches

Next, METI will develop industry roadmaps which can be referred to in transition finance including roadmaps for high emission industries that issuers can refer to in developing their own strategy, and which financial institutions and investors can refer to in considering investment.

A new taskforce will be set up to discuss the roadmaps, which will consist of experts and financial institutions.

The Japanese Government set out the Basic Guidelines to enhance credibility and transparency. They also encourage the use of external reviews, so that third parties can provide opinions on whether the companies' targets are adequate and if their strategies are in line with the science-based trajectories towards achieving the goals of the Paris Agreement. METI will support the costs of external reviews for transition finance if that is regarded as a good model which meets the requirements of the Basic Guidelines. To encourage participation, subsidies are planned for transition loans with output-oriented goals.

Transition finance is a new approach, and we look forward to seeing it adopted more widely, so that the market can be convinced of the value of this new instrument and so that it becomes a useful tool to help in reaching carbon neutrality.

***Motoko Ogawa is Deputy Director of Environmental Economy Office, Industrial Science and Technology Policy and Environmental Bureau, Ministry of Economy, Trade and Industry.***

# Supporting frontier money markets in the pandemic year

By **Philip Buyskes**

## Frontclear

Frontclear is a development finance company dedicated to catalysing stable, liquid and inclusive money markets in emerging and frontier countries. It was established in 2015 and is predominantly funded by European development finance institutions and governments. Frontclear unlocks access to global and local money markets for finance institutions through the provision of credit guarantees to cover counterparty credit risk. Complementarily, Frontclear provides technical assistance to remove structural barriers to market development. Technical assistance is deployed in close cooperation with local regulators and industry bodies and is focused on diagnostics, legal and regulatory reforms, industry training and the development of financial market systems and infrastructure – all targeting more liquid and inclusive money markets.

The significance of 2020 is inescapable. The World Bank estimates that the pandemic-induced global recession will have a lasting effect on global inequality and push 115 million into poverty. The resulting financial market shock was unprecedented and once again highlights the urgency of building more resilient and inclusive financial systems in emerging and frontier economies. As the *Frontclear 2020 Impact Report* demonstrates, it was a watershed year for Frontclear and we were particularly pleased to be able to assist our partner beneficiaries, with circa USD 300 million in trades in the immediate aftermath of the March 2020 COVID-19 market blowout.

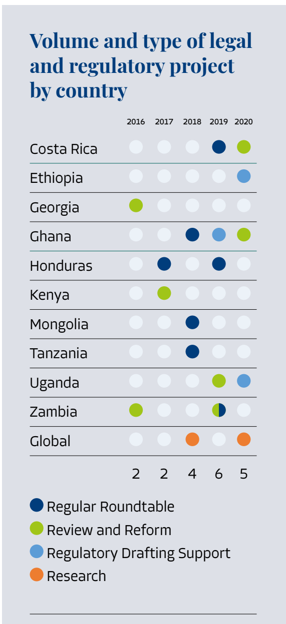
COVID-19 had a dramatic impact, but Frontclear's guarantee portfolio performed well throughout the turbulent year. After reaching a peak of USD 328 million in November 2020, the Frontclear guarantee portfolio stood at USD 266 million at year-end, 5% higher than at year-end 2019. Frontclear mobilised USD 643 million in transactions across 7 countries on the back of USD 243 million in guarantees extended in 2020, generating an investment multiplier of 2.64. An example transaction being a cross-border USD 23m repo (USD cash against USD Mongolia Eurobonds) transaction in Mongolia. Cumulatively since 2015, Frontclear has mobilised USD 1,048 million in funding across 15 countries on the back of USD 633 million in guarantees extended.

The portfolio shifted to Tier 1 banks and increased use of Eurobond collateral, recognising the changing risk environment since the onset of the crisis. Frontclear was able to effectively deploy its balance sheet in response to the crisis where it could, yet Tier 2 and 3 banks' market access largely vanished, highlighting the importance of building more inclusive financial markets *ex-ante*.

The Impact Report details case studies on Costa Rica, Mongolia and Uganda, with a special feature on legal & regulatory review and reform – central to our Technical Assistance Programme (FTAP). Of 2020 FTAP activities, 67% were high value-add advisory trajectories and largely legal & regulatory reform, well-aligned to fulfilling the requirements of a more resilient money market. Many of these activities would not have been possible without the support of ICMA. Highlights include:

- *Costa Rica:* reforming Insolvency Bill language to accommodate close-out netting and temporary stay for FI Resolution Mechanism (adopted by Congress 2020 and Parliament early 2021);
- three Regulatory Reform projects, including a new Ugandan Regulation to introduce and protect GMRA, ISDA and GMSLA documented transactions in insolvency/liquidation scenarios.

These Technical Assistance trajectories underscore Frontclear's relationships with a broad array of market




stakeholders, and in particular with regulators, as being a key success factor towards achieving impact goals, where Frontclear has established an effective "blueprint" for stakeholder engagement. These relationships are a requirement to building more stable and inclusive money markets, which are a prerequisite for increasing depth in local currency bond markets.

The nucleus of the money market is interbank lending, where banks borrow and lend to each other using financial instruments such as repurchase agreements (repos) and hedge balance sheet risks through derivatives. Central banks and banks rely on interbank markets to deal with immediate liquidity concerns and to transmit changes in monetary policy. Many emerging markets face a structural challenge: extensive market segmentation and over-reliance on the banking sector as the only local source of liquidity. Under normal market conditions, let alone in a crisis, (perceived) counterparty credit risk quickly dislocates banking relationships. (See illustration.)

Without access to the interbank system and in particularly repo, banks hoard liquidity as a primary risk mitigator. Larger banks experience lower borrowing costs and often only trade with one another. Smaller players, who often play an outsized role in serving SMEs, are locked out or have high borrowing costs despite overall liquidity in the market. The financial system's overall financial soundness, and role to effectively extend loans and financial products to the real economy, suffers.

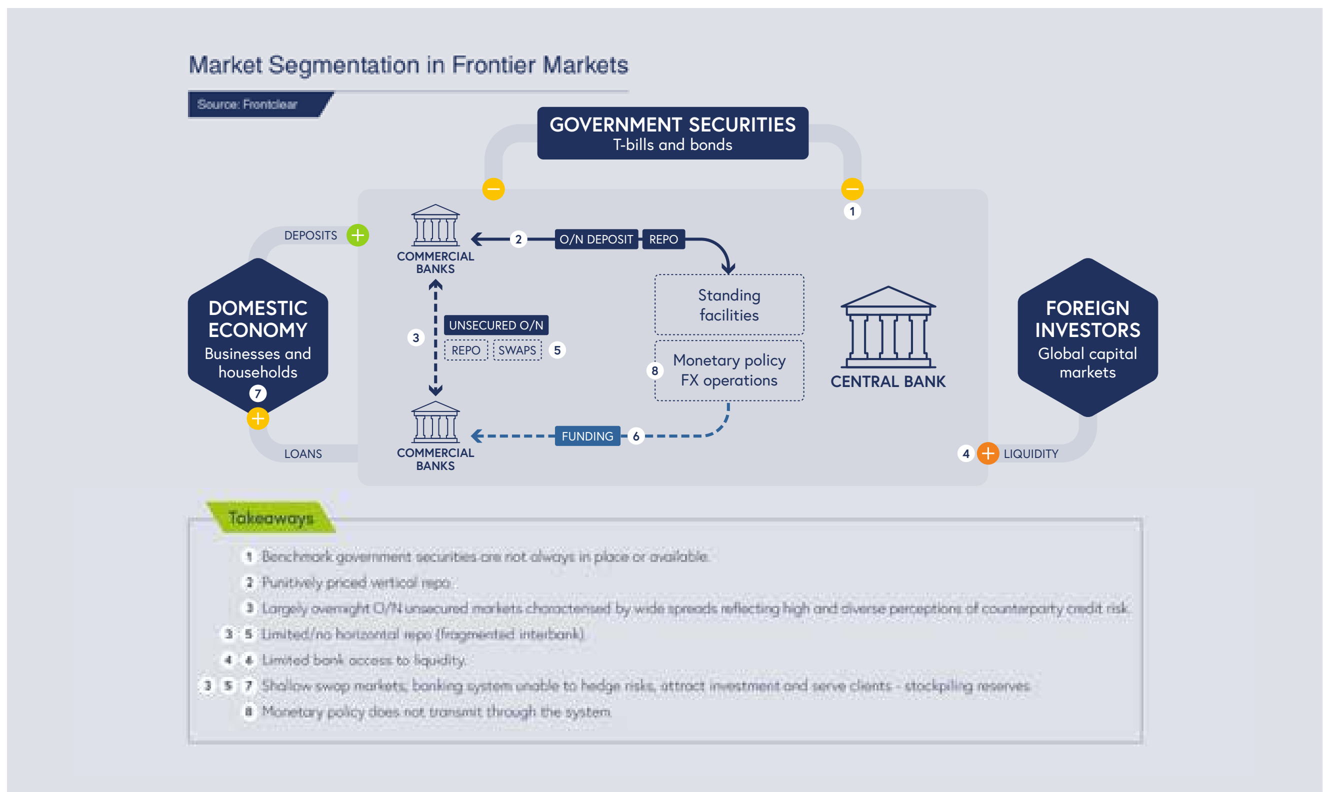
Ultimately, *ex-ante* establishment of local financial infrastructure is the only way to build better resilience against future shocks. With the prolonged pandemic, many emerging markets will face challenges for years to come. There is a broad swath of lower and middle-income countries with very nascent money markets with structural challenges.

Going forward, Frontclear is fundamentally focused on rising to the challenge, increasing scale and accelerating our development activities to support these frontier money markets.

---

***Philip Buyskes is CEO, Frontclear.***

---



# Summary of practical initiatives by ICMA

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

## *Primary markets*

1. *Public debt sustainability:* The Public Sector Issuer Forum met on 15 June 2021, with two main items on the agenda. The first was public debt sustainability, introduced by Carmen Reinhart, Vice President and Chief Economist at the World Bank. The second was the European Commission's debt issuance: sovereign or supra? This was introduced by Niall Bohan, Director, Asset and Financial Risk Management at the European Commission.
2. *CMRP/MiFID product governance:* Following adoption of the Capital Markets Recovery Package (CMRP) by the EU, ICMA has been engaging on clarifying the intended scope of the CMRP in the context of apparent inconsistencies in national implementation.
3. *New issue processes:* On 7 May 2021, ICMA responded to a Hong Kong Securities and Futures Commission consultation on its potential code on bookbuilding and placing. In Europe, ICMA has been working to help underwriters to transition to a new method for recording allocation justifications in the context of MiFID II/R.
4. *Post-trade:* ICMA is working on the primary market implications of various emerging post-trade initiatives, including: the ECB AMI-SeCo Collateral Management Harmonisation Task Force consultation on corporate action harmonisation; ECB Debt Issuance Market Contact Group (DIMCG) discussions; and reforms to the ICSD syndicated closing process following CSDR implementation.
5. *ESG disclosure in primary markets:* The ICMA Legal & Documentation Committee ESG Working Group has held several detailed discussions on ESG disclosure in bond prospectuses, marketing materials and documentation for green, social and sustainability bonds, as outlined in more detail in the Primary Markets section of this Quarterly Report.
6. *Post-Brexit standard language:* ICMA has published for ICMA members and ICMA Primary Market Handbook subscribers further updated items relating to its standard language for the post-Brexit period.
7. *UK TCFD consultation response:* ICMA responded on behalf of its Corporate Issuer Forum to the UK TCFD consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships.
8. *Corporate Issuer Forum Newsletter:* The second edition of ICMA's Corporate Issuer Forum (CIF) Newsletter was released in May 2021. The CIF Newsletter provides a periodic snapshot of the CIF's key priorities, initiatives and workstreams, including insights into sustainable finance, primary market activities, FinTech, ICMA Commercial Paper Committee, upcoming meetings and events.
9. *Primary markets technology directory:* ICMA's directory covers existing and emerging technology solutions in primary markets and was initially launched in December 2018. It is reviewed regularly and the latest amendments were incorporated in May 2021. The aim is to help inform ICMA members and thereby create greater transparency. The directory is available on the ICMA website.

## *Secondary markets*

10. *Consolidated tape for EU bond markets:* Following ICMA's 2020 report into considerations surrounding the establishment of an EU consolidated tape for bond markets, on 20 January 2021 DG FISMA announced that, in conducting a further review of MiFID II/R, this would include plans to design and implement a consolidated tape for corporate bonds. ICMA is currently working with members on a practical proposal for the MiFID II/R bond market transparency regime.
11. *MiFID II/R responses:* ICMA's MiFID II/R Working Group (MWG) has responded to the ESMA consultations on: *Obligations to Report Transactions and Reference Data;* and *Functioning of Organised Trading Facilities (OTFs).* The latter covered a much wider scope than OTFs, including the potential forced authorisation of software and technology providers as trading venues: eg information networks. ICMA's MWG has more recently been working on responses to two further consultations: the ESMA consultation paper on *RTS 2 Annual Review*; and the FCA consultation paper on *Change to the Conduct and Organisational Requirements in UK MiFID for Research and Best Execution.*
12. *ICMA Guide to Definitions and Best Practice for Bond Pricing Distribution:* There is keen market interest in how pre-trade bond pricing information is distributed, because it is a vital source of data for bond traders. The way in which information has been distributed is not uniform and has caused concern among buy-side market participants. ICMA's guide to best practice for bond pricing distribution

sets out standards and definitions agreed by ICMA's buy-side, sell-side and trading venue members in the hope that the guide will be adopted by the market.

13 *CSDR mandatory buy-ins:* In February 2021, ICMA submitted its response to the European Commission's targeted consultation on CSDR. ICMA's response focused primarily on the mandatory buy-in element and argued that this should not be implemented as currently designed and scheduled before undertaking a detailed market impact analysis. ICMA also held the pen for a cross-association letter to the European Commission further outlining concerns about the current implementation schedule in light of its CSDR Review. Currently, ICMA is working with members and other associations on finding contractual solutions to support compliance by the expected go-live date of February 2022.

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

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

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

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

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

## Repo and collateral markets

19 *ERCC General Meeting:* The ERCC held its Annual General Meeting on 30 March 2021 as a virtual live-streamed event hosted with the support of LCH SA. The event included two panel discussions on relevant repo market developments, as well as a keynote address by Fiona van Echelpoel (ECB). The next ERCC General Meeting will be held on 13 October, supported by Pirum.

20 *Repo and sustainability:* On 22 April 2021, the ERCC published a consultation paper on the role of repo in green and sustainable finance, exploring the sustainability aspects of repo and collateral as well as assessing the existing opportunities and potential risks in this area. The consultation closed on 4 June. ICMA is currently reviewing the feedback and planning to publish in due course a short summary report.

21 *GMRA and CSDR mandatory buy-ins:* ICMA is in the process of developing an Annex to the GMRA to support implementation of the CSDR mandatory buy-in provisions.

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

23 *SFTR Article 15 information statement:* On 17 May 2021, ICMA, AFME, FIA, ISDA and ISLA jointly published a UK version of the SFTR Article 15 information statement. The statement aims to help market participants comply with requirements under Article 15 of the UK SFTR, informing users of the general risks and consequences that may be involved in consenting to a right of use of collateral provided under a security collateral arrangement or of concluding a title transfer collateral arrangement (for example, the GMRA).

24 *SFTR public data:* ICMA continues on a weekly basis to collect, aggregate and publish the SFTR public data released by the trade repositories (TRs), covering both UK SFTR and EU SFTR. The SFTR public data complements existing ICMA publications on repo, such as the semi-annual European repo survey.

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

26 *Settlement efficiency:* The ERCC is leading an industry effort to explore ways to improve settlement efficiency in Europe. Further to a targeted update of the ERCC *Guide to Best Practice* released in March 2021, ERCC members have agreed a set of more ambitious principles to support settlement efficiency, focusing in particular on the use of partial settlement and auto-partialling, shaping of settlement instructions and auto-borrowing functionality. Focused workshops are being held to discuss in turn the implementation of each of these additional best practices.

27 *Financial Collateral Directive*: On 7 May 2021, ICMA submitted a letter to the European Commission to express support for ISLA's response to the targeted consultation on the review of the EU's Financial Collateral Directive (FCD).

28 *FinTech mapping directory for repo and cash bonds:* ICMA periodically reviews the directory, which currently lists over 170 solutions across 10 categories comprising collateral management, corporate actions, exposure agreement, intraday liquidity monitoring and reporting, matching, confirmation and allocation, and reconciliations, but also ancillary areas such as static data and SSI workflow and communication and KYC onboarding. The latest version, which includes updates incorporated in March 2021, is available on ICMA's website.

29 *Repo trading technology directory:* In light of increasing electronification of repo markets, ICMA periodically reviews its directory of electronic trading solutions for repo. The directory is intended to help market participants understand what execution venues and other technology solutions are available for repo trading, product scope, as well as differences in trading protocols, clearing and collateral configurations. The directory, including latest updates in May 2021, is available on ICMA's website.

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

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

## Short-term markets

32 *ICMA Commercial Paper Committee:* In March 2021, ICMA reconstituted its ECP Committee to include the broader commercial paper market, including financial and corporate issuers, dealers, investors and infrastructures. This initiative follows an ICMA workshop, *The Commercial Paper Market Reimagined,* which was held in November 2020. The ICMA Commercial Paper and Certificates of Deposit Committee (CPC) is due to publish a white paper that maps the current structure of the market and provides recommendations for market development.

## Sustainable finance

33 *ICMA's response to the ESAs' consultation on taxonomy disclosure for financial products*: On 12 May 2021, AMIC submitted its response to the ESAs' consultation on taxonomy disclosure for financial products. The EU Taxonomy Regulation requires certain financial products with environmental characteristics/objectives (as defined under the EU Sustainable Finance Disclosure Regulation (SFDR)) to report how their underlying investments align with the recently adopted EU criteria for sustainable activities. The response invites the ESAs and the European Commission to allow for sufficient implementation time, to refine the list of eligible assets to be factored in the Taxonomy KPI, and to simplify information to be disclosed to end-investors.

