ICMA
International Capital Market Association

QUARTERLY REPORT

ASSESSMENT OF MARKET PRACTICE AND REGULATORY POLICY

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ICMA

International Capital Market Association

ICMA promotes resilient and well-functioning international capital markets, which are necessary for economic growth. ICMA's market conventions and standards have been the pillars of the international debt market for nearly fifty years.

Membership continues to grow and we now have more than 500 member firms in some 60 countries. Around 80% of our members are based in Europe.

Among the members are global investment banks, commercial and regional banks, brokers, private banks, institutional asset managers, pension funds, central banks, sovereign wealth funds and other institutions with a significant interest in the international capital market, such as supranational institutions, infrastructure providers, rating agencies and leading law firms.

ICMA members work with ICMA through its market practice and regulatory policy committees and councils to provide expert views on the issues affecting the international capital markets. The committees act as a forum for discussion and for reaching consensus on topics of common interest, developing recommendations for best market practice and the efficient operation of the markets and considering policy responses to regulators.

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Asset managers: adapting to a changing market structure

By Joanna Cound

The global financial crisis resulted in some of the most profound changes to the structure of capital markets in decades. A number are the direct result of regulation intended to correct specific market failures or to address specific risks. Against this backdrop, significant concurrent structural changes have taken place driven by technological and commercial pressures on all actors in the capital markets ecosystem. To meet these changes, asset managers have had to adapt their business practices in recent years to ensure that end-investors receive the best possible outcome from investing cash in the capital markets.

Changes in global fixed income markets have become most apparent in recent years, in line with the global political impetus to bring additional transparency to these markets. In many ways, this shift in market structure replicates the decades-long coming of age experienced by the equity market, which started with the Big Bang in London in the 1980s and culminated in the roll-out of MiFID I across the EU in the latter part of the last decade. However, the current combination of macroeconomic conditions (record low interest rates across the developed world), new regulation (capital pressures on bank trading books and regulatory measures constraining market making activities) and evolving business technology have led to acute changes in the structure of fixed income markets – a change that is here to stay.

Despite an increase in market size and overall turnover, set against a backdrop of record bond issuance as issuers take advantage of low interest rates globally, the turnover ratio of bonds has decreased. This has led some to hypothesise that fixed income markets have suffered from a lack of liquidity – a subject which regulators and policymakers across the world have taken a greater interest in over the course of the last year.

But behind this lies a more fundamental structural shift in fixed income markets and the nature of liquidity. To fully understand these shifts, we need to look behind the hard data and get a better understanding of the anecdotal evidence surrounding the challenges of working through fixed income orders in today's market. What was once a dealer-driven principal market is in the process of evolving into a hybrid principal-agent market where banks continue to play a role in facilitating trades but market making is curtailed from pre-crisis norms – meaning the execution risk in trading increasingly falls to end-investors.

While we have to work harder, we are able to access liquidity for our end-investors. BlackRock, like other asset managers, has adapted its trading practices to find more efficient ways of executing trades, including more electronic trading or using a wider variety of protocols, as well as investing in more standardised products such as index-based derivatives and Bond ETFs alongside cash bonds. Additionally, by leveraging technology and new trading analytics we can often act as "price makers" as opposed to always being a "price taker", hence building portfolios that are liquidity-efficient even before trading commences.

Policymakers too have begun to look more closely at the structure of fixed income markets. One of the European Commission's core work streams under the Capital Markets Union project for 2017 is to assess the functioning of European corporate bond markets, and whether additional policy initiatives could increase the efficiency of the market and positively impact liquidity.

These changes offer options to help address the "liquidity challenge" in fixed income markets, but an additional emerging challenge is repo – another dealer-driven market that has also experienced constraints due to the macroeconomic and regulatory environment.

Many participants on both buy- and sell-sides believe that further regulation on bank capital, especially in Europe where the full implementation of Basel III has yet to be reached, will further impair the repo market. While there could be potential for some in exploring options around cleared repo, a number of operational challenges remain. We expect a lively dialogue on this topic in 2017, with asset managers playing a key role.

Joanna Cound
Managing Director, Head of Public Policy, EMEA, BlackRock, and a member of the ICMA Board.

Chief Executive's review of activities in 2016 and outlook for ICMA in 2017

By Martin Scheck

2016 was a tumultuous year for the capital markets with quantitative easing, the UK referendum and the US Presidential election being the most obvious, but by no means the only, factors giving rise to volatility and uncertainty. Against this backdrop ICMA was exceptionally active in all its core areas. Let's review briefly activities in 2016 and, to the extent we can, look ahead to 2017.

Our focus remains to serve our broad and growing membership of issuers, intermediaries, investors, infrastructure providers and others in the pursuit of well-functioning capital markets which can play a full role in financing the economy. We are primarily concerned with the day-to-day market practices in international debt securities markets and the surrounding regulatory framework and market infrastructure.

We engage around 1,000 individuals on our various committees, councils and working groups and we are tremendously grateful for their contribution. The input of these experts enables ICMA to set standards of good market practice, to harmonise processes, to standardise documentation and to work constructively with the authorities as we try to ensure that the regulatory framework in which we operate is as consistent with well-functioning capital markets as it can be.

Given the breadth of our membership and the necessity to represent the entire market, wherever possible our committees and working groups bring together members from both the sell side and the buy side of the industry – this is unusual for a trade association and we believe a particular strength of ICMA.

The impact of new regulation was a major topic for our primary market constituency in 2016. Work on the new prospectus regime in Europe, PRIIPs, Italy's Article 129 as well as the discussions around the new MAR soundings regime have been intense and look likely to continue well into 2017. In addition, we have provided input to the new draft standard recently released by the UK's FICC Markets Standards Board. This helpfully references the guidance provided by the ICMA Primary Market Handbook, which was updated in 2015 with smaller updates in 2016.

Our work with primary market practitioners is extensive, with active committees in the UK, Hong Kong, the Nordic region and Switzerland to cope with the specificities of various regional markets. We are in the process of completing a comparative review of new issue processes in Russia and internationally. As previously, we continue to seek input from all market segments via our new issues roundtables where we bring together investors, issuers and primary underwriters to discuss primary market practices. We often draw on the members of our three issuers' committees, for financial institutions, corporates and sovereign, supranational and sovereign agencies, and our buy-side members from the ICMA Asset Management and Investors Council.

Secondary market liquidity remains a key challenge for most of our members, and ICMA's continuing work in this area has been well received. Of course, we remain focused on the regulation impacting secondary markets – the MiFID package, CSDR and the capital and liquidity requirements affecting market makers – but the ICMA report released in the summer called *Remaking the Corporate Bond Market* has been particularly influential. The report analysed in detail the current state of liquidity in the market and how we expect that to evolve, looking at each of the drivers and potential mitigants in turn. This has been extremely useful in discussions with those regulatory authorities who have previously concluded from academic studies that liquidity has not declined over the last couple of years. Some of these studies diverge from the findings of our market-based study gleaned both from data and from discussions with sell-side and buy-side market participants. Work continues.

The repo market and collateral management are part of ICMA's DNA. Through the work of our European Repo and Collateral Council (ERCC) we are intimately engaged in all aspects – GMRA, legal opinions, research studies, post trade, regulatory developments, the repo survey etc., all of which requires a considerable commitment. It has been gratifying to see the increasing involvement of the buy side in the repo market and the ERCC is beginning to reflect this new diversity. Repo is a truly global product, and we are also helping our members in Asia and in Africa, where demand for repo expertise is high, as part of the development of their own capital markets.

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There has been increased focus on the needs of our growing cohort of buy-side members.