34 *Overview and Recommendations for Sustainable Finance Taxonomies:* On 18 May 2021, ICMA published its paper, *Overview and Recommendations for Sustainable Finance Taxonomies.* This was released against the background that there have been both market and official sector initiatives to develop taxonomies (ie classification systems) in an effort to provide clear guidance on which activities, assets and/or projects qualify for sustainable finance, and in some cases more widely as sustainable for regulatory or prudential purposes. Progress on the development of the EU Taxonomy in particular has accelerated the discussion about taxonomies globally. ICMA's new publication compares the main features and methodologies of official taxonomies from the EU, China and other national authorities as well as influential market-based systems, including the Green Bond Principles' project categories.

35 *Green Bond Principles 2021 Version*: The Annual General Meeting (AGM) of the Principles was held virtually on 10 July 2021 during which the GBP's 2021 Version was released. It notably features: (i) two key recommendations on the bond frameworks and external reviews designed to increase the transparency alongside the four core components; (ii) a recommendation of heightened transparency for issuer-level sustainability strategies and commitments; (iii) encouragement to supply information, if relevant, on the degree of alignment of projects with

official or market-based taxonomies; (iv) promotion of transparency on issuer processes to identify and manage perceived and known social and/or environmental risks; (v) links and references to the complementary guidance of the *Climate Transition Finance Handbook*, the *Harmonised Framework for Impact Reporting*, the *Guidelines for External Reviews*, which are supplemented by the *Guidance Handbook*. Similar revisions were also made to the SBP and the SGB while a number of other additional deliverables were released during the 2021 AGM.

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

## Asset management

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

38 *AMIC workstream on ESG disclosures for securitised assets:* The lack of ESG transparency for securitised assets has been identified as a key issue by some AMIC members at a time when clients are increasingly conscious about their ESG footprint and as regulators set new transparency requirements for the buy side. AMIC has set up a working group to develop the necessary key performance indicators (KPIs) and has issued a statement laying down current challenges for this asset class and the buy side followed by a discussion paper on ESG KPIs for auto-loans/leases ABS. The next steps are to identify KPIs for two other sub-asset classes (RMBS and CLOs) and to engage with other market participants and regulators to promote the usage of KPIs which have been identified.

39 *AMIC response to IOSCO consultation on fund liquidity management by open-ended funds:* The AMIC response highlights how industry practices and existing regulatory provisions in Europe are well aligned with the Liquidity Risk Management (LRM) recommendations issued by IOSCO in 2018. The response acknowledges the positive impact of the LRM recommendations, as they have incentivised national supervisors to encourage and facilitate the use of LMTs, which are now available in most European jurisdictions and in all main fund domicile centres, covering almost all assets under management by UCITS and AIFs.

40 *AMIC SFDR Taskforce:* An AMIC SFDR Taskforce has been set up to support AMIC members SFDR implementation ahead of 1 January 2022 when SFDR goes live. In the first instance, the taskforce has sent a letter to the European Commission summarising three main implementation challenges and solutions to be considered when finalising the RTS and other legislative initiatives. The taskforce is now scoping out the content of an SFDR implementation guide which is due to be published by the end of Q3 2021.

## FinTech in capital markets

41 *Common Domain Model (CDM) for repo and bonds:* ICMA, its CDM Steering Committee and Regnosys have continued to develop a model for standard fixed-term repo transactions, including trade execution, clearing and settlement (and outright bond transactions). The duration of the initial phase is 18 weeks, including a showcase event to demonstrate implementation of the CDM and its benefits on 21 July.

42 *FinTech Advisory Committee (FinAC):* Strategic priorities for 2021 are twofold: (i) promote common data standards to enable process automation along the securities lifecycle, and (ii) tokenisation of bonds and digital currency, understanding the implications for market practice and adoption challenges. The third meeting was held on 27 May and featured presentations by the FSB on FinTech priorities and related developments as well as by the EIB on its recent issuance of a digital bond on the Ethereum blockchain.

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

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

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

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

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

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

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

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

## Transition from LIBOR to risk-free rates

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

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

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

54 *ICMA Bloomberg Guide to Tough Legacy Bonds in Asia-Pacific:* ICMA and Bloomberg produced a Guide in May featuring statistics on current exposures in LIBOR-refenced FRNs across the Asia-Pacific region provided by Bloomberg, including high-level commentary by ICMA on issuer type, currency, governing law, applicable fallbacks and potential solutions. The launch of the Guide was accompanied by a virtual event, comprising keynote speeches and a panel session.

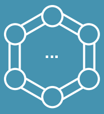
55 *Official sector RFR panel:* ICMA moderated an official sector panel on the transition from LIBOR to risk-free rates launched by ICMA on 2 June and involving senior representatives from the UK FCA, the Federal Reserve Bank of New York, the Swiss National Bank and the European Central Bank.

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

## Other meetings with central banks and regulators

57 *ICMA Regulatory Policy Committee (RPC):* Jean-Paul Servais, Vice-Chair of IOSCO, joined the virtual meeting of RPC on 3 June for a discussion with members.

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





# Primary Markets

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

## Hong Kong SFC bookbuilding consultation

A On 7 May, ICMA submitted its response to the consultation by the Hong Kong Securities and Futures Commission (SFC) on a proposed addition, relating to ECM and DCM bookbuilding and placing activities, to its binding code of conduct for SFC licensed and registered persons. (The publication of the consultation was reported at page 37 of the 2021 Second Quarter edition of this Quarterly Report.)

By way of introduction, ICMA's response:

(a) emphasises the difference between bond (DCM) and equity (ECM) markets and the need for the proposed code additions to segregate its DCM and ECM provisions;

(b) expresses understanding of SFC concerns around certain Hong Kong market dynamics and support for solutions that also enable Hong Kong to thrive as a venue for international DCM issuance;

(c) suggests SFC may find value in reviewing the legal texts of the national regulations behind IOSCO's September 2020 recommendations (reported at page 38 of the 2020 Fourth Quarter edition of this Quarterly Report); and

(d) provides links to background materials on bond syndication.

In terms of geographical scope, the response notes the cross-border nature of most DCM transactions involving Hong Kong, the risk of inconsistent practices in transactions where some intermediaries are in-scope and others are not, and also the related risk of regulatory arbitrage arising from various aspects of the SFC's proposal. In this respect, the response proposes a clearer Hong Kong nexus (such as Hong Kong listed obligors). It also questions how equity-linked debt might be characterised.

In terms of syndicate roles, the response emphasises (i) substance over titles, (ii) that non-syndicate roles are not recognised in current DCM practice and (iii) that "overall coordinators" (OCs) should not be responsible for advising issuers on syndicate composition and remuneration or for the conduct of other syndicate members (each being responsible for their own conduct, as well as for their own risk position). The response agrees with early syndicate appointment and fixing of remuneration (albeit with electronic form being sufficient), namely prior to public announcement of a transaction. The response also notes underwriters do not have a fiduciary relationship with their issuer clients, acting rather as arms' length principals when making transaction recommendations.

The response also addresses various granular questions, notably stating that:

(a) various considerations arise in the context of rebates: uniform pricing for end-investors, any intermediary fiduciary duties and that syndicates cannot police other intermediaries;

(b) information relating to connected investors should emanate from issuers;

(c) syndicates seek to mitigate duplicated and unusual/irregular orders;

(d) orders known to be inflated are not accepted into orderbooks;

(e) orderbooks should be transparent to issuers and any updates should be consistent, but public book updates should not be compulsory;

(f) "x" orders should, on balance, be prohibited under the code (and "omnibus" orders are not a recognised concept in current DCM practice);

(g) arms' length internal orders should be treated *pari passu* with external orders in terms of pricing relevance and allocations;

(h) record-keeping requirements should be proportionate;

(i) a longer implementation timeline, phased implementation and an interim review should be considered.

The response also notes (i) the importance of proactive SFC supervision, (ii) that underwriters undertake various services for multiple issuer clients (who may be competitors in their own areas) with internal controls to manage any potential conflicts of interest, (iii) that it may be unrealistic to expect issuer hedging needs will never impact benchmarks used in pricing bond issuances, (iv) that senior management should not be required to be involved in granular transactional decisions to the extent relevant policies and procedures are in place and (v) that there should be further consultation on the legal text of the code additions (ie once the final policy aspects have been confirmed).

Relevant parts from the ICMA Primary Market Handbook are referenced throughout the response.

ICMA will continue seeking to engage with the SFC as this workstream progresses.

**Contacts: Ruari Ewing and Mushtaq Kapasi**
**ruari.ewing@icmagroup.org**
**mushtaq.kapasi@icmagroup.org**

## CMRP implementation: MiFID II/R product governance

On 26 February, the EU's Capital Market Recovery Package (CMRP) was published in the *Official Journal of the EU* as Directive (EU) 2021/338. Regarding the alleviation of the scope of the MiFID product governance regime, there were no significant differences with the trilogue outcome reported at page 41 of the 2021 First Quarter edition of this Quarterly Report. In terms of national transposition, EU Member States are due to adopt and publish these CMRP provisions by 28 November 2021 and apply them by 28 February 2022.

Then on 21 May, ICMA responded to a consultation by the Swedish Ministry of Finance, regarding Swedish transposition of the CMRP's alleviation of the scope of the MiFID product governance regime. The response noted that the proposed Swedish implementation seemed narrower than the EU-level legislative text in one sense (that bonds with no embedded derivative at all would remain subject to the product governance regime) as well as wider in another sense (that bonds with other embedded derivatives in addition to a makewhole clause would no longer be subject to the product governance regime), with potential implications arising from local variations of implementation. Distinctly by a 7 May Decree, Germany also implemented the alleviation on a narrow basis.

However, ICMA has subsequently learnt that, notwithstanding the drafting of the EU-level text, the actual intention of the EU co-legislators relating to the trilogue outcome was that only bonds with a makewhole clause (but no other embedded derivatives) be exempted from the MiFID product governance regime. In this respect, some of the apparently narrower national implementations may simply be making consequent corrections to the formal EU legal text.

The market practice implications of all this remain to be seen. However, since the conceptually flawed nature of the PG regime is at the moment significantly mitigated through the "ICMA1"and "ICMA2" approaches to compliance (as noted in ICMA's May 2015 response to the European Commission's MiFID review consultation and reported at pages 37-38 of the 2020 Third Quarter edition of this Quarterly Report), it seems unlikely that bond underwriters (as MiFID manufacturers) will be willing to expend resources implementing "lighter" internal compliance policies and procedures for just bonds with a makewhole clause but no other embedded derivatives (rather than a wider universe also including simpler bonds with embedded derivatives at all).

Additionally, in this respect, regarding the CMRP's alternative alleviation to the scope of the MiFID product governance regime (covering financial instruments marketed or distributed exclusively to eligible counterparties), initial industry perception has been this may be of limited use given it would seemingly involve a material investor base limitation and a significant logistical repapering burden.

Consequently, it seems likely that prior market practices will continue unchanged by the CMRP. In any case, ICMA will continue to engage with relevant authorities, including through the Commission's current consultation on an EU strategy for retail investors, to try to ensure that the EU's formal review of MiFID addresses the product governance regime's conceptual flaw by removing commoditised funding products such as Eurobonds from its scope of application.

**Contact: Ruari Ewing**
**ruari.ewing@icmagroup.org**

## ESG disclosure for new bond issues

Disclosure of environmental, social and governance (ESG) related information by investee companies is an increasingly important topic for market participants and policy makers alike. ICMA's Legal & Documentation Committee and its ESG Working Group have been discussing issues relating to ESG disclosure for new international, unsecured bonds issued in EMEA and distributed outside of the US under Regulation S. These discussions have included considerations related to disclosure for sustainable products such as green and social bonds and sustainability-linked bonds, as well as for "vanilla" bonds with no sustainability element.

Market practice for disclosing how an issuer will use the proceeds of a green, social or sustainability bond has developed over several years in line with the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines. The precise way and extent to which such disclosure is included in an

issuer's base prospectus is evolving as an increasing number of issuers are choosing to include an option to issue green or social bonds under their debt issuance programmes. Similarly, the market for sustainability-linked bonds is developing and market participants are focusing closely on how the terms of such bonds are drafted.

More generally, ICMA's underwriter community has noted the importance of ensuring that any ESG-related information that could affect the credit of the issuer (ie its ability to pay back the principal amount and pay interest in the meantime) is disclosed in the issuer's bond prospectus – regardless of whether it relates to a sustainable product or not. An issuer's credit will be affected by the financial and competitive position and outlook of the issuer and its industry over the lifetime of the bond (or, in the case of a programme, the bonds to be issued under the programme). Issuers may need to consider, among other things, any of its other financings that are related to ESG KPIs and metrics such as sustainability-linked loans, because increased financing costs on this type of instrument could impact its overall financial position and be relevant to a credit assessment of the issuer. In addition, where ESG information is an integral part of the issuer's principal activities, this is required to be disclosed under the EEA and UK Prospectus Regulations.

Outside of a bond prospectus context, many companies are already subject to periodic non-financial or sustainability reporting requirements; or choose to make such periodic disclosures voluntarily. They also often have one or more ESG ratings. Regulatory requirements for periodic reporting of climate and other ESG-related information are set to increase in the EU, the UK and the US following:

- the European Commission's proposal for a Corporate Sustainability Reporting Directive published in April;
- the UK Government consultation on requiring mandatory climate-related financial disclosures (to which the ICMA Corporate Issuer Forum responded in May – see the article below);
- the UK FCA's open consultation on enhancing climate-related disclosures by standard listed companies (see further the box below); and
- the US SEC's recent consultation on climate-related disclosures (to which ICMA responded on 15 June).

In addition, IOSCO recently published a *Report on Sustainability-related Issuer Disclosures* elaborating IOSCO's vision for an International Sustainability Standards Board (ISSB) under the International Financial Reporting Standards Foundation and describing the role the ISSB could play in setting a common global baseline of sustainability-related corporate reporting standards.

The current view of the ICMA Legal & Documentation Committee and its ESG Working Group is that ESG information disclosed in periodic sustainability reports and ESG ratings does not need to be replicated in an issuer's bond prospectus unless the information is relevant to the bonds to be issued (ie it impacts the credit of the issuer or is relevant to the use of proceeds, the terms of the bond or integral to the issuer's principal activities).

Among other things, this will help to ensure that prospectuses do not become cluttered with information that is not necessary for an investment decision in the bonds; and avoid a needless increase in bond issuers' costs. It also reflects the higher liability that attaches to prospectus disclosure compared with other forms of disclosure in many jurisdictions and the cautionary note sounded by several policy makers such as IOSCO, the European Commission and the SEC in relation to the current reliability of ESG disclosures. Specifically in relation to ESG ratings, ESMA stated in the *ESMA Report on Trends, Risks and Vulnerabilities No. 2 of 2020* that "differences in the definition, scope and methodology used by ESG rating providers cause confusion among investors" and "Investment misallocation is likely to take place, either unintentionally through the composition of ESG-rating based indices, or intentionally from greenwashing and product mis-selling". The FCA's Director of Strategy highlighted in a speech in November 2020 that: (a) ESG rating providers rely on public information and so their outputs are subject to data gaps; (b) ESG rating providers have very different methodologies leading to wide variation in ESG ratings for any given company; and (c) there may be a concern if firms use ratings mechanistically without a detailed understanding of the methodologies the providers apply and careful consideration of whether they are fit for purpose. In addition, a recent FCA consultation paper discusses challenges and potential harms arising from the roles played by ESG rating providers and sets out possible policy actions in this area.

In terms of marketing materials for new bond issues, it is possible for ESG (and indeed other) information to be included in marketing materials but not in the prospectus where such information is not required under the general prospectus disclosure test in the EEA or UK Prospectus Regulation. This means that the issuer and underwriters might conclude that it is appropriate to include in marketing materials certain additional information that is not necessary for an investment decision (and so is not included in the prospectus) but provides more background, context or detail on the information contained in the prospectus. However, as is the case with any review of marketing materials against prospectus disclosure, a judgment call will need to be made in relation to the overall "consistency" of the marketing materials with the prospectus. Related to this, a key concern for market participants is the need to minimise the risk of greenwashing that could arise if the information conveyed in marketing materials is more extensive than the disclosure that is included in the prospectus and is not checked to the standard required for prospectus disclosure. In order to minimise this risk, it is considered advisable to avoid including in marketing materials considerable additional ESG-related disclosure that is not included in the prospectus because it is not necessary for an investment decision, in particular where the information is difficult to substantiate.

ICMA members will continue to discuss the issues outlined in this article and related matters against a rapidly evolving backdrop of regulatory and other ESG-related developments.

## UK FCA consultation CP21/18

On 22 June, the UK FCA launched a consultation on: (a) enhancing climate-related disclosures by standard listed companies and (b) ESG topics in capital markets.

This is an important consultation for ICMA's primary market community because it seeks views on a number of issues that could directly impact new international bond issues listed in London (or offered publicly in the UK) as well as UK market participants generally. This includes questions on (a) whether and how to implement TCFD-aligned disclosure rules for issuers of standard listed debt and debt-like securities; and (b) whether specific requirements for use-of-proceeds bond frameworks and their sustainability characteristics should be introduced to the UK prospectus regime.

ICMA's primary market community will be considering this consultation carefully in cooperation with other ICMA groups in advance of the deadline on 10 September 2021.

**Contact: Charlotte Bellamy**
**charlotte.bellamy@icmagroup.org**

## Consultation on mandatory TCFD-aligned disclosure

ICMA recently responded to the UK Government's Department for Business, Energy & Industrial Strategy (BEIS) *Consultation on Requiring Mandatory Climate-Related Financial Disclosures by Publicly Quoted Companies, Large Private Companies and Limited Liability Partnerships* (the Consultation) on behalf of the ICMA Corporate Issuer Forum (CIF).