There has been increased focus on the needs of our growing cohort of buy-side members – there is more representation at a senior level on our Board and, as mentioned, wherever possible the buy side participates directly in our cross-industry working groups and committees. In addition, the Asset Management and Investors Council continues to grow, with active working groups driving many aspects of ICMA's work – for example on "bail-in", securitisation, fund liquidity and covered bonds. The two public AMIC Council meetings have been well attended, the AMIC Executive Committee meets regularly and its influence as a pan-European buy-side voice with the authorities continues to grow.

The green bond market developed further in 2016 with around 50% more issuance than in 2015. We released the 2016 version of the ICMA Green Bond Principles (GBP) in the summer following a consultation with GBP members and published new Guidance for Social Bonds. The GBP "resource hub" has been up and running for the last few months and we are involved with a very wide range of relevant stakeholders, from both the private and public sector, in our endeavours to scale up the market. It has been encouraging to see the focus on the sector from the G20 (we are involved in the G20 Green Finance Study Group) and, amongst others, the Chinese authorities, with whom we participate in the PBOC's Green Finance Committee. The consultation for the 2017 update of the GBP is currently in progress, and the many working groups of the GBP are looking forward to assessing the input.

Many of these initiatives (and many of our other work streams) fit within the European Commission's Capital Markets Union initiative, which ICMA supports wholeheartedly. Capital market integration is important to ICMA, and naturally we are concerned that Brexit might result in fragmentation rather than integration. Our approach has been to focus on the impact of Brexit on capital markets. You may have seen the series of articles published in the ICMA Quarterly Report on the topic. These have been supplemented with member calls, and of course Brexit is on the agenda of each of our committees. Being an international and apolitical association we are not aligning ourselves with any financial centre, and our focus remains to help the markets internationally function as well as possible.

Unfortunately, there is not sufficient space here to discuss all our work streams – private placements, GDP-linked bonds, infrastructure finance and the like, but for further information please read the rest of our Quarterly Report and visit our website: www.icmagroup.org.

Geographically our reach continues to develop, with more activity than ever before in the Gulf, Africa and Asia, driven by a growing membership and deeper engagement in these regions. The recognition of the expertise we provide is widely acknowledged and in demand. Given the breadth and depth of our contacts, the challenge for ICMA is to prioritise where we focus our attention very carefully on our members' behalf to ensure we remain effective.

I cannot stress enough the support we receive from our regional committees – they are our eyes and ears on the ground. The input from the 15 different ICMA regions is simply invaluable in setting our agenda.

I hope you will have seen the many events we hold and have participated in a number. We view these as an essential part of the service, allowing for information exchange and networking, and they are always free to our members. Details of forthcoming events are on the website and ideas are welcome.

We remain committed to providing high-quality executive education for market participants. 2016 saw a record number of delegates: over 800. We are seeing a change in delivery method with on-line courses and specific tailored "in-house" courses developing well. Our objective is to provide substantive high-quality executive education and, in line with the rest of the Association, we run our education effort on a "not-for-profit" basis. The education joint venture in China continues well with around 1,000 individuals taking part annually.

We mentioned in our 2015 review two exciting outreach initiatives – the ICMA Women's Network and the ICMA Future Leaders Committee. Both have continued to be active in 2016 and grown in size. It has been particularly pleasing to see the development of these initiatives in continental Europe with several events in the major European financial centres.

A final word on governance. At our AGM and Conference in Dublin in 2016 we increased the size of the ICMA Board from 16 to 22 to facilitate the representation of the geographical diversity of our membership and the different activities of our members. In addition, the gender diversity of our Board has improved dramatically over the last two years. As one would hope, Board members are very engaged, providing guidance and supervision at Board meetings, and contributing actively by chairing committees, sponsoring activities and generously providing resources to ICMA – thank you.

A second motion passed by the membership was to recognise the increasing importance of exchanges, platforms and CCPs in the capital markets and allow them to be full rather than associate members. So far around half have made the transition with the remainder expected to do so in the first half of 2017.

What can we expect for 2017?