The proposals in the Consultation build on the expectation set out in the UK Government's 2019 Green Finance Strategy, that all listed companies and large asset owners should disclose in line with the Task Force on Climate-related Financial Disclosure (TCFD) recommendations by 2022. The BEIS is looking to shore up existing disclosure channels under the UK Companies Act to include the new TCFD-aligned climate-related financial disclosures.

ICMA made the following observations in the Consultation response:

- With respect to reporting at a group level on a consolidated basis, it would be worth engaging further with large companies with global reach to determine whether any exemptions (or possibly "best efforts" qualifications) are required.
- It seems sensible to build upon the existing Companies Act disclosure and expand on it in the Strategic Report. The response further noted that incorporation by reference into a prospectus is a consequence we would seek to avoid given the forward-looking and somewhat variable nature of climate-related financial information.
- It seems appropriate and proportionate for this new disclosure requirement to align generally with the four TCFD pillars rather than the 11 detailed TCFD recommendations, which would allow for evolution of the 11 recommendations and to prevent inconsistency with the current legislative requirements in the Strategic Report.
- Those who can conduct scenario analysis should be strongly encouraged to do so, but with a view to ultimately ensuring that all companies get to a point where they must conduct scenario analysis mandatorily.

Elsewhere, the proposals in the Consultation represent no great departure from Companies Act requirements for CIF members.

**Contact: Katie Kelly**
**katie.kelly@icmagroup.org**

## ICMA primary market standard language

Updated versions of the following ICMA primary market standard language have recently been circulated to ICMA's Primary Market Documentation Group and published for ICMA members and ICMA Primary Market Handbook subscribers on the Other ICMA primary documentation webpage:

(i) ICMA language dealing with the UK FCA's restriction on the retail distribution of CoCos; and

(ii) ICMA language for new issue announcements and trading screens contained in Appendix A12a of the ICMA Primary Market Handbook (Product Governance (MiFID II) language).

In both cases, the language has been updated to cater for the end of the post-Brexit transition period. Certain other changes were made to the ICMA language dealing with the UK FCA's restriction on the retail distribution of CoCos in order to streamline it.

ICMA is very grateful to the teams at Linklaters, Allen & Overy and Clifford Chance, the ICMA Legal & Documentation Committee, and certain other law firms for their work on these updated forms of language.

ICMA is planning to update the ICMA Primary Market Handbook to include the post-Brexit materials that were circulated informally in December 2020 in due course.

**Contact: Charlotte Bellamy**
**charlotte.bellamy@icmagroup.org**

# Secondary Markets

by **Andy Hill, Elizabeth Callaghan and Irene Rey**

## CSDR mandatory buy-ins

### *Hope for the best*

On 29 June 2021, the European Commission published its keenly anticipated report to the European Parliament and the Council on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

The report provides little detail with respect to Settlement Discipline and the mandatory buy-in (MBI) regime. However, it does state that it is appropriate to consider proposing certain amendments, subject to an impact assessment, to avoid potential undesired consequences. Respondents to the December 2020 European Commission's consultation, part of its Targeted Review of CSDR, highlighted both the need to make important structural revisions to the MBI framework before attempting implementation, as well as the potential for adverse and disproportionate market impacts, particularly during times of market stress. These points were outlined in ICMA's response, which builds on years of analysis and review of the MBI regime.

While the problems with the design of the MBI framework are well documented and broadly understood, the report provides little indication of what any proposed amendments to the regime could be. Importantly, it is also not clear whether the conclusions of the report form a strong enough legal basis for ESMA to propose a delay to the existing implementation schedule. This may require concrete legislative proposals from the Commission, following the cited impact assessment, and therefore unlikely to be before late 2021, noting that MBIs are due to come into effect in early 2022.

### *Prepare for the worst*

In light of this ongoing regulatory uncertainty around CSDR MBIs, even following the Commission's report, and the relatively short time until "go live", ICMA is working with its members and other industry bodies to find a pragmatic solution to comply with the extensive contractual requirements under Article 25, across a broad range of markets and products.

Without confirmation of a delay to implementation, contractual compliance is widely anticipated to involve a two-phase approach, with a second round of industry repapering following any revisions to the Regulation as well as eventual clarification on a number of critical issues. This second contractual phase is expected to include the production of an annex to the GMRA to support compliance specific to in-scope repo transactions. With respect to cross-border bond markets, ICMA expects to update its Buy-in Rules (part of the ICMA Secondary Market Rules & Recommendations) to provide a contractual framework and market best practice in time for the 1 February 2022 "go live", before making further revisions following any changes to the Regulation.

In the meantime, ICMA will continue to discuss with relevant authorities the challenges arising from the design of the MBI framework, as well as the lack of clarification needed to facilitate successful implementation. In doing so, ICMA will continue to put forward the case for making the necessary amendments to the Regulation before attempting implementation, even if this means a further delay.

Importantly, ICMA will also continue to flag its members' concerns about the potential impacts of MBIs on European bond market pricing and liquidity, which will put European bond markets at a disadvantage to other international markets.

**Contact: Andy Hill**
**andy.hill@icmagroup.org**

## ECB corporate bond purchases

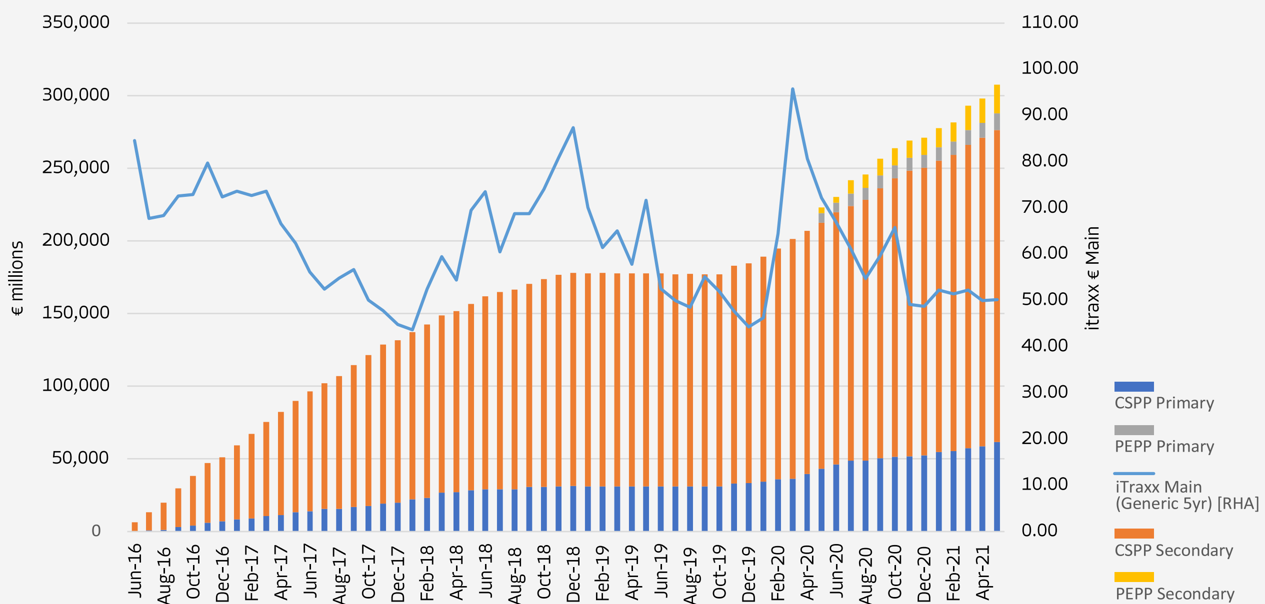
Purchases under the ECB's Corporate Sector Purchase Programme (CSPP) remained steady during April and May 2021, with €5 billion and €5.4 billion net purchases respectively (versus an average monthly rate of €5.4 billion since March 2020). This takes total net cumulative purchases under the CSPP to €276.5 billion (of which €61.7 billion, or 22%, are primary market purchases, and €214.8 billion, or 78%, are secondary). Including the €31 billion purchases of corporate bonds under

the Pandemic Emergency Purchase Programme (PEPP), of which €4 billion were made during April-May 2021, this takes the total net cumulative purchases of corporate bonds under both programmes to €307.5 billion.

Based on Bloomberg data, ICMA estimates a universe of CSPP eligible bonds at the end of May 2021 with a nominal value of €1,126 billion. This suggests that 26% of all eligible bonds are being held under the purchase programmes. Based on the 70% upper limit for purchases of individual ISINs, this implies that purchases are at 37% of capacity, leaving an estimated available pool of around €480 billion for further purchases. This further suggests that purchases in the past two months have remained level with net issuance of eligible bonds.

More updates can be found on ICMA's dedicated CSPP webpage.

**Contact: Andy Hill**
**andy.hill@icmagroup.org**




*Source: ICMA analysis using Euroclear and Bloomberg data*

## *ICMA Guide to Definitions and Best Practice for Bond Pricing Distribution*

In secondary electronic bond markets for many years, the buy side has been experiencing doubt and cynicism regarding advertised bond pricing interests originating from the sell side. In some cases, the advertised interests are misleading, although in most instances, this misrepresentation is unintentional.

Sell-side buying or selling interest advertisement is represented as "axes" in the market. The term "axe" stems from "having an axe to grind". For example, frequently heard in bond markets; "bank X is "axed" on bond Y". This is the *de facto* market practice for pre-trade bond indication of interest.

Even though axes (ie pre-trade bond pricing information) are important for traders, the way in which they are distributed is not uniform. Buy sides wanted to improve this practice in order to have less confusion and mixed messaging from sell sides.

As a result, buy sides were the primary drivers for the resulting *ICMA Guide to Definitions and Best Practice for Bond Pricing Distribution*. This guide to bond pricing distribution hopes to tackle the buy side's concerns.

The buy side may have been the primary driver for this guide, yet this ICMA Electronic Trading Council (ETC) initiative had full cross-market support, from both the buy sides and sell sides. In addition, technology providers, information bulletin boards and trading venues also supported this venture.

Meetings were very well attended. At one meeting, this ETC Sub-Group had 97 ICMA members taking part. Interestingly, the fact that we had support and sign-off from all the major trading venues and axe bulletin boards, who all have to kick-off technology change projects in order to implement this guide to best practice, reflect the importance and value of this bond pricing distribution standardisation initiative.

The process, though, was not easy. In the beginning, there was no common understanding as to pre-trade pricing terms used in bond markets. We had some good old-fashioned soul searching in discussing what terms meant, most notably around the term "two-way" axe. While it took a while, the ETC Sub-Group members all agreed with this member firm, the term "two-way" axe should be replaced. This term was subsequently replaced with "market-run". All ETC Sub-Group members agreed, when there are clear definitions, accepted consensus market practice, pre-trade pricing indications of interests are more accurate and therefore dependable.

**Contact: Elizabeth Callaghan**
**elizabeth.callaghan@icmagroup.org**

## FCA consultation on UK MiFID research and best execution

ICMA's MiFID II Working Group (MWG) and Asset Managers and Investment Council (AMIC) have responded to the FCA consultation (FCA CP 21/9) on UK MiFID research and best execution, and welcomed its proposals to review the current unbundling rules and removal of the best execution reports RTS 27 and RTS 28.

The MiFID "Quick Fix", published in the *Official Journal* on 26 February 2021, with amendments

due to apply from 28 February 2022, includes amendments to research requirements where the EU agreed to re-bundle payment for execution and research on SMEs and fixed income instruments where small and mid-cap issuers do not exceed market capitalization of €1 billion in a 36-month trailing period.

The FCA has proposed to offer an exemption from inducement rules for research on SMEs with a market capitalisation below GBP 200 million as well as full exemption for FICC research.

Given the significant operational task of implementing the MiFID II unbundling requirements, ICMA members commented that they are unlikely to dedicate additional cost and resource on re-bundling for SME research. Most asset managers have decided to absorb the cost of research on their P&L. Re-bundling would make it difficult to explain to clients why they have to pay for SME research but not for other research.

The difference between the €1 billion threshold and GBP 200 million threshold is also significant and it would be very burdensome on managers to monitor companies on the basis of two separate thresholds, as extra budget and resource would need to be allocated to meet the requirements of different regimes. The GBP 200 million threshold was also considered too low to outweigh the cost and complexity of re-bundling given that SMEs represent a small portion of asset managers' research needs. It would also be particularly burdensome to monitor companies to ensure they remain under the GBP 200 million threshold.

ICMA members further requested clarity on multi-asset portfolios as asset managers require flexibility for underlying assets, as many funds and mandates are composed of multiple asset types. It would be expensive, cumbersome, and complex for asset managers to manage fee-paying research and non fee-paying research in a portfolio (s) that encompasses both.

The proposal to exempt FICC research was strongly embraced as fixed income transactions are typically paid via the bid-ask spread to the broker instead of a commission. It was thus difficult to "unbundle" and isolate the transaction cost in the first place. ICMA remains concerned that the EU did not add the FICC exemption to its MiFID "Quick Fix". A cross-jurisdictional exemption would have been welcomed by the industry. Nonetheless, the industry is hopeful that the benefits of FICC exemption will be experienced in the UK.

ICMA members were also in favour of allowing Issuer Sponsored Research as a helpful tool for both investors and issuers. From an investor perspective, the reliability of data and information on the business model coming from sponsored research is particularly valuable, beyond the recommendation itself. It is also believed that issuer sponsored research can support and possibly enhance secondary market liquidity in SME securities markets.

In addition, ICMA welcomed the FCA's proposal to remove the obligation for investment firms, systematic internalisers (SIs) and trading venues to produce execution reports on quality, order routing and execution outcomes as prescribed under MiFIR RTS 27 and RTS 28.

Evidencing best execution is a key requirement under MiFID II/R for investment firms, SIs and trading venues. Essentially, they are required to make data available to the public, on a regular basis, at no cost, on the quality of transaction execution. While these market participants are required to produce this data publicly, at no cost, it is certainly not on a "no cost" basis as far as the production process is concerned. These reports, RTS 27 and RTS 28, are complex, burdensome (time and resource draining) and very expensive to produce.

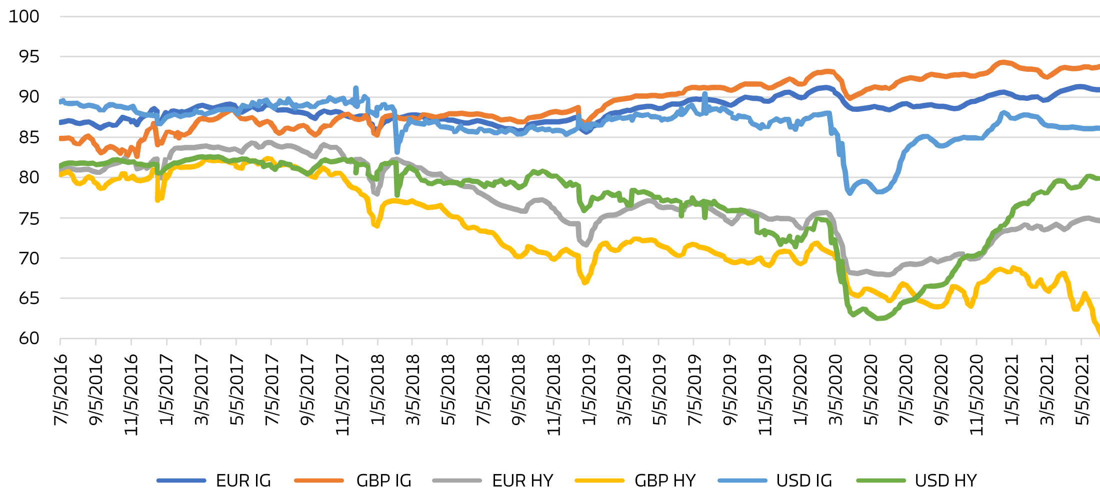
If these reports were useful, there would be a cost/benefit rational relationship for producing them. However, ICMA members found that RTS 27 and RTS 28 best execution reports are not read by investors, buy-side investment firms receive all the relevant information via other means (eg via brokerage meetings). Moreover, buy-side and sell-side ICMA member firms conveyed that they already had in place robust best execution policies, which are communicated to clients. As a result, MiFIR RTS 27 and RTS 28 obligations have not had any material impact on ICMA MWG members. In fact, they pointed out that the only interest in these reports is from competitors and journalists – not from relevant clients, for whom the reports are intended.

For more information, please see ICMA's response to the FCA consultation paper on research and best execution.

**Contacts: Elizabeth Callaghan and Irene Rey**
**elizabeth.callaghan@icmagroup.org**
**irene.rey@icmagroup.org**

## Corporate Bond Market Liquidity Indicators™

Tracker indicates continued improvements in credit market liquidity following in COVID-19 crisis




*Source: ICE Data Services*

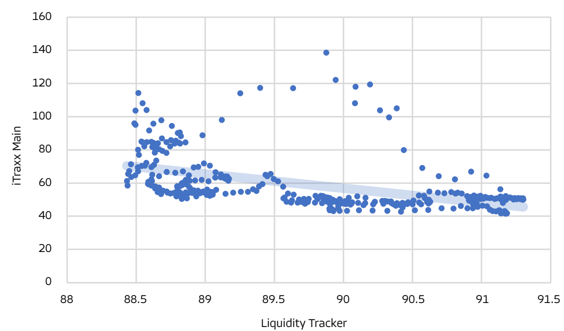
## *Commentary*

The Tracker shows a continued steady improvement in liquidity conditions from the middle of 2020 for most credit markets. In most cases, the liquidity index scores are back to or above levels last seen in 2018, with the notable exception of the High Yield sterling market that has been in serial decline for the best part of four years.

Much of these improved market conditions can perhaps be attributed to ongoing central bank corporate bond purchases, which has not only driven credit spreads close to pre-pandemic levels, but has markedly reduced spread volatility. This can be seen in this scatter chart that plots the ICE Tracker for EUR investment grade credit versus the iTraxx Main index, and where a strong positive correlation can be observed during periods of relative market calm.

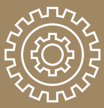
More secondary bond market data and analysis can be found on ICMA's secondary market data webpage.

**Liquidity Tracker (EUR IG) vs iTraxx Main (EUR)**




*Source: ICMA analysis using ICE Data Services and Bloomberg/Markit data*

ICE Liquidity Indicators™ are designed to reflect average liquidity across global markets. The ICE Liquidity Indicators™ are bounded from 0 to 100, with 0 reflecting a weighted-average liquidity cost estimate of 10% and 100 reflecting a liquidity cost estimate of 0%. The ICE Liquidity Indicators™ are directly relatable to each other, and therefore, the higher the level of the ICE Liquidity Tracker the higher the projected liquidity of that portfolio of securities at that point in time, as compared with a lower level. Statistical methods are employed to measure liquidity dynamics at the security level (including estimating projected trade volume capacity, projected volatility, projected time to liquidate and projected liquidation costs) which are then aggregated at the portfolio level to form the ICE Liquidity Indicators™ by asset class and sector. ICE Data Services incorporates a combination of publicly available data sets from trade repositories as well as proprietary and non-public sources of market colour and transactional data across global markets, along with evaluated pricing information and reference data to support statistical calibrations.





# Repo and Collateral Markets

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

## SFTR implementation

While SFTR reporting has been fully live since January 2021, ICMA's work with members to improve data quality and address outstanding reporting issues continues. The ERCC's SFTR Task Force is working through a long list of reporting issues which has been put together based on member feedback and which is shared regularly with ESMA and the FCA. In addition, the detailed *ICMA Recommendations for Reporting under SFTR* continue to evolve, reflecting discussions within the Task Force but also incorporating new regulatory guidance published by authorities. As trade repository rejections remain low, the focus of the industry work is shifting increasingly to reconciliation challenges and systematic matching breaks. In addition to the regular Task Force meetings, on 30 June ICMA hosted a workshop to run through the most common matching issues and to discuss the scope for further best practice.

### *Ongoing review of ESMA guidance*

ESMA is currently reviewing a number of important documents which form part of the SFTR Level 3 guidance, including the SFTR validation rules and the related XML reporting schemas. The review is expected to address a number of pending issues within those documents that are still causing reporting issues. The updated documents are expected to be published in July, and the new rules are due to go live in December or January 2022 following testing with reporting firms and service providers, although the proposed timeline is considered to be challenging. In parallel, ESMA has already submitted proposed changes to the ISO 20022 XML schemas which are currently being reviewed by the relevant ISO SFTR Evaluation Team.

ESMA also continues to expand the SFTR Q&As. Since the previous edition of the Quarterly Report, three further questions have been added to the document which now covers 10 topics in total. ICMA is following the process closely and continues to reflect any new guidance in its detailed best practices.

### *Other ESMA publications*

On 15 April, ESMA published its first report on data quality under EMIR and SFTR reporting. The report assesses progress made to date in relation to the quality of the data reported under both regimes and highlights areas for improvement, although it only includes limited details on SFTR given the relatively recent reporting start. Going forward this will be an annual review.

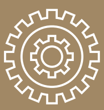
On 25 May, ESMA published the *Final Report on Guidelines on the Calculation of Positions in SFTs by Trade Repositories (TRs)*. The purpose of the Guidelines is to ensure a uniform methodology under EMIR and SFTR as well as to maintain consistency of position calculations across TRs. This follows an ESMA consultation on the draft Guidelines which ICMA responded to in September last year. The guidelines will apply from 31 January 2022.

On 28 May, ESMA launched a consultation on proposed amendments to its Guidelines on data transfer between trade repositories under EMIR, as well as on a set of new Guidelines regarding data transfer between TRs under SFTR. The consultation closes on 27 August 2021 and the related final report will be published by Q1 2022.

### *UK version of the SFTR Article 15 information statement*

On 17 May, AFME, FIA, ICMA, ISDA and ISLA jointly published a statement to help market participants comply with requirements under Article 15 of the UK SFTR. The information statement informs users of the general risks and consequences that may be involved in consenting to a right of use of collateral provided under a security collateral arrangement or of concluding a title transfer collateral arrangement (for example, the GMRA).

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





## ERCC Operations: settlement efficiency

The ERCC's focused work to help the industry improve settlement efficiency in Europe continues. In March, the ERCC Committee endorsed a list of high-level principles which aim to encourage a broader use of tools that are already available to market participants to prevent and mitigate the impact of fails, including the automatic shaping of settlement instructions, automatic partial settlement, as well as the use of auto-borrowing services offered by (I)CSDs and custodians. The ERCC is holding targeted workshops to focus on each of these topics in turn. A first workshop was held on 25 May and focused on partial settlement and auto-partialling. A second workshop focused on shaping and was held on 2 July and a third meeting later in the summer will cover auto-borrowing. In support of this work, the ERCC launched an online survey on the use of the various settlement efficiency tools by market participants which remains open for member feedback. The ERCC is keen to ensure broad cross-industry collaboration on this important topic and is therefore coordinating closely with other industry associations and the ECB, contributing actively to a related *ad hoc* working group on settlement efficiency set up under the umbrella of the ECB's AMI-SeCo and the CSD Steering Group (CSG).

**Contact: Alexander Westphal**
**alexander.westphal@icmagroup.org**

## Other repo and collateral market developments

### *Updated UK Money Markets Code*

On 21 April, the Bank of England published its updated UK Money Markets Code. Alongside the updated Code, the Bank of England has also published new FAQs. The notable changes in the revised Code are in five key areas: diversity and inclusion, working from home, Environmental, Social and Governance (ESG) criteria, electronic trading and trade settlement discipline. The updated Code incorporates some of the feedback previously submitted by the ERCC and will be further reviewed in the next meeting of the ERCC Best Practice Working Group.

### *ECB Euro Money Market Study*

On 29 April, the ECB published the 2020 Euro Money Market Study, a comprehensive analysis of the functioning of the five segments of the euro money markets, including repo and reverse repo, but also unsecured transactions, FX and OIS swaps, as well as the issuance of short-term securities (STS). The study describes developments in these segments between January 2019 and December 2020 relying predominantly on data collected through the Eurosystem's Money Market Statistical Reporting (MMSR).

**Contact: Alexander Westphal**
**alexander.westphal@icmagroup.org**

## Legal updates

### *GMRA legal opinions*

ICMA obtains and annually updates legal opinions on the GMRA in over 65 jurisdictions worldwide. On 15 April 2021, ICMA published updates to legal opinions in 60 jurisdictions. The 2021 GMRA opinion updates cover both the enforceability of the netting provisions of the GMRA, as well as the validity of the GMRA as a whole (subject to certain limitations). Furthermore, the 2021 GMRA opinion updates address the issue of recharacterisation risk (in respect of both the transfer of securities and the transfer of margin). While all 2021 GMRA opinion updates cover, as a minimum, companies, banks and securities dealers, most opinions now additionally cover insurance companies, hedge funds and mutual funds as parties to the GMRA. Where relevant, each opinion also covers the central or national bank of the relevant jurisdiction as a party to the GMRA. The ICMA GMRA legal opinions are available to ICMA members on the ICMA website.

### *Review of the EU Financial Collateral Directive*

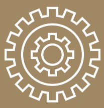
On 7 May 2021, ICMA submitted a letter to the European Commission to express support for ISLA's response to the targeted consultation on the review of the EU Financial Collateral Directive (FCD). In February the Commission launched two consultations for review of the FCD as well as the EU Settlement Finality Directive (SFD).

**Contacts: Lisa Cleary and Alexander Westphal**
**lisa.cleary@icmagroup.org**
**alexander.westphal@icmagroup.org**

## S Repo and sustainability

On 22 April 2021, the ICMA ERCC published a consultation paper on the role of repo in green and sustainable finance, exploring the sustainability aspects of repo and collateral as well as assessing the existing opportunities and potential risks in this area. The market consultation closed on 4 June and 20 responses were received in total, many of which were very detailed and helpful. ICMA has reviewed the responses and aims to produce a summary report which will also set out some proposed next steps for the ERCC on this important topic. The consultation feedback was presented and discussed at the ERCC Committee meeting on 29 June.

**Contact: Zhan Chen**
**zhan.chen@icmagroup.org**



## ERCC events and education

After a break in 2020, this year the ERCC will again hold its annual Professional Repo and Collateral Management Workshop, the repo industry's principal educational forum, designed for new repo market practitioners and other participants who are seeking a thorough understanding of the repo market and the latest related developments. The virtual course will be held over four half-day sessions on 27, 28 September and 4, 5 October and will be supported by Euroclear.

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

The ERCC's next General Meeting will be held virtually on 13 October, supported by Pirum. Further details will be announced in due course.

## *New repo explainer*

We have put together a short animated clip to illustrate how the repo product works and the role it plays in global financial markets. It is designed to help a wider audience understand more about repo and its importance to the financial system. Please feel free to share this animation with your contacts.

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

# Sustainable Finance

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

## Summary

We focus in this update on the 2021 edition of the Green and Social Bond Principles published on 10 June, as well as on the parallel publication of other important documents representing further voluntary guidance for the sustainable bond market. We also report on the continuing progress and diversification of issuance in the international sustainable bond market. Finally, we cover notable regulatory developments and related initiatives.


## S 2021 update of the Green and Social Bond Principles

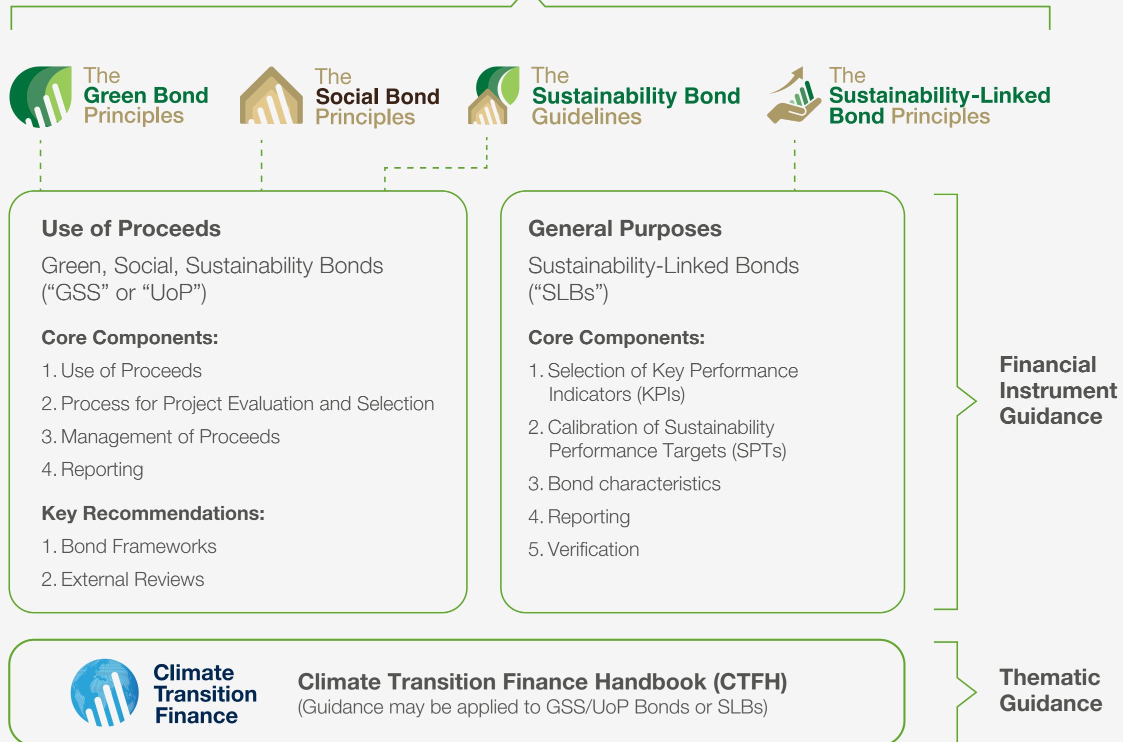
The 6th version of the Green Bond Principles (GBP) was published at the AGM of the Principles on 10 June 2021. This is the first update to the GBP since 2018. Over the last three years, this crucial document, translated into 24 languages, has been at the centre of developments in the market as it has gone mainstream. With this 2021 edition, the GBP integrate best practices that are already recognised by a majority of issuers in the market while also preparing for current and future regulatory developments especially in the EU, but also in Asia. The 2021 editions of the Social Bond Principles and Sustainability Bond Guidelines have been similarly revised.

Alongside the established four core components of the GBP which remain unchanged in substance, the 2021 version now identifies key recommendations regarding (i) Bond Frameworks where issuers should explain the alignment of their Green Bond or Green Bond programme with the four core components of the GBP and (ii) External Reviews, both pre-issuance to assess the alignment of their Green Bond or Green Bond programme and/or Framework with the four core components of the GBP, and post-issuance to verify the internal tracking and the allocation of funds from the Green Bond proceeds to eligible green projects.

The GBP 2021 ask for heightened transparency from issuers on organisation level sustainability strategies and commitments reflecting increasing investor and stakeholder expectations. It is indeed a growing trend for investors to focus not only on use of proceeds of Green Bonds but also on the issuer's overarching commitment to sustainability and climate transition.

With an eye to developments in the regulatory space, the GBP 2021 also encourage the voluntary disclosure of information on alignment with market and official taxonomies. In the same vein, they provide guidance though recommendations on issuer processes to identify mitigants to perceived or known material risks of negative social and/or environmental impacts as a form of due diligence for "do no significant harm".

The GBP 2021 contain additional clarifications and updates relating to recommended market practice and include important references to complementary guidance from the Principles through the *Climate Transition Finance Handbook*, the *Harmonised Framework for Impact Reporting* and the *Guidelines for External Reviews*. This illustrates the relevance and recognition of these documents and the importance of the overall "ecosystem" of interconnected guidance that is now available. The GBP 2021 also feature in an annex an infographic (see below) that summarises both the product guidance available for sustainable bonds (both use-of-proceeds and sustainability-linked) and the thematic guidance in the *Climate Transition Finance Handbook*.




The Principles have in parallel released a number of other important publications:

- *Illustrative Examples for the Selection of Key Performance Indicators (KPIs) for Sustainability-Linked Bond Issuers, Underwriters and Investors.*
- A *Pre-issuance Checklist for Social Bonds/Social Bond Programmes* that aims to give guidance on the steps for establishing a Social Bond Framework as recommended by the 2021 edition of the Social Bond Principles.
- The *Guidelines for Impact Reporting Database Providers* that aim to increase transparency and promote best practice, accompanied by a mapping of database providers that inform market participants on the range of services offered as well as the context and content of the service provided.
- *Suggested Impact Reporting Metrics for Circular Economy and/or Eco-Efficient Projects* that complete the range of metrics on GBP categories that are regrouped in the *Harmonised Framework for Impact Reporting.*

## The 2021 AGM and Conference of the Principles

The 2021 Conference of the Principles, sponsored by Nasdaq, was held virtually on 10 June after more than 1,700 registrations. Key announcements were made during the meetings concerning the 2021 deliverables and initiatives of the Principles.

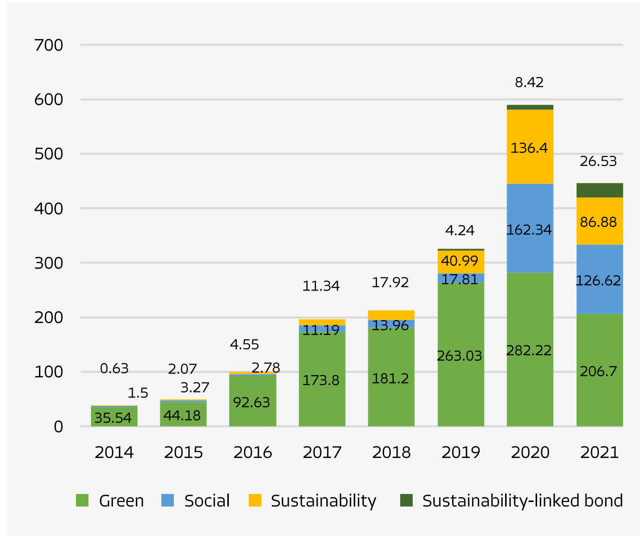
The results of the 2021 Executive Committee election were announced during the AGM of the Principles that preceded the public Conference with several organisations seeing their mandates renewed and two new organisations joining. These are Fannie Mae as an issuer and Nordea as an underwriter.

The Conference featured senior speakers representing the Executive Committee who shared their views on update of the Principles and the interplay with other guidance as well as on best practice in a global sustainable bond market. The event was opened by Bjørn Sibbern, President, European Market Services at Nasdaq that kindly sponsored the Conference.

The video recording of the public Conference is available online.

## S Sustainable bond market in 2021

The sustainable bond issuance volume reached a cumulative total of USD 446 billion in 2021 (as of 24 June 2021) representing already 75% of total 2020 issuance.




*Source: ICMA based on Environmental Finance Database (in USD billion) – as of 24 June 2021*

Recent remarkable transactions on the green bond front included TenneT's EUR 1.8 billion triple tranche bond (EUR 650 million 6.5-year; EUR 500 million 10-year; and EUR 650 million 20-year) focused on renewable energy as well as the first international bond from a Turkish corporate, Arçelik, of EUR 350 million 5-year and the inaugural issuance of EUR 1.25 billion 7-year from BpiFrance; all taking place in May 2021. Also, Westpac issued a EUR 1 billion 10-year green Tier 2 bond, while KfW issued a EUR 4 billion 8-year green bond in April 2021 with the use-of-proceeds dedicated to renewable energy and energy efficiency.