More QE, more clarity perhaps on Brexit, more clarity on the impact of the Trump administration, a flurry of European elections, perhaps the return of inflation, higher rates and steeper curves – not easy to predict, but I think it is safe to say we are in for an uncertain future in the markets and very likely more volatility. From a regulatory perspective, the implementation of much of the European regulation at Level 1 and Level 2 is now well under way and will continue with increasing intensity in 2017. More automation and disruptive FinTech is likely, and the cost pressure on ICMA members is unlikely to abate.

This means that ICMA needs to be nimble: we need to recognise themes early and act upon them, we need to listen, we need to work constructively with the authorities and with other associations to ensure maximum efficiency, and we need to prioritise ruthlessly to ensure that we are optimally focused and that our work remains relevant for the day-to-day operations of our members.

I wish you all every success both personally and professionally in 2017.

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The Brexit negotiations and the international capital markets

By Paul Richards

Summary

The UK Government is proposing to invoke Article 50 of the EU Treaty by the end of March 2017. Assuming that the Government goes ahead, this will lead to negotiations between the UK and the remaining 27 EU Member States (EU27) on the terms of the UK's decision to leave the EU (ie Brexit). The purpose of this paper is to set out the main tests by which the Brexit negotiations between the UK and the EU27 are likely to be assessed in the international capital markets:

- *Market access:* The first test is whether the UK and the EU27 negotiate reciprocal access to the EU Single Market on favourable terms as close as possible to the single passport[1] arrangements that exist at present. Both the UK and the EU27 have a mutual interest in maintaining capital market integration across Europe after Brexit. But there are limited ways of achieving this.
- *Skills:* The second test is whether freedom of movement continues for highly skilled people on a reciprocal basis between the UK and the EU27.
- *Continuity:* The third test is whether the UK and the EU27 ensure continuity during the transition from the existing arrangements pre-Brexit to the new arrangements post-Brexit without a gap between the one and the other.
- *Financial stability*: The fourth test is whether financial stability is maintained both during the negotiations between the UK and the EU27 and afterwards.
- *Time to prepare:* The final test is whether the UK and the EU27 clarify as early as possible the changes that will be required in capital markets, and whether they give market firms sufficient time to prepare.

In all five cases, the objective should be to minimise market uncertainty and disruption. This would be of mutual interest to both the UK and the EU27. But the future of the international capital markets forms only part of the negotiations on Brexit between the UK and the EU27. And it is not yet clear what exactly the UK Government will propose, nor how the EU27 will respond.

Background

1 Following the vote in the UK referendum on 23 June 2016 to leave the EU, the UK Government made two announcements about Brexit at the beginning of October:

- First, the UK Government will notify the European Council of the UK's intention to leave the EU by invoking Article 50 of the EU Treaty by the end of March 2017. Once Article 50 has been invoked, the UK Government will have two years to negotiate an agreement with the European Council, acting by a qualified majority after obtaining the consent of the European Parliament. If no agreement is reached, the UK will leave the EU two years after Article 50 has been invoked, unless the EU27 unanimously agree with the UK to extend that period. The EU27 have said that they are not willing to negotiate with the UK until Article 50 has been invoked.
- Second, the UK Government will introduce a Great Repeal Bill in the House of Commons in the spring of 2017 to repeal the European Communities Act 1972. The Great Repeal Act will come into effect when the UK leaves the EU, and is intended to "grandfather" EU law at that point into UK law.[2] Until the UK leaves, EU law – including new EU law – will continue to have effect in the UK.[3]

1. The "single passport" allows financial services operators legally established in one EU Member State to establish or provide their services in the other Member States without further authorisation requirements.

2. The Great Repeal Bill cannot be limited to a "copy and paste" of EU law into UK (ie English and Scottish) law, as some references to organisations and regulations will need to change. But as EU law will apply in the UK until Brexit day, the objective should be to keep legal changes on Brexit day to a minimum, with any substantive changes being introduced subsequently, if Parliament agrees.

3. EU Directives will already have been transposed into UK law. But EU Regulations, which currently apply directly in the UK, will cease to apply when the UK leaves the EU, unless provision is made in the Great Repeal Act to reapply them.