The expansion of the social bond market continues, especially with the European Commission having issued a total of nearly EUR 89 billion for its SURE programme since October last year. The segment currently stands at USD 126 billion as of 24 June 2021. In the sustainability bond market segment, Wells Fargo (USD 1 billion 4-year) and Amazon (USD 1 billion 2-year) issued their inaugural use-of-proceeds bonds in May 2021. The IBRD also issued a USD 8 billion sustainable development bond in two tranches (USD 3 billion 2-year and USD 5 billion 7-year) while United Overseas Bank from Singapore issued its inaugural sustainability bond of USD 1.5 billion in two tranches including a Tier-2 one.

The Sustainability-Linked Bond (SLB) market continues to grow with market issuance reaching USD 26.5 billion to date in 2021 and already representing a threefold increase over total issuance in 2020. In June 2021, Enel issued EUR 3.25 billion with the bond characteristics linked to its tightened Scope 1 CO2 emission targets. We also note that issuer types and geographies are diversifying. In April 2021, two financial institutions, Berlin Hyp (EUR 500 million 10-year) and China Construction Bank (USD 1.15 billion 3 and 5-year) entered the market for the first time with SPTs respectively linked to the reduction of carbon intensity reduction of their commercial real estate loan portfolio and to the increase of the proportion of their green loan portfolio, respectively. In June 2021, Telus, a telecommunication company, became the first issuer from Canada with an SLB of CAD 750 million 10-year where it committed to reduce its Scope 1 and 2 GHG emissions by 46% by 2030 (versus the 2019 baseline).

## S Notable regulatory developments and related initiatives

### *European Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD)*

On 21 April 2021, the European Commission (EC) adopted an ambitious and comprehensive package of measures to help improve the flow of money towards sustainable activities across the European Union (EU). Part of this was a proposal for a Corporate Sustainability Reporting Directive (CSRD) which revises the Non-Financial Reporting Directive (NFRD) and aims to address perceived shortcomings identified through a public consultation in 2020. Additionally, CSRD would also amend provisions from the Accounting Directive, the Transparency Directive, the Audit Directive and the Audit Regulation.

Concretely, CSRD expands the scope of NFRD to all listed companies, including SMEs; introduces mandatory EU sustainability reporting standards for environmental, social and governance aspects to be further worked out by the European Financial Reporting Advisory Group (EFRAG); requires reporting to be made in the management report and data to be provided in a digital, machine readable format; and requires all companies within the scope to seek limited assurance by a statutory auditor for reported sustainability information, while including an option to move towards a reasonable assurance requirement at a later stage.

CSRD will also help connect the dots with other EU Regulations such as the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy Regulation and the Low-Carbon Benchmark Regulation, all of which can only fully meet their disclosure objectives if relevant non-financial information is available from investee companies.

Finally, the proposed CSRD also further clarifies the obligation to report according to the double materiality perspective: ie companies should report (i) information necessary to understand how sustainability matters affect them, as well as (ii) information necessary to understand the impact they have on people and the environment

## *International reporting initiatives*

Beyond the EU's proposed CSRD, efforts towards global reporting standards have also started. In September 2020 the IFRS Foundation had published a *Consultation Paper on Sustainability Reporting* which proposed that the Foundation establish a "new Sustainability Standards Board (SSB) under the governance structure of the IFRS Foundation to develop global sustainability standards". In April 2021, the Trustees published two documents in relation to their project on sustainability reporting. The first, a Feedback Statement, summarises the significant matters raised by respondents to the *Consultation Paper on Sustainability Reporting*. The second is an Exposure Draft that outlines proposed targeted amendments to the IFRS Foundation *Constitution* to accommodate an International Sustainability Standards Board (ISSB) to set IFRS sustainability standards. The proposed amendments are exposed for comment until 29 July 2021.

The International Organization of Securities Commissions (IOSCO) on 28 June 2021 published a report on issuers' sustainability-related disclosures reiterating the urgent need to improve the consistency, comparability and reliability of sustainability reporting for investors.

The UK Government announced in a roadmap published in November last year its intention to make disclosures recommended by the Taskforce on Climate-related Financial Disclosures (TCFD) mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. Relatedly, the Financial Conduct Authority (FCA) has just opened two consultations in which it is proposing to introduce climate-related disclosure requirements aligned with the TCFD's recommendations for asset managers, life insurers, and FCA-regulated pension providers and proposing to extend the application of its TCFD-aligned Listing Rule for premium-listed commercial companies to issuers of standard listed equity shares, as well as consult on other ESG-related matters in capital markets.

## *ICMA advising Chinese regulators on sustainable finance beyond green bonds*

Advised by ICMA, China's NAFMII published its Q&A on Sustainability-Linked Bonds on 28 April. It is explicitly stated that it is based on ICMA's SLBP and SLB issuances are encouraged to comply with both the SLBP and the Q&A. The explicit inclusion of this wording, which promotes consistency, will help international investors to understand SLBs in China. The Q&A is consistent with the SLBP and provides guidance for issuers in China's interbank bond market, with some additional features incorporated for local context. A few Chinese SLBs have been successfully priced already with more expected.

ICMA is also advising NAFMII on its draft rules on social and sustainability bonds, which will be released in the next few weeks, as well as advising PBOC's Green Bond Standard Committee on its on its efforts to make different onshore green bond standards consistent with international standards (ie GBP). It is also noteworthy that the *Green Bond Endorsed Project Catalogue (2021)* was released earlier this year, which removed the "clean" use of fossil fuel and was welcomed by the international community.

## *Response to the US Securities Exchange Commission's Climate Change Disclosures*

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

## *Sustainable Finance engagements*

On 26 May, Simone Utermarck, Director, Sustainable Finance, ICMA was invited by the ECON and ENVI Committees to a public hearing on Sustainable Finance at the European Parliament. Among others, she confirmed ICMA's support for the Technical Expert Group's (TEG) recommendation for a voluntary EU Green Bond Standard that will work alongside market standards and contribute to further scaling up green finance and emphasized that further reflection is needed on how to promote the usability of the EU Taxonomy by all sectors, including those in transition.

ICMA is pleased to have been invited to participate in the UK Government's Stakeholder Discussion Forum on its plans for issuance of green gilts and a retail green savings product. On 30 June 2021, HM Treasury and the DMO published the UK Government Green Financing Framework which is aligned to the 2021 version of the Green Bond Principles (GBP).

## New ICMA publication: *Overview and Recommendations for Sustainable Finance Taxonomies*

On 18 May 2021, ICMA published a paper on *Overview and Recommendations for Sustainable Finance Taxonomies* (co-drafted by Nicholas Pfaff, Ozgur Altun and Yanqing Jia). There have been numerous market and official sector initiatives to develop "taxonomies" (ie classification systems) in an effort to provide clear guidance on which activities, assets and/or projects qualify for sustainable finance, and more widely in some cases as sustainable for regulatory or prudential purposes. Progress on the development of the EU Taxonomy in particular has accelerated the discussion about taxonomies all over the world.

ICMA's publication compares the main features and methodologies of official taxonomies from the EU, China and other national authorities as well as influential market-based systems including the Green Bond Principles' project categories. For future developments relating to both market and official sector initiatives in this area, it also recommends that taxonomies should be:

1. Targeted in their purpose and objectives.
2. Additional in relation to existing international frameworks.
3. Usable by the market for all intended purposes.
4. Open and compatible with complementary approaches and initiatives.
5. Transition-enabled incorporating trajectories and pathways.

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

# Asset Management

by **Arthur Carabia and Irene Rey**

## SRI investing: sustained regulatory momentum

The EU is continuing to roll out its sustainable finance action plan and published a new package of measures on 21 April 2021. Some of these measures are once again particularly important for asset owners and asset managers and therefore ICMA's Asset Management and Investors Council (AMIC). They will affect, among others, risk management and financial advice functions and may have implications for products underlying investments.

The obligation to consider a client's sustainability preferences when a financial adviser assesses a client's suitability for an investment is probably the most important provision introduced in this package. In order to avoid mis-selling or misrepresentations, investment advisers should first assess the investor's investment objectives, time horizon and individual circumstances, before asking for the client's potential sustainability preferences.

Financial instruments will need to have specific features to be able to meet the client's potential sustainability preferences. They will need either to have a minimum proportion of investments in sustainable investments as defined under the EU Taxonomy or SFDR or consider principal adverse impacts on sustainability factors as defined under SFDR on a quantitative or a qualitative basis (ie list of ESG KPIs). The proportion of investments in sustainable investments or the consideration given to adverse impacts will need to be determined by the client and the products identified accordingly.

These new measures present several challenges. Asset managers will have to guide clients through the different product types and new concepts introduced by these new rules and achieving this in clear, concise and simple terms may prove to be difficult (eg distinction between the sustainable investments under SFDR and the Taxonomy, explaining the "do no significant harm" feature). There might be a discrepancy between the minimum level of sustainable investments required and the level that can be achieved by certain products (eg owing to the diversification pocket, lack of sustainable investment opportunities, lack of legal certainty around the implementation of certain concepts and reversibility of sustainable investments). Another difficulty will be to understand what the consideration of principal adverse impact actually means and if some strategies or types of products can or cannot qualify (eg exclusion only product, engagement strategy).

Some national regulators have or are considering to set local expectations for ESG/sustainable products either in the context of the SFDR or MiFID implementation. In France, for example, the AMF "anticipates" (but does not require) that sustainable products, as defined under Article 9 of SFDR, should have measurable targets as defined under its position in 2020-03 (minimum 20% reduction of the investment universe; average rating of the product must be higher than the average of the investment universe after reduction; non-financial coverage must be greater than 90%). There are reports that Germany is consulting on the possibility to require funds labelled as or marketed as a sustainable investment fund must be at least 90% invested in "sustainable assets".

These diverging approaches are a great source of concern for asset managers as they could fragment the European market for funds and undermine the purpose of SFDR and the sustainable finance action plan of the EU. AMIC, which is developing an implementation guide for SFDR, will continue to monitor these developments and, when it can, will urge the EU and local regulators to opt for a coordinated approach.

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

## S ESG transparency: focus on issuers and ABS

After focusing mainly on the buy side, the EU is now turning to issuers to enhance its transparency requirements on sustainability with CSRD. This is welcome and much needed as growing demands from asset owners and greater regulatory scrutiny are driving the investment industry.

Clients require information not only on portfolio ESG performance, but are also asking for transparency on underlying assets, and if appropriate, stewardship. This extends across traditional and alternative investments.

While many jurisdictions have announced mandatory corporate disclosure on climate-related factors (eg Task Force on Climate-related Financial Disclosures (TCFD) reporting in the UK, Taxonomy reporting and upcoming NFRD review in the EU), AMIC anticipates that these improvements will enhance ESG transparency unequally across asset classes.

The Asset-Backed Securities (ABS) investment universe (which includes mortgage-backed securities, commercial-backed securities, auto loan securitisation, collateralised loan obligations, whole business securitisation), often suffers from a paucity of relevant and standardised ESG information and may not fully benefit from these regulatory developments. This may impact investors' ability to align with emerging rules (notably SFDR in the EU) and capitalise on sustainability objectives in post-COVID-19 recovery plans.

For that reason, ICMA's AMIC set up an *ad hoc* working group to discuss ESG transparency of Asset-Backed Securities. As a first step the working group (composed of buy-side firms) issued a statement laying down current challenges for this specific asset class and the buy side. A subsequent discussion paper was issued on 17 May focusing on ESG KPIs for auto-loans/leases ABS.

## Summary table: recommended ESG KPIs for auto-loans/leases ABS

| Environment | Social | Governance |
|---|---|---|
| **Average Co2 emissions of vehicles**<br><br>**Average well-to-wheel CO2 emissions of vehicles**<br><br>**% petrol, diesel, hybrid, fuel cell, other zero-emission and electric**<br><br>**Taxonomy alignment of vehicle/loan**<br><br>% Recyclability of vehicles or batteries if EV | Average safety score of vehicles | No transaction specific Governance KPIs were identified for auto-loans/leases ABS.<br><br>But originators should at least report against the governance KPIs identified under the SFDR (until NFRD is reviewed):<br><br>• Compliance and process to control compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises<br><br>• Unadjusted gender pay gap<br><br>• Board gender diversity<br><br>Transactions originated & serviced by unlisted originator-servicers should also populate relevant parts of AFME Securitisation ESG Due Diligence Questionnaire. |

*Note: KPIs highlighted in "bold" should be considered as necessary/mandatory. Other KPIs are desired/optional.*

The workstreams coincide with the adoption of a mandate given to the ESAs to develop ESG indicators for the entire securitised markets by 10 July 2021. Key performance indicators (KPIs) are not a silver bullet but they are essential. They can provide standardised raw information for further analysis by asset managers (ie collection of qualitative information and due diligence) to improve comparability of companies' or originators' performance. Adopting KPIs for each sub-asset class can also facilitate the reporting process and transparency on material sustainability issues to underlying investors.

The next steps are to identify key performance indicators for two other sub-asset classes (RMBS and CLOs). The working group will engage with other market participants and regulators to promote the usage of identified KPIs.

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

## Lessons from COVID-19 from an investment fund perspective

Following our response to the IOSCO bond ETF survey summarised in the previous Quarterly Report, AMIC continued this quarter to engage with European and international bodies on the lessons from the COVID-19 market turmoil in March/April 2020.

### *Fund liquidity management by open-ended funds*

AMIC issued with EFAMA a joint response to the IOSCO consultation on fund liquidity management by open-ended funds.

The response highlights how industry practices and existing regulatory provisions in Europe are well aligned with the Liquidity Risk Management (LRM) recommendations issued by IOSCO in 2018.

AMIC and EFAMA also acknowledge the positive impact of the LRM recommendations, as they have incentivised national supervisors to encourage and facilitate the use of LMTs, which are now available in most European jurisdictions and in all main fund domicile centres, covering almost all assets under management managed by UCITS and AIFs.

The response notes that, in the context of the COVID-19 market downturn in March/April 2020, liquidity risk was well managed by investment funds domiciled in Europe and refer to an ESMA report which concluded that (i) out of the 174 AIFs studied, none used substantial leverage nor had to suspend redemption and (ii) out of the 459 UCITS funds studied, only 6 UCITS funds suspended temporarily (up to 13 days).

This shows that fund liquidity risk management is overall sound in European funds and that existing EU rules – including those implementing IOSCO LRM – are sufficient. However, AMIC and EFAMA reiterate the need to facilitate the access to information related to shares/units held by the different categories of underlying investors to better appraise liability risks.

## Availability of LMTs in top domiciles for UCITS and AIFs in 2020

| Country | % of net assets | Redemption fees | Swing pricing | Anti-dilution levy | Redemption in kind | Gate | Suspension | Side pockets |
|---|---|---|---|---|---|---|---|---|
| Luxembourg | 26,6% | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | * |
| Ireland | 17,6% | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | * |
| Germany | 13,3% | ✓ | ✓ | | ✓ | ✓ | ✓ | |
| France ** | 11,2% | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| UK | 9,6% | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | * |
| Netherlands | 5,3% | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Switzerland *** | 4,2% | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Sweden | 2,7% | ✓ | * | ✓ | * | * | ✓ | * |
| Italy | 1,6% | Only as alternative to entry fees | | Only for relevant redemptions | | Professional open-ended AIF | ✓ | Professional open-ended AIF |
| Spain | 1,1% | ✓ | ✓ | ✓ | ✓ | * | ✓ | ✓ |
| Belgium | 1,1% | ✓ | ✓ | ✓ | * | ✓ | ✓ | * |
| Denmark | 1,1% | ✓ | | | ✓ | | ✓ | |
| **Availability of LMTs according total % of net assets** | **95,6%** | **95,6%** | **90%** | **80%** | **90%** | **89%** | **95,6%** | **64% for AIFs** |

*Sources:* EFAMA, ESMA * Only for AIFs ** There are certain specificities depending on the type of AIFs
*** Funds domiciled in Switzerland that fulfil the UCITS criteria are classified as UCITS

## *ESMA consultation on MMF review*

AMIC also responded to the ESMA consultation on potential reforms of the EU Money Market Funds Regulation (MMFR) in light of the March 2020 crisis.

The response explains that MMFs managed to fulfil their role and were a source of liquidity (none had to suspend or activate gates) in the middle of an exogenous crisis, which put tremendous pressure on short-term liquidity and cash management of corporates, which are both issuers of money market instruments and investors in MMIs and MMFs. This demonstrates that the MMFR and risk management by MMF managers are fit for purpose.

In the absence of MMFs, or if MMFs had been unable to fulfil their obligations to their investors, redemption pressures would have been concentrated on other products/institutions like banks, which could be problematic from a financial stability perspective.

Overall, we believe that tightening of the current MMF rules as envisaged under the consultation would have had no significant effect during the very short period where markets were illiquid. Requiring additional liquidity buffers or a Liquidity Exchange Facility would compromise the viability of MMFs. MMF managers had to sell CPs and CDs to maintain their liquidity buffers, meaning that higher thresholds could have meant more selling pressure on these markets.

Using the current buffers in a contra-cyclical manner in periods of stress is worth exploring but we do not think that this should be prescribed by the Regulation but decided on an exceptional and *ad hoc* basis by financial supervisors. We would also welcome the decoupling of regulatory thresholds from suspensions/gates/fees, which could indeed attenuate the first mover advantage. Supervisors could clarify that there is an obligation to consider relevant LMTs but not necessarily to deploy them when liquidity thresholds are breached. This can be achieved by ESMA or NCAs via guidelines and does not necessarily require modifying the Level 1 text, in our opinion.

AMIC believes the focus should be on measures to enhance the functioning and resilience of underlying markets (such as CP and CD markets), rather than an overhaul of the regulatory framework governing MMFs (which can be finetuned via supervisors' guidance).

The fact that liquidity could disappear from CP markets was overall well anticipated and managed by MMFs which structurally hold high balances of liquidity and typically meet redemptions from those buffers rather than having to sell assets. Nevertheless, AMIC members see this as a key issue to be addressed post-crisis. Policy makers should consider whether prudential rules across the board may have had a procyclical effect and in particular if (i) Basel III rules hindered the balance sheet capacity of market makers which was particularly detrimental to the CP and repo markets (intermediated by nature) and (ii) margin rules could be improved to alleviate selling pressure on MMFs in times of stress (eg MMF unit made eligible as collateral).

Beyond prudential rules, enhancing the resilience of CP markets could also be achieved by improving the structure of the European CP markets. CP markets in Europe are still fragmented into sub-national markets. Improving transparency would be a helpful start (price, investors base) while creating a truly pan-European market could be the ultimate goal. (See the feature article in this Quarterly Report on the European commercial paper market: a new ICMA white paper.)

AMIC will also monitor developments at international level. On 30 June, the FSB issued a consultation paper to enhance MMFs resilience and is hosting an event on 12 July 2021 to present its policy proposals.

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

## The digitisation of the asset management industry

On 16 June 2021, AMIC hosted an event on *The Impact of Digitisation on the Asset Management Industry*, which was joined by the European Commission, the OECD and a number of buy-side experts, to discuss on particular the benefits of tokenisation and the use of artificial intelligence. The article below draws upon some of the key points made when discussing the use cases, opportunities and regulatory environment of these areas.

### *Tokenisation: opening up alternative assets to investors*

Tokenisation is perceived by some investors as the next major innovation in financial markets (after the creation of derivatives in 1990s and ETFs in the 2000s). It is the process of converting rights to an asset into a digital token on a blockchain; it combines the smart contract and the investment instrument into one instrument. Tokenisation could allow, among others, to fractionalise assets, facilitate trading and increase transparency and liquidity.

Any financial instruments could benefit from it, but the best investment case seems to be the less liquid securities such as alternative assets (eg real estate, infrastructure, private equity/debt), which are costly to trade and have a large level of intermediation and the least transparency in terms of information. According to the International Institute for Sustainable Development, the benefit of the blockchain on overall fees associated with infrastructure investment should be below 5% as the sector matures, versus 15% to 22% today without blockchain.

Asset managers are also considering how they could reap the benefit of tokenisation for the distribution of shares of investment funds, which could allow them to move to a more cost effective "direct to consumer" model.

Tokenisation could also help policy makers to meet their objectives: it could boost the development of capital markets in Europe, contribute to financial inclusion by facilitating the access to alternative asset classes by retail investors, protect investors with cheaper access to diversification, and channel investment in real assets which may contribute to the sustainable finance objectives of the EU.

The success of tokenisation will require the involvement of issuers, platforms, underwriters, broker-dealers, and custodians as the blockchain value lies in the strength of the network – the more participants that join, the stronger this ecosystem becomes. Interoperability between blockchains will therefore be critical to ensure the success of tokenisation. In the cryptoassets space, we are already witnessing bridges being built from one blockchain to another, which is encouraging. At the moment, two thirds of Decentralised Finance (DeFi) projects are built on Ethereum given this blockchain's smart contract functionality. The tokenisation of "off chain assets" such as alternative asset classes will require to build a bridge with *fiat* currencies for post-trade settlements and, in order to allow a T+0 settlement, the use of CBDCs or other stablecoins may be essential. Finally, regulators will need to offer legal clarity to market participants and a consistent global regulatory approach to facilitate interoperability.

## *The use of Artificial Intelligence (AI) by asset managers*

AI and Machine Learning (ML) are considered a critical tool where the machine can support humans in navigating through data sets, whilst the human helps the machine learn new patterns based on experience and in particular extreme and unusual periods.

Asset managers do not use AI centrally and or as a standalone tool. There are many different techniques and applications with different levels of sophistication ranging from automation, models that uses data and black box modelling where one departs from a structured approach to modelling. Asset managers can use these techniques at various stages and across functions.

AI is often used to make predictions such as stock return forecasts or trading conditions. In the bond market, for instance, large data sets (including, among others, bid-ask, volume, price feeds, order imbalance) are used to model liquidity scores, which then help to select the right type of execution required (high-touch trader versus low-touch desk).

The use of AI also makes it possible to process unstructured data (such as satellite images and natural language data) and to integrate them in investment decision processes

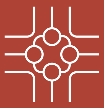
and strategies. Natural language processing (NLP) can help anticipate controversies, enhance market timing or build sentiment indicator.

AI is enabling new ways to interact with clients and is democratising access to wealth management via robot advisers. Robot advisers rely on portfolio optimisation tools and automatic rebalancing. Generally, the level of sophistication of an AI model used in that context is relatively modest but we are only in the infancy of robot advice.

There are many AI applications across different asset classes that have great potential to help asset managers become better investors. The use of AI by asset managers is not only an equity story. The use of AI is actually a data story and in that sense it may become a fundamental tool for sustainable investing which is heavily data reliant. NLP is already being used for instance to assess corporate culture or refine ESG score.

AI typically combines with technology to make workflows more efficient, as opposed to sitting as a standalone application. It complements existing workflows and is used as a tool to help staff, not replace them.

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





# FinTech in International Capital Markets

by **Gabriel Callsen and Rowan Varrall**

## Common Domain Model for repo and bonds

ICMA is cooperating with ISDA, ISLA and Regnosys to extend the Common Domain Model (CDM) to include repo and, by extension, outright bond transactions.

The CDM provides a common, digital representation of securities lifecycle events in the form of code. The aim is to generate industry-wide efficiency gains, by enhancing standardisation, reducing the need for reconciliation, and facilitating interoperability across firms and platforms.

Member firms have actively contributed to this cross-industry initiative by providing guidance and test data through regular ICMA CDM Steering Committee (SteerCo) meetings. SteerCo members include Allen & Overy, Barclays, BNY Mellon, Credit Suisse, Eurex Clearing, Euroclear, GLMX, Goldman Sachs, IHS Markit, Intesa Sanpaolo, JPMorgan, LCH, Murex, Swift, Tradeweb, and UBS.

The initial focus of the group has been to model a standard fixed-term repo, with a single ISIN as collateral, which is the most commonly transacted repo structure. Lifecycle events in the initial phase comprise trade execution, clearing and settlement. Modelling work has also included the mapping and ingestion of FIX 4.4 messages to CDM. Additionally, a bond transaction has been modelled so that the fundamental data points required for settlement can be represented in the CDM.

To demonstrate the usable CDM model for repo and bonds, ICMA will be hosting an event on 21 July 2021. Further details and registration are available here. Further information on the CDM for repo and bonds can be found on ICMA's CDM webpage.

**Contacts: Gabriel Callsen and Rowan Varrall**
**gabriel.callsen@icmagroup.org**
**rowan.varrall@icmagroup.org**

## ICMA FinTech Advisory Committee

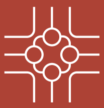
ICMA's FinTech Advisory Committee (FinAC) held its second meeting of the year on 26 March 2021. On the agenda were presentations on trends and new initiatives in capital markets in Asia-Pacific, including the electronification of the interbank bond market in China, the Central Bank Digital Currency in China and the m-CBDC project, by the Hong Kong Exchange.

The Chinese fixed income market is characterised by vertical integration, for historical reasons, requiring all OTC transaction to be registered on a single platform which is linked to domestic clearing and settlement systems. As a result, bond markets resemble equity markets, which facilitated the creation of Bond Connect. e-Prime, a new primary market platform for book building, pricing and allocation, linking to China's CFETS system has been launched recently, amongst other initiatives.

China's onshore CBDC pilot is aimed at retail clients to counter the usage of payment solutions by large BigTech firms, including WeChat and Alibaba, and reduce the potential of systemic risk. The m-CBDC Bridge project on the other hand is a cross-border wholesale payments model to promote further RMB internationalisation. The objectives are to provide fast and efficient processing of FX transactions, lower transactions costs, and enable traceability. Seven proofs of concept will be tested in the forthcoming months, including new wealth management products and bond issuance and settlement which are expected to be implemented by 2022. The BIS published further information on 8 April 2021, which can be found here.

Further information on the FinAC and its mission statement is available on ICMA's dedicated FinTech webpage. The full list of FinAC members can be found here.

**Contacts: Gabriel Callsen and Rowan Varrall**
**gabriel.callsen@icmagroup.org**
**rowan.varrall@icmagroup.org**





## FinTech regulatory developments

### *BIS: special chapter on CBDCs from Annual Economic Report*

On 23 June 2021, the BIS pre-released a special chapter on *CBDCs: an Opportunity for the Monetary System* as part of its Annual Economic Report 2021. Central bank digital currencies (CBDCs)

represent a unique opportunity to design a technologically advanced representation of central bank money, one that offers the unique features of finality, liquidity and integrity. Such currencies could form the backbone of a highly efficient new digital payment system by enabling broad access and providing strong data governance and privacy standards based on digital ID. To realise the full potential of CBDCs for more efficient cross-border payments, international collaboration will be paramount. Cooperation on CBDC designs will also open up new ways for central banks to counter foreign currency substitution and strengthen monetary sovereignty.

### *ECB: opinion on proposed Regulation on digital operational resilience and proposed pilot regime for market infrastructures based on DLT*

On 22 June 2021, the ECB published its opinion on the EU Commission's proposal for a Regulation on a pilot regime for market infrastructures based on distributed ledger technology (DLT). The ECB is overall supportive of the proposal though raised observations related to monetary policy, oversight and systemic/financial stability and prudential supervisory aspects. On 4 June 2021, the ECB also published its opinion on the EU Commission's proposed Regulation on digital operational resilience (DORA) and proposed regulation. The ECB welcomes the proposed regulation, which aims to enhance the cyber security and operational resilience of the financial sector. The ECB makes specific observations on oversight and securities clearing and settlement, prudential supervision, ICT risk management, incident reporting, operational resilience testing, and ICT third-party risk.

### *BIS: launch of Innovation Hub Nordic and London Centres*

On 16 June 2021, the BIS, in partnership with Danmarks Nationalbank, Central Bank of Iceland, Norges Bank and Sveriges Riksbank, launched the BIS Innovation Hub Nordic Centre in Stockholm. This follows the recent launch of the Innovation Hub London Centre (11 June 2021). Further Innovation Centres are also expected to be launched in Toronto and Frankfurt/Paris. The BIS Innovation Hub's work programme is currently focused on six areas: suptech and regtech; next generation financial market infrastructures; central bank digital currencies; open finance; cyber security;

and green finance. The BIS Innovation Hub was established in 2019 by the BIS to identify and develop in-depth insights into critical trends in financial technology of relevance to central banks, to explore the development of public goods to enhance the functioning of the global financial system, and to serve as a focal point for a network of central bank experts on innovation.

### *BIS: paper on CBDCs beyond borders*

On 11 June 2021, the BIS published its paper on *CBDCs Beyond Borders: Results from a Survey of Central Banks*. Based on a survey of 50 central banks in the first quarter of 2021, the paper explores initial thinking on the cross-border use of CBDCs. While most central banks have yet to take a firm decision on issuing a CBDC, the survey responses show a tentative inclination towards allowing use of a future CBDC by tourists and other non-residents domestically. They have a cautious approach to allowing use of a CBDC beyond their own jurisdiction. Concerns about the economic and monetary implications of cross-border CBDC use and about private sector global stablecoins are taken seriously. At the wholesale level, 28% of surveyed central banks are considering options to make CBDCs interoperable by forming multi-CBDC arrangements. This involves arrangements that enhance compatibility, interlink or even integrate multiple CBDCs into a single payments system. Finally, almost 14% of respondents are considering an active role for the central bank in FX conversion.

### *BIS, SNB, BdF: collaboration in wCBDC experiment*

On 10 June 2021, the BIS Innovation Hub, the Bank of France and the Swiss National Bank announced that, together with a private sector consortium led by Accenture, they will experiment using wholesale CBDC (wCBDC) for cross-border settlement. Known as Project Jura, the experiment will explore cross-border settlement with two wCBDCs and a French digital financial instrument on a distributed ledger technology (DLT) platform. It will involve the exchange of the financial instrument against a euro wCBDC through a delivery versus payment (DvP) settlement mechanism and the exchange of a euro wCBDC against a Swiss franc

wCBDC through a payment versus payment (PvP) settlement mechanism. These transactions will be settled between banks domiciled in France and in Switzerland, respectively. Project Jura expands on central bank experimentation investigating the effectiveness of wCBDC for cross-border settlement.

## BCBS: consultation on prudential treatment of banks' cryptoasset exposures

On 10 June 2021, the Basel Committee on Banking Supervision launched its consultation on preliminary proposals for the prudential treatment of banks' cryptoasset exposures. The consultation builds on the contents of the Committee's 2019 discussion paper and responses received from a broad range of stakeholders, as well as ongoing initiatives undertaken by the international community. Given the rapidly evolving nature of this asset class, the Committee is of the view that policy development for cryptoasset exposures is likely to be an iterative process, involving more than one consultation. The Committee will continue to coordinate with other international organisations that are developing their approaches to cryptoassets. The consultation period ends 10 September 2021.

## BIS: working paper on CBDC

On 8 June 2021, the BIS published its working paper *on Central Bank Digital Currency: the Quest for Minimally Invasive Technology*. The paper discusses the range of proposed CBDC architectures, how they could complement existing payment options, and what they imply for the financial system and the central bank of the future. It sets out the requirements for a "minimally invasive" CBDC design – one that upgrades money to current needs without disrupting the proven two-tier architecture of the monetary system, which involves both the private and public sectors. The paper finds that technological developments inspired by popular cryptocurrency systems – based on anonymity and lacking a central authority – do not meet the requirements for a retail CBDC. Instead, digital banknotes that run on "intermediated" or "hybrid" CBDC architectures show promise. Supported with technology to facilitate record-keeping by private sector entities of direct claims on the central bank, their economic design should emphasise the use of the CBDC as a medium of exchange. At the same time, it will need to limit its appeal as a savings vehicle.

## BIS: working paper on money, technology and banking

On 7 June 2021, the BIS published its working paper on *Money, Technology and Banking: What Lessons can China Teach the Rest of the World?*. Technology companies entering the financial services industry have become a global phenomenon over the past decade. Using the rise of two big techs in China as a foundation for analysis, the paper examines the key factors that have driven the development in China and whether such factors are applicable elsewhere. The paper takes a historical approach in examining favourable factors that contributed to the strong growth of big techs in China, and how regulators struck a balance between nurturing financial innovations and keeping emerging stability risks at bay.

## ECB: annual report of the international role of the euro: special feature on CBDC issuance

On 2 June 2021, the ECB published its annual report on *The International Role of the Euro*, including a special feature examining the impacts of an issuance of CBDC. The special feature stresses that the global appeal of currencies depends on fundamental economic forces that digitalisation is unlikely to alter. However, characteristics that are specific to digital means of payment, including safety, low transaction costs and bundling effects, could promote the international adoption of a currency. These features may combine to create positive feedback loops in the use of a currency as a means of payment and store of value and thus have effects on its global appeal. Moreover, the specific design features of a CBDC would be important for its global outreach and, ultimately, the international role of the currency in which it is denominated. Fundamental forces, such as the stability of economic fundamentals and size, remain the most important factors for international currency status.

## European Parliament: paper on AI and capital market flows

On 28 May 2021, the European Parliament published its paper on *Artificial Intelligence Market and Capital Flows: Artificial Intelligence and the Financial Sector at Crossroads*. The paper studies the transformation that Artificial Intelligence (AI) is bringing to the financial sector and how this sector can contribute to developments of AI applications. The study addresses the contribution of AI to a more efficient, open, and inclusive financial sector and the challenges of the AI transformation, and it provides recommendations for policies and regulations of AI and financial services.

## ESMA: call for evidence on digital finance

On 25 May 2021, ESMA published its call for evidence on digital finance following the EU Commission's digital finance package and request to the European Supervisory Authorities to provide technical advice on necessary adaptations to the existing legislative framework with a view to embrace digital finance in the EU. Technological innovation is transforming financial services at an unprecedented speed, by facilitating new business models and services and the entrance of new market participants. COVID-19 is accelerating this shift and the digitalisation of financial services. These changes bring a host of opportunities, including the prospect of better financial services for

businesses and consumers and greater financial inclusion. Yet, they raise challenges as well, as they can contribute to introduce or exacerbate new risks. Also, the existing regulatory and supervisory framework may not fully capture and address these new developments. The consultation period ends on 1 August 2021.

## BIS: working paper on the digitisation of money

On 19 May 2021, the BIS published its working paper on *The Digitalisation of Money*. The paper discusses the key questions and economic implications of digital currencies. It discusses how digital currencies could unbundle the traditional roles of money, lead to digital currency areas that cover multiple countries, and move payments away from banks' credit provision towards digital platforms. These changes could influence the transmission of monetary policy and necessitate the introduction of central bank digital currencies (CBDCs). First, digital currencies will unbundle the traditional functions served by money creating fiercer competition among currencies. Second, digital money issuers will try to differentiate their products by re-bundling monetary functions. In combination with digital connectedness, new currencies could lead to digital currency areas linking the currency to the use of a particular digital network rather than to a specific country. Third, digital currencies affect the competition between private and public money. Cash could disappear, and payments could centre around digital platforms rather than banks' credit provision. Governments may need to offer CBDCs in order to retain monetary independence.