2 In November, following a claim in the High Court against the UK Government, the High Court ruled that the Government cannot invoke Article 50 without the approval of Parliament. The Government appealed against the High Court's verdict. The Supreme Court heard the case from 5-8 December and is due to give its judgment in January.

3 Before the UK leaves the EU, Parliament is expecting to be asked to ratify any agreement that is reached between the UK and the EU27. However, if Parliament is only asked to ratify an agreement shortly before the two-year deadline after Article 50 is invoked, this may be too late to consider alternative options, unless notification under Article 50 can be withdrawn before it expires. The UK Government's position is that, once given, notification under Article 50 will not be withdrawn. But it is not clear whether Article 50 can be revoked or not.[4] The only definitive way of clarifying this would be through the European Court of Justice.

4 The main purpose in invoking Article 50 is to deal with the terms of UK withdrawal from the EU: eg settling net budgetary commitments by the UK to the EU; dealing with the acquired rights of EU citizens; dealing with border issues (eg in Ireland and Gibraltar); and relocating EU agencies (eg the EBA). The EU27 negotiators are expected to argue that the negotiations on the terms of the UK withdrawal should take place first. But Article 50 also provides that the negotiations on withdrawal should take account of the framework for UK/EU27 relations in future.[5]

The first test: market access

5 When Article 50 is invoked, the UK Government will need to make proposals to the EU27 on Brexit, and it will then be for the EU27 to respond. The UK Government's proposals are expected to cover not only the terms of UK withdrawal from the EU, but also the terms for UK/EU relations after Brexit in future. There are three potential approaches to the terms for UK/EU relations after Brexit, with differing implications for market access: the EEA option; a unique bilateral agreement between the UK and the EU27; or trading under WTO rules.[6]

(i) The EEA option

6 Under this option, the UK would seek to join the European Economic Area (EEA) when it leaves the EU. In order to join the EEA, the UK would need to join the European Free Trade Agreement (EFTA). The UK would also need to sign an EEA accession treaty, which would have to be agreed and ratified by all 30 EEA Member States (ie the EU27 as well as the three EFTA members of the EEA.) As a member of the EEA, the UK would remain a member of the EU Single Market, as at present, though without a vote. But the UK is not expected to join the EEA on a permanent basis[7], because that would not be consistent with controlling immigration to the UK from the EU27; it would also require the primacy of EU law over UK law; and it would be likely to involve continuing budgetary contributions from the UK to the EU27 indefinitely in future.[8]

(ii) A unique bilateral agreement

7 If the EEA option is rejected, the main alternative option is for the UK to seek a unique bilateral (or "association") agreement on free trade with the EU27, under which the UK would no longer be a *member* of the EU Single Market. Instead, the UK would seek to negotiate *access* to the EU Single Market as a third country on as favourable terms as possible.[9] One of the key issues in negotiating favourable terms of access would be to establish "equivalence" in capital market regulation between the UK and the EU27. This should technically be possible as the UK has implemented all relevant EU legislation affecting capital markets so far, and will continue to do so until the UK leaves the EU.

8 But there are several problems with negotiating equivalence as a third country which a bilateral agreement between the UK and the EU27 would need to address:

4. For example, Jean-Claude Piris, former Legal Counsel of the European Council and Director General of the EU Council Legal Services from 1988 to 2010, argues: "Even after triggering Article 50 and notifying the EU of its intention to leave, there is no legal obstacle to the UK changing its mind, in accordance with its constitutional requirements.": *The Financial Times,* 1 September 2016.

5. In addition, they should provide for agreement on a transitional period between the point at which the UK leaves the EU and the point at which a permanent agreement between the UK and the EU27 comes into effect. (See below.)

6. The terms "soft Brexit" and "hard Brexit" are confusing because they are used in different ways. In general, "soft Brexit" means that the UK would become a member of the EEA when it leaves the EU and remain a member of the EU Single Market. "Hard Brexit" is sometimes used to mean the negotiation of access to the EU Single Market under a bilateral agreement on favourable terms as a third country. At other times, it is used to mean trading under WTO rules.

7. But if there is a transitional agreement between the UK and the EU27 (see below), the outcome may temporarily be similar.

8. However, on 20 December, the Scottish Government put forward proposals to join the EEA.

9. The EU's free trade agreements with the rest of the world invariably exclude the free movement of people, as do the "association" agreements in 2016 between the EU and the Ukraine, Georgia and Moldova: Michael Emerson: *Which Model for Brexit?* CEPS, 14 October 2016.

- One is that there is full provision for equivalence in some EU capital market regulations but not in others.[10] The arrangements for equivalence are largely untested, and it would be difficult for market firms to know how far they could rely on them.
- Another is that the assessment of equivalence is subject to a political judgment in the EU, so may be delayed or caught up in the political negotiations between the UK and the EU27.
- A third is that an equivalence assessment, once granted, can be withdrawn by the EU at short notice if UK law does not keep up-to-date with new EU law in future. Although this has not happened in any other case so far, it may be difficult politically for the UK Government to agree to keep UK law up-to-date with EU law, because this would involve giving priority to EU law over UK law after Brexit.
- Fourth, new EU regulatory requirements affecting equivalence are likely to be introduced in the period ahead: for example, MiFID II is due to be implemented on 3 January 2018; and the European Commission is proposing that non-EU banks should set up intermediate holding companies in the EU with sufficient capital and liquidity to minimise the risk of failure.
- Finally, an independent process for resolving disputes may also be needed to make equivalence work fairly in practice. This process should be easier to manage if close cooperation between the FCA and ESMA can continue after Brexit, though the FCA will no longer be a member of ESMA.

9 The European Commission is expected to review the current arrangements for third country equivalence on the basis that they were not designed with the UK's withdrawal from the EU in mind. It is not yet clear how long such a review will take, nor what the outcome will be, though the bilateral negotiations in prospect between the UK and the EU27 might provide an opportunity for such a review. The outcome could well affect – and be affected by – EU equivalence with other third countries (like the US) as well as the UK. Indeed, there may be a case for establishing equivalence at global level through the G20.

10 If market firms cannot rely on EU equivalence, they are likely to seek the authorisations they need to operate after Brexit within the EU27 (and vice versa in the UK), in those cases in which they do not have authorisation already. Authorisation may take time to obtain, particularly if a significant number of market firms apply to the same financial centre at once. Given the lead-times involved, there is a risk that market firms will need to take decisions before they know the outcome of the negotiations between the UK and the EU27. As a condition for obtaining the authorisations they require, market firms may need to transfer resources (eg from the UK to the EU27) to meet the requirements of supervisors, which may vary from one financial centre to another. They will also ultimately need to decide what configuration post-Brexit will be best for their capital markets business, taking account of its potential viability if based in two different European financial centres: ie in the UK and in the EU27.

(iii) Trading under WTO rules

11 The other alternative for trade in services would be for the UK to trade with the EU27 under World Trade Organisation (WTO) rules, when the UK leaves the EU.[11] This is not expected to be the UK Government's preferred option, but the UK Government will need a contingency plan in case it happens anyway. That would be the case if a bilateral agreement between the UK and the EU27 – or a transitional agreement pending the conclusion of a bilateral agreement – cannot be put in place in time for the UK's exit from the EU when Article 50 expires.

12 Under WTO rules, there is only an overarching framework for trade in services within the General Agreement on Trade in Services (GATS). The WTO has provisions attempting to limit the non-tariff barriers a member can impose on other members. But GATS rules provide a "prudential carve-out", under which the parties are generally permitted to retain restrictions on their financial markets for prudential reasons.

13 In terms of capital market regulation, the UK Government would have freedom to introduce different capital market regulation in the UK from the EU27 once the UK leaves the EU. As a result, the UK