## BIS Innovation Hub and Italian G20 Presidency: G20 TechSprint 2021 Initiative

On 6 May 2021, the BIS Innovation Hub and the Bank of Italy, within the Italian G20 Presidency, launched the G20 TechSprint 2021 Initiative, an international contest to search for innovative solutions to resolve operational problems in green and sustainable finance. The BIS Innovation Hub and the Italian G20 Presidency published three high-priority operational problems and invite private firms to develop innovative technological solutions. The problem statements identify the following challenges, highlighted by submissions from G20 finance ministries and central banks: (i) Data collection, verification and sharing; (ii) Analysis and assessment of transition and physical climate-related risks; (iii) Better connecting projects and investors. Winners for each problem statement are to be announced in October 2021.

## EDPS: opinion on proposed regulation on digital operational resilience and proposed pilot regime for market infrastructures based on DLT

On 11 May 2021, the European Data Protection Supervisor (EDPS) published its opinion on the EU Commission's proposed regulation on digital operational resilience (DORA) and amending regulations. On 27 April 2021, the EDPS also published its opinion on the European Commission's proposed pilot regime for market infrastructures based on DLT. The EDPS highlights that the protection of personal data does not constitute an obstacle to innovation and in particular, for the development of new technologies in the financial sector.

## EU Commission: proposal for Artificial Intelligence Act and coordinated plan

On 21 April 2021, the European Commission published its statement on proposed new rules and actions relating to AI. The Commission's proposal includes a legal framework on AI (Artificial Intelligence Act) and a Coordinated Plan outlining the necessary policy changes and investment at Member States level. The Commission puts forward the proposed regulatory framework on Artificial Intelligence with the specific objectives to (i) ensure that AI systems placed on the Union market and used are safe and respect existing law on fundamental rights and Union values; (ii) ensure legal certainty to facilitate investment and innovation in AI; (iii) enhance governance and effective enforcement of existing law on fundamental rights and safety requirements applicable to AI systems; (iv) facilitate the development of a single market for lawful, safe and trustworthy AI applications and prevent market fragmentation. The adopted Act is open for feedback until 6 August 2021.

## ECB: report on the digital euro consultation

On 14 April 2021, the ECB published the results of the public consultation on a digital euro. The report sets out the results of the analyses of the 8,221 responses submitted by participants and will serve as important input for the ECB's Governing Council when it decides in mid-2021 whether to launch a formal investigation phase in view of a possible launch of a digital euro. When identifying the whole possible package of most preferable options, citizens participating in the consultation consistently opt for privacy, security, usability throughout the euro area, absence of additional costs and usability offline. Among the main challenges associated with a digital euro, citizen respondents identify those related to privacy and, especially when considering accessibility, simplicity in its use as a means of payment. Professional respondents identify similar challenges, as well as additional ones related to poor internet connectivity in some areas.

## *ECB: report on the use of DLT in post-trade processes*

On 12 April 2021, the ECB published its report on *The Use of DLT in Post-Trade Processes*, to which ICMA contributed through the ECB's Advisory Groups on Market Infrastructures for Securities and Collateral and for Payments (jointly the FinTech Taskforce). The report categorises securities issuance and post-trade processes into models depending on how DLT is used in each case, drawing implications for the use of DLT at different stages of the securities lifecycle, from issuance to custody and settlement. Various institutional actors and market players are currently experimenting with DLT with a view to potentially enhancing efficiency and reducing costs. However, the lack of common practices and standards for its adoption could increase the degree of market fragmentation. To prevent further market fragmentation, the adoption of DLT-based solutions should be based on common practices and standards that enable DLT systems to interact with both each other and conventional systems. In parallel, a consolidated approach based on regulatory licences and conduct of business rules is needed to ensure sound governance of security post-trade services. Such an approach would create incentives for the wide-scale adoption of DLT.

**Contact: Rowan Varrall**
**rowan.varrall@icmagroup.org**

## FinTech Newsletter

ICMA's June FinTech Newsletter noted the recently updated primary markets technology directory (now 41 solutions), and Fintech mapping directory (now 189 solutions), following the inclusion of additional technology solutions. Also included were updates to ICMA's FinTech regulatory roadmap, highlighting relevant developments over the coming years, and DLT regulatory directory, monitoring international and EU developments relating to regulations and legislation on the use of DLT in capital markets. The latest edition of the FinTech Newsletter is available here.

Several legislative developments and related publications relating to the DLT regulatory directory were announced in the last quarter. On 23 April 2021, the AMF published its revised guidance on rules applicable to digital asset service providers, requiring registration to those providing services outlined in Article L54-10-2, 1°- 4°, of the French Monetary and Financial Code. On 6 May 2021, the German Parliament adopted the Electronic Securities Act (eWpG), allowing for electronic bearer bonds to be issued and registered at a centralised or decentralised electronic securities register. See previously published draft law here. Most recently on 7 June 2021, China's Ministry of Industry and Information Technology published its guiding opinions on accelerating the promotion of blockchain technology applications, including promoting establishment of blockchain standards, developing a blockchain pilot zone under a regulatory sandbox regime, and supporting eligible blockchain companies with preferential tax policies, among others items

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

**Contact: Rowan Varrall**
**rowan.varrall@icmagroup.org**

# Transition from LIBOR to Risk-Free Rates

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

## Tough legacy: FCA consultation on use of critical benchmarks

On 16 June, ICMA responded to an important UK FCA consultation on the exercise of the FCA's new powers related to use of critical benchmarks. These new powers were granted to the FCA pursuant to the UK Financial Services Act in spring 2021 and now form part of the UK Benchmarks Regulation. They are part of the UK's efforts to support an orderly wind-down of LIBOR and pave the way for: (i) the introduction of synthetic Japanese yen and sterling LIBOR; and (ii) the restriction of new use of US dollar LIBOR by UK supervised entities, at the end of this year.

The key points of ICMA's response were as follows.

1. The challenges associated with transitioning legacy LIBOR bonds are well known. The introduction of synthetic LIBOR is therefore welcome because it will help to avoid the risk of market disruption that could otherwise occur when LIBOR ceases. Several legacy LIBOR bonds have been transitioned to alternative reference rates following successful consent solicitation exercises. However, as recognised in the Working Group on Sterling Risk Free Rate's *Paper on the Identification of Tough Legacy Issues*, the use of consent solicitations to transition the whole of the legacy LIBOR bond market before the end of this year is unlikely to be feasible because some bonds cannot be transitioned and there are too many to transition in the time available.

2. It will be important that the FCA grants UK supervised entities a broad permission to use synthetic LIBOR for legacy LIBOR bonds. Without this, significant legal and practical uncertainty will arise, which could pose a threat to market integrity and consumer protection.

3. There could also be unintended, disruptive or unfair consequences, such as floating rate bonds becoming fixed rate bonds for the remainder of their term, events of default being triggered and/or mandatory redemption of legacy securitisations at par. All of these outcomes could also pose a threat to market integrity and consumer protection.

4. Bonds are distributed and traded internationally and involve different types of entities located in different jurisdictions. International consistency is therefore a very significant factor and relevant to UK market integrity. Broad permission for UK supervised entities to use synthetic LIBOR for legacy LIBOR bonds would help to ensure international consistency for bond market participants, noting that non-UK supervised entities are unlikely to be subject to a prohibition on use. The interconnected nature of different product types within more complex structures such as securitisations and repackagings is another relevant consideration.

5. In terms of the "new use restriction power", which will be relevant in the context of US dollar LIBOR, we believe the most important factors in deciding whether or not, and how, to exercise this power should be international consistency and market preparedness and confidence in alternative rates.

As outlined in the latest roadmap of the Working Group on Sterling Risk-Free Reference Rates, the FCA is expected to publish a feedback statement and policy statement in Q3. A subsequent consultation is expected to be published in Q3 on the FCA's decision on exercising its powers for use of Japanese yen and sterling synthetic LIBOR and restricting new use of US dollar LIBOR, with a final announcement in Q4.

This will leave market participants with only a short window to prepare for implementation of the FCA's decisions when they take effect at the end of the year. It will therefore be important that market participants follow this process and start to consider the possible outcomes, as well as continuing to transition actively as many bonds as possible to alternative rates.

ICMA is currently considering the UK FCA consultation on its proposal to require the administrator of LIBOR, ICE Benchmark Administration (IBA), to change the way 1 month, 3 month and 6 month sterling and Japanese yen LIBOR settings are determined after 2021, which was published on 24 June.

**Contact: Charlotte Bellamy**
**charlotte.bellamy@icmagroup.org**

## A Legacy LIBOR bonds in Asia-Pacific

Recently, ICMA partnered with Bloomberg on a *Guide to Tough Legacy Bonds in Asia-Pacific* (the Guide). Using data provided by Bloomberg, the aim of the Guide is to provide Asia-Pacific market stakeholders with an overview of the risks (and potential solutions) in the regional bond markets with respect to legacy bonds.

The Guide highlights some of the different, regional characteristics of the legacy bonds in the Asia-Pacific region, broken down by country and jurisdiction of issuance, industry, currency, maturity and governing law. What is significant to note is the universe of the total outstanding legacy issuance figures for bonds in the Asia-Pacific region: USD 190 billion equivalent across 560 issuances (governing law agnostic), and for securitisations: USD 330 billion across approximately 700 issuances[1].

The Guide sets out details of activity in risk-free rates (RFRs) globally, with a description of the differences between IBORs and RFRs, and developments in market infrastructure which help to support the RFRs, such as the conventions used and the various RFR indices. But it also highlights that, while the developments in market infrastructure signal excellent progress in the transition to RFRs in new bond issuances, there still remain pockets of the market which are over-reliant on LIBOR.

In the Asia-Pacific region, issuance of new LIBOR-linked bonds has continued throughout 2019, 2020, and the start of 2021[2]. And while the ARRC has published recommended fallback language for USD LIBOR-linked bonds, and the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks has recommended a waterfall of fallbacks for JPY LIBOR-linked bonds, a material proportion of this new LIBOR-linked issuance contains no fallbacks at all.

So, on the permanent cessation of LIBOR, it is not clear what will happen to those bonds which have inadequate fallbacks, or those which do not have any fallbacks at all.

By reference to the data provided by Bloomberg as contained in the Guide, the Guide further highlights that, of the 560 legacy issuances, 196 have fallbacks which are likely to anticipate using the rate in effect for the last preceding interest period, essentially changing the bonds into fixed rate bonds for life (equivalent to what for convenience are known as Type 1 fallbacks[3]) and 251 have no fallbacks at all. Taken together, this figure becomes quite significant, totalling 80% of all legacy bonds. And under Japanese law, the number of bonds which contain Type 1 fallbacks, or no fallbacks at all, is 26% of all legacy bonds.

In terms of potential solutions, the Guide describes the process of consent solicitation: a market-based process which enables an issuer to amend bond conditions by way of bondholder consent. In the sterling market and under English law, almost 70 GBP LIBOR-linked legacy bonds[4] have already been the subject of successful consent solicitation processes undertaken in order to transition from LIBOR to SONIA (plus a spread adjustment). Under New York law, amendments to interest rate provisions in bond terms and conditions typically require the consent of 100% of holders of the outstanding principal amount of bonds, so the consent solicitation process is uncommon and relatively impractical in bonds governed by New York law. And under Japanese law, although consent solicitation is possible, bondholders' meetings rarely take place in Japan, and therefore convening a meeting for the purposes of transitioning LIBOR-referencing bonds is not likely to be familiar to many Japanese market participants[5].

In terms of legislative intervention, the default position is that UK supervised entities will not be permitted to use synthetic LIBOR, unless they are permitted to do so by the FCA. It is not yet clear whether the FCA will permit UK supervised entities to use synthetic LIBOR in any legacy contract, bond or instrument referencing GBP or JPY LIBOR, or only a sub-set of such legacy contracts, bonds or instruments. The FCA recently consulted on this (see *Tough legacy: ICMA response to FCA on use of critical benchmarks*). In the case of JPY LIBOR, the FCA is currently consulting[6] on requiring ICE Benchmark Administration (the administrator or LIBOR) to continue to publish a synthetic version of JPY LIBOR after the end of 2021 for one additional year. But publication of this is due to cease permanently immediately after its final publication on 30 December 2022.

The Guide concludes that the outcome for these tough legacy bonds on the future cessation or loss of unrepresentativeness of LIBOR could lead to a risk of uncertainty, market disruption and could potentially impact financial market stability. And although some LIBOR settings may have a temporary reprieve due to the proposed legislative interventions, the legislation might not address all issues or be practicable in all circumstances, and might not be available for long. So, market participants in the Asia-Pacific region should therefore determine their tough legacy exposure, and establish plans to address it. Where active transition by way of consent solicitation is not feasible, and where legislative intervention is not helpful, the implications of cessation or lack of representativeness of LIBOR should be considered and discussed between the parties, and steps taken to prepare for this outcome as needed.

**Contacts: Katie Kelly and Mushtaq Kapasi**
**katie.kelly@icmagroup.org**
**mushtaq.kapasi@icmagroup.org**

1. Source: Bloomberg data, as contained in the Guide.
2. Source: Bloomberg data, as contained in the Guide.
3. See further Fallbacks for LIBOR floating rate notes.
4. Of which ICMA is aware.
5. According to local lawyers in the Asia-Pacific region.
6. CP21/19: Proposed decision under Article 23D BMR for 6 sterling and yen LIBOR settings (fca.org.uk)

# Developments in Japanese yen LIBOR transition: the Japanese perspective

by **Keiko Nakada**

Among the global initiatives, there have been accelerating efforts by Japanese financial market stakeholders to prepare for the permanent cessation of Japanese yen LIBOR publication at the end of 2021. This article highlights some of the latest initiatives in the development of the Japanese yen LIBOR alternative risk-free rate, and in Japanese yen LIBOR transition.

In August 2018, the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks (the Committee) was established to deliberate and make recommendations to prepare for permanent cessation of LIBOR publication. Membership of the Committee includes diverse financial market players, joined by the Bank of Japan (BOJ, the secretariat) and the Financial Services Agency (JFSA) and other financial market stakeholders (such as industry associations) as observers.

According to the Committee's Roadmap updated in April 2021, which indicates milestones that market participants should reflect in their own transition plan, the issuance of new bonds referencing Japanese yen LIBOR are to be ceased by the end of June 2021 and the amount of outstanding legacy contracts for bonds referencing Japanese yen LIBOR are to be reduced substantially by the end of September 2021.

## *RFR, alternative rates and fallback provisions*

In December 2016, the uncollateralised overnight call rate, based on actual overnight transactions, was identified as the Japanese yen risk-free rate. The daily average (Tokyo Overnight Average Rate: TONA) is calculated and published by the Bank of Japan.

In July 2019, the Committee released a Public Consultation on the *Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks* (the First Consultation). In November 2019, the Committee published the *Final Report on the Results of the Public Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks*, proposing the five potential alternative interest rate indicator options[1]. The First Consultation also indicated the application of both permanent cessation triggers and pre-cessation triggers.

The alternative rates and fallback provisions for bonds were also discussed by a group of securities market participants, the Discussion Group on Interest Rate Benchmark Transition, hosted by the Japan Securities Dealers Association. The group submitted comments[2] to the Bond Sub-Group of the Committee.

Based on the results of the First Consultation and following deliberations, the Committee published the *Second Public Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks* (the Second Consultation) in August 2020, which recommended adopting fallback rates in the waterfall structure under a hardwired approach for bonds. The proposed priority of the rates is as follows:

| | |
|---|---|
| 1st priority | Term Reference Rates |
| 2nd priority | O/N RFR Compounding (fixing in arrears) |
| 3rd priority | Rates recommended by the authority-related committee (committees recommended or convened by the central bank or the relevant authority) |
| 4th priority | ISDA Fallback Rate |
| 5th priority | Rates selected by issuers |

1. Five options were: (1) O/N RFR Compound (Pre-determined), (2) O/N RFR Compound (fixing in Arrears), (3) Term RFR Interest rate (swap), (4) Term RFR Interest rate (Future), and (5) TIBOR.

Options (3) and (4) were merged as Term Reference Rate after the 1st Consultation.

2. https://www.jsda.or.jp/shijyo/minasama/libor/fallback.pdf (Japanese only)

The Second Consultation also recommended that the historical median approach over a five-year lookback period be applied as a credit adjustment spread. The results of the second public consultation showed that almost all respondents supported each of these recommendations.

*Term Reference Rates:* The first priority of the waterfall structure is the Term Reference Rate. In April 2021, QUICK Benchmarks Inc. began publishing production rates for the Tokyo Term Risk Free Rate (TORF), a forward-looking term interest rate based on the overnight index swaps (OIS) rate.

*O/N RFR Compounding (fixing in arrears):* The second priority is the Overnight RFR compounding (fixing in arrears), which uses TONA, and which was explored in detail by the Sub-Group on Loans and subsequently reported to the Committee. In accordance with the updated Roadmap, firms have been expected to develop systems and operations for calculating overnight RFR compounding (fixing in arrears) by the first quarter of 2021.

In addition, QUICK Corp. started publishing the TONA compounded index and TONA averages derived from daily compounded TONA for 30 days, 90 days, and 180 days.

## Current status of Japanese yen LIBOR-linked bonds

Looking at the bond market, the Japan Securities Depository Center Inc. (JASDEC), the central depository of corporate bonds issued in Japan, reported[3] their survey results on Japanese yen LIBOR linked bonds to the Committee, indicating that the number of total outstanding issues was 229 as of the end of March 2021. The breakdown is: 45 corporate bonds (public 10, private 35), 180 hybrid bonds (public 116, private 64), and 4 others. Among hybrid bonds, which typically are callable fixed-to-float rate bonds, a large part is issued by financial institutions. None of the hybrid bonds or "others" refer to LIBOR at the date of the survey (31 March 2021).

## Changing existing bond contracts

The process of changing the contents of contracts of existing corporate bonds issued under Japanese law to either make a transition to an alternative benchmark or introduce a fallback provision, are indicated by the revised Companies Act (2021). The following two options should be considered when amending bond contracts to transition from LIBOR.

(i) Hold bond creditors' meetings, file a resolution with the court for approval, and make a public notice after court approval without delay.

(ii) With the consent of all bond creditors, it is deemed that there has been a resolution of the bond creditors' meeting, and the procedure set out in (i) is omitted.

On the Committee held on 27 April 2021, the JFSA urged corporate bond issuers to take initiatives in making the transition or introducing the fallback provision while consulting with relevant stakeholders. JFSA expects corporate bond issuers to develop their transitioning policies as soon as possible and work closely with JASDEC if they decide to hold a bondholders' meeting.

## Continued efforts

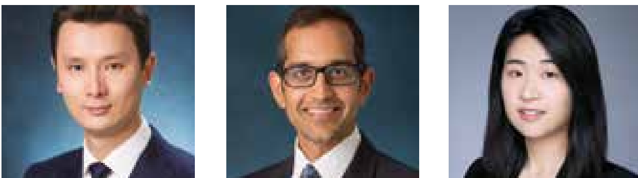
To facilitate responses in preparation for the permanent cessation of LIBOR publication and to confirm the status of responses, in June 2020, FSA and BOJ jointly sent Notices to representatives of financial institutions ("Dear CEO Letters"), setting out a list of required actions to be taken by financial institutions, and a request for submission for relevant materials to ensure, *inter alia*, an understanding and evaluation of the risks arising from the cessation of LIBOR, and an assessment of appropriate actions taken to mitigate and manage the identified risks.

Masayoshi Amamiya, Deputy Governor of the Bank of Japan, addressed the situation in his recent speech, saying that: "Most of the necessary tools to achieve a smooth LIBOR transition have been already provided. … (T)he success of the LIBOR transition essentially depends on whether each individual market participant will make a good use of those tools and take necessary actions in a steady and swift manner. … We are already in the phase to be fully determined to make steady progress in the transition activities for the completion of the LIBOR transition."

***Keiko Nakada, Japan Securities Dealers Association, is currently on secondment to ICMA.***

3. Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks Meeting Material for 27 April 2021 (Twenty-second Meeting) Report submitted from JASDEC https://www.boj.or.jp/paym/market/jpy_cmte/index.htm/ (Japanese only)

# Capital Market Developments in China



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

## A Capital market regulatory developments in China

### *Green bond catalogue*

On 21 April, the People's Bank of China (PBOC), the National Development and Reform Commission (NDRC) and China Securities Regulatory Commission (CSRC), who have all issued regulations on green bonds in China, jointly issued the *Green Bond Endorsed Project Catalogue (2021 Edition)*. It replaces the two prevailing sets of guidelines, creating a unified national definition of "green" for green bonds in China. The 2021 Project Catalogue applies from 1 July to all types of green bonds in the domestic market. The most significant change in this new edition of the catalogue is removing clean utilisation of coal and oil from the list of eligible projects. The new catalogue reflects China's determination to move towards further convergence with international standards in the green finance market, and will be a key reference for the IPSF taxonomy working group along with the EU Taxonomy to develop a Common Ground Taxonomy.

### *Sustainability-linked bonds*

Advised by ICMA, NAFMII published its Q&A on sustainability-linked bonds on 28 April. The Q&A is consistent with and complements the SLBP to guide issuers in China's interbank bond market, and includes some additional features reflecting the local context. Since then, a few onshore Chinese SLBs (following both the NAFMII Q&A as well as the SLBP) have been successfully priced, with more in the pipeline.

### *Quarterly review of banks' green finance performance*

On 9 June, PBOC published *The Green Finance Evaluation Framework for Banks*. The framework replaces the previous 2018 version and expands the evaluation scope from green loans to the wider concept of green finance, covering green loans and bonds while leaving room to include other green products in the future. PBOC will score banks based on quantitative metrics related to green loan and green bond holdings and qualitative aspects including implementation progress of macro green finance policies as well as the banks' own green finance strategy, disclosure, risk management measures. The evaluation results will affect banks' rating classification at PBOC and be integrated in PBOC's toolkit of policies and prudential management of banks.

### *Legislative basis for netting in the proposed Futures Law*

On 29 April, China's National People's Congress published the draft Futures Law for consultation. While the draft Law is applicable to derivatives, it provides support for the recognition of netting under master transaction agreements and a potential precedent for similar legislation applicable to other types of transactions such as repo.

### *Blockchain and digital assets*

The Ministry of Industry and Information Technology published a guiding opinion in support of application and development of blockchain technology on 7 June. On the other hand, Chinese regulators, local governments and associations have warned of the risks associated with cryptocurrencies and reiterated the ban on cryptocurrency transactions.

### *Credit derivatives*

NAFMII revised its rules on Credit Risk Mitigation instruments (similar to credit default swaps in the international markets) on 15 April, aimed at improving their trading and settlement mechanisms.

### *Foreign access to China's interbank bond market*

A "dealer pay model" under the Bond Connect Scheme was launched on 24 May, allowing global investors to request price quotations from Bond Connect market makers with the trading fee built into the bond price, ie an all-in-price calculation upon trade execution.

### *Removing requirement to report initial bondholding*

On 2 April 2021, PBOC published Announcement No. 4 [2021] for the interbank bond market, removing the requirement for bond issuers and lead underwriters to report the list of initial holders and their holdings.

**Contact: Yanqing Jia**
**yanqing.jia@icmagroup.org**

# ICMA Capital Market Research

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

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

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

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

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

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

*ICMA ERCC briefing note: The European Repo Market at 2020 Y ear-End*
Published: 13 January 2021
Author: Andy Hill, ICMA

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

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

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

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

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

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

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

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

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

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

*MiFID II/R and the Bond Markets: The Second Year*
Published: 20 December 2019
Author: Gabriel Callsen, ICMA

*ICMA Impact Study: Mandatory Buy-ins under CSDR and the European Bond Markets*
Published: 27 November 2019
Author: Andy Hill, ICMA

*ICMA Briefing: The Importance of Integrated Capital Markets and CMU*
Published: 29 July 2019
Author: David Hiscock, ICMA

*A Comparative Review of Practices and Procedures in the Russian and International Primary Debt Capital Markets*
Published: 5 June 2019
Authors: ICMA/NFA Joint Report

*ICMA ERCC Briefing Note: The European Repo Market at 2018 Year-end*
Published: 15 January 2019
Author: Andy Hill, ICMA

*ICMA AMIC/EFAMA Report on Liquidity Stress Tests in Investment Funds 2019*
Published: 8 January 2019
Authors: ICMA/EFAMA Joint Report

# ICMA Media Library

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

## Recent virtual events

The ICMA annual conference connected ICMA's membership for an expert review of the main trends and developments in the international capital market over the last 12 months and looked forward at how these will impact financial markets and the global economy.

Taking account of the global pandemic, key themes this year included: market developments and regulation in the primary, secondary and repo markets on the sell side and the buy side; progress on the transition from LIBOR to risk-free rates; the mainstreaming of sustainable finance; and how fintech is revolutionising capital markets, featuring speakers from major international institutions.

Following the Green Bond Principles (GBP) and Social Bond Principles (SBP) Annual General Meeting, members of its Executive Committee and working groups presented to the wider market an update on the 2021 edition of the GBP as well as other key documents. A panel of international experts discussed developments in the global sustainable bond market.

**The impact of digitization on the asset management industry** As the buy-side explores new possibilities offered by technological innovations, industry speakers discuss how the asset management will be affected by asset tokenisation and the use of artificial intelligence. The event also featured a presentation from the European Commission.

**ICMA & Ashurst Joint Event: Net Zero in Asia-Pacific - a closer look** An in-depth, technical discussion of net zero strategies in the capital markets, with expert views on: fossil fuels and transition pathways; carbon offsets and decarbonisation technologies; measuring and reporting Scope 1, 2, and 3 emissions; challenges for cross-border businesses and portfolios; and social impacts of net zero policies.

**ICMA and METI joint virtual event: Transition Finance in Japan – now and going forward** Japan's Basic Guidelines on Climate Transition Finance, was published by Japan's Ministry of Economy, Trade and Industry (METI), Financial Services Agency (FSA) and Ministry of the Environment (MOE) in May 2021. It explicitly references ICMA's Climate Transition Finance Handbook.

**Transition to risk free rates: an official sector panel discussion** Discussion with the UK Financial Conduct Authority, the Federal Reserve Bank of New York, the Swiss National Bank and the European Central Bank about progress and the remaining challenges in the transition from LIBOR/IBORs to risk-free rates, international coordination, and key messages from the official sector for market firms in the run-up to the end of 2021.

**ICMA & Frontclear Africa webinar series: Scaling-up Nigeria's repo market development** Nigeria's repo market is fairly established, featuring a continual flow of short-term funds with periods of high and low activity in response to macro-economic conditions and regulatory activities. Banks dominate the repo market as a primary funding source for treasury activities, while pension funds have yet to actively join.

ICMA Future Leaders and Humans in Finance have partnered together to bring to you a series of podcasts exploring the human side of finance. Representing the millennial voice in the industry, we lose the jargon, go behind corporate masks and unveil the various dimensions of being a human in the finance industry.

You can listen from the links below or on our website or find them on all major podcast providers - search 'ICMA Podcast'

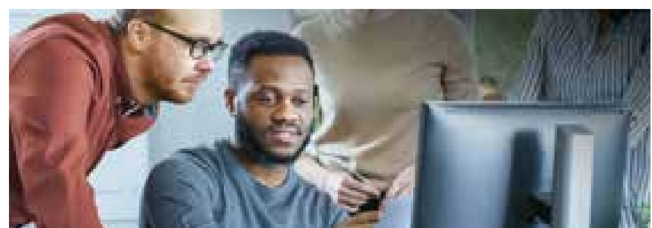
**Is the grass greener on the other side?** Can we truly find fulfilment in the mainstream finance industry or do we need to look elsewhere to achieve this? To help answer this question, we were joined by executive coach Jill Watt and former investment banker turned not-for-profit sustainable finance advisor Rufus Grantham.

**Can you find success and happiness in banking?** Cyrus Ardalan, Chairman of Citigroup's international investment banking subsidiary Citi Global Markets Ltd and Stuart Smith, a performance psychology consultant share their insights on a question receiving more attention than ever. We discuss the15 hour working day, what the purpose of a banker really is and how this may be connected to an individual's happiness, but also why 'high-achievers' are shifting away from 'excellence at any (mental) cost'.

**Generation wars in banking – fact or fiction?** Often referred to as one of its founding fathers, Hans-Joerg Rudloff was at the forefront of the Eurobond market since its inception in the 1960's. His 50 year career in the finance industry encompassed impressive roles at Credit Suisse and Barclays Investment Bank, amongst others. In this podcast, we talk to Hans-Joerg about how the industry has evolved and his views on the future of banking. He compares the current generation of bankers to their predecessors and shares stories from the past about the events that drove growth and innovation in the international capital market.

**Rebalancing excess masculinity in finance** In this podcast we interview Dorrit Lowsen from Change Finance and Oren Shai from Enlivened Leadership Lab to explore this important topic.

**Humanising the office** We interview thought leaders on workplace culture and design: Annie Coleman and Kursty Groves. Annie Coleman is Group Head of People & Culture at UniCredit, former Global Head of Culture at UBS Investment Bank, and has also held senior roles at Goldman Sachs, GAM investments and the London Stock Exchange. Kursty Groves is a workplace strategist, author on workplace design, and founder of Shape Work Life, a consulting firm that specialises in co-creating the best places to work.



## About ICMA Future Leaders

ICMA Future Leaders is designed to benefit the younger generation of finance professionals in ICMA's membership, connecting them with the services and networking opportunities which can enhance their careers in debt capital markets.

If you are a young professional working for a member firm, you can join the ICMA Future Leaders network. Find out more by contacting futureleaders@icmagroup.org

# Diary

events@icmagroup.org

## Save the date for these virtual events in the second half of 2021!

**13 October –** ICMA European Repo & Collateral Council General Meeting

**21 October -** ICMA Primary Market Forum

**12 November -** ICMA and JSDA annual sustainable finance conference (hybrid event, Tokyo)

### Sustainable bond markets in Latin America

We will be looking at developments and progress on financing the transition to net zero in Latin America with events in the autumn focused on Brazil, Mexico and Chile, featuring contributions from issuers and investors in these markets with international experts.

The first event in the series, giving an overview of sustainable bond markets in the region will take place on 20 September.

**Followed by:**
**Brazil -** 6 October
**Mexico -** 10 November
**Chile -** 7 December

**Contact: allan.malvar@icmagroup.org**

The ICMA Women's Network held its first virtual event in Spanish in May, where a group of experts representing the major banks in Spain, took a look at the advances and challenges faced in gender diversity and developing female talent in finance. View the recording in Spanish Avanzamos Juntos: Logros y retos en la diversidad de género en el ámbito financiero

Look out for our next IWN event - 'Carrières au féminin, surmontez les obstacles' - which will be held in Paris on 7 October.

**Contact: ICMAwomensnetwork@icmagroup.org**

### Annual ICMA Professional Repo and Collateral Management Workshop

**Dates: 27, 28 September; 4, 5 October 2021**
**Time: 10:00 - 14:00 CEST**

This workshop will be delivered via video conferencing. Live sessions will be delivered in four 3.5-4 hour sessions over the course of two weeks. Delegates will be sent resources before the live sessions.

Designed for new repo market practitioners and other participants who are seeking a thorough understanding of the repo market and the latest related developments, the virtual workshop will provide:

- An introduction to the repo instrument and market
- Mechanics of repo, its legal and economic foundations
- Methodology of risk and operational management with reference to the GMRA and the Guide to Best Practice in the Repo Market
- Accounting and taxation treatment
- Regulatory impacts and developments

**Free for ICMA members**

**Sponsored by:**

# ICMA Education

## The IFC Green Bond Technical Assistance Programme

For the past few years, the International Finance Corporation (IFC) has been managing the Green Bonds Technical Assistance program (GB-TAP) to stimulate issuance of green bonds by banks from emerging markets. Designed in partnership with ICMA the facilitated Green, Social and Sustainability (GSS) Bonds Executive Online Training provides deep insight on GSS bonds issuance and the underlying drivers in sustainable finance and offered by invitation only to selected banks from emerging markets.

The course is delivered via three pillars, (i) online self-paced modules, (ii) virtual interactive classes and (iii) team case study workshops including a simulated investor pitch presentation to real market investors. Training is delivered by leading market practitioners including IFC, ICMA, leading market investors, investment banks and second opinion providers, all of whom who provide insights into global best practices and their relevance for emerging markets financial institution issuers.

The practice-oriented programme is designed specifically for emerging market banks interested in issuing GSS bonds to strengthen the bank staff's foundational skills in green and sustainable finance. The course touches on operational considerations in the global market and regulatory trends, the materiality of Environmental, Social and Governance (ESG) in credit analysis and financial reporting. Topics covered also include the investor perspective, practicalities of GSS bonds issuance, reporting to investors, and use of second opinions, among others.

Each class consists of about 35 senior staff from emerging market banks from Latin America, Africa, Europe and Central Asia that have been vetted by IFC and based on bottom-up analysis of GSS bonds issuance potential and relevance for cross-border portfolio investors, considering Environmental, Social, and Governance (ESG) as well as credit risk criteria.

**For more information on this programme, contact Kaikham Onedamdy on konedamdy@ifc.org**

## ICMA Education Accreditation

Given the capital markets are continuously expected to react quickly and efficiently to globally transformative events, it is little wonder that many organisations are starting to take a more structured approach to professional development training for their staff. Major financial institutions are increasingly mandating minimum accredited employee professional development hours to ensure their staff continue to develop essential market skills and ICMA Education is pleased to support our members (and non-members) in this rapidly evolving environment.

As the training provider for professionals in the capital markets, ICMA Education is pleased to be a member of the accrediting organisation the CPD Certification Service - the leading independent CPD accreditation institution operating across industry sectors to complement the Continuing Professional Development policies of professional institutes and academic bodies.

ICMA training is considered structured or active learning which is defined as interactive and participation-based study that results from participating in the training courses offered by the association. Each course has a number of recommended learning hours made up of structured and reflective learning and is eligible to count towards organisational CPD requirements.

In addition to CPD membership and the individual accreditation of a growing number of courses, ICMA is also approved by the Securities & Futures Commission of Hong Kong as a provider of Continuous Professional Training (CPT).

@ **Contact: education@icmagroup.org**

Check **ICMA Education** for the full schedule of courses autumn 2021.

## Register now for one of these livestreamed courses

**Introduction to Green, Social and Sustainability (GSS) Bonds** Livestreamed, 22-23 July 2021

**Securities Operations Foundation Qualification (SOFQ)** Livestreamed, 1-10 September 2021

**Operations Certificate Programme (OCP)** Livestreamed, 15 September-6 October 2021

**Introduction to Bond Markets Qualification (IBMQ)** Livestreamed, 29 September-7 October 2021

**Corporate Actions: An Introduction** Livestreamed, 4-12 October 2021

**Credit Derivatives: Trading, Investing and Structured Solutions** Livestreamed, 7-15 October 2021

**Fixed Income Certificate (FIC)** Livestreamed, 11 October-1 November 2021

**Financial Markets Foundation Qualification (FMFQ)** Livestreamed, 18-26 October 2021

**Collateral Management** Livestreamed, 21-29 October 2021

**Bond Syndication for Compliance and Middle Office Professionals** Livestreamed, 25-26 October 2021

**Introduction to Primary Markets Qualification (IPMQ)** Livestreamed, 2-11 November 2021

**Primary Market Financial Technology** Livestreamed, 3-12 November 2021

**Assessing Credit Risk of Corporate Bonds** Livestreamed, 8-15 November 2021

**Primary Market Certificate (PMC)** Livestreamed, 17 November-8 December 2021

**Securities Lending** Livestreamed, 22-30 November 2021

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

ICMA

International Capital Market Association

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

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

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

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

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

icmagroup.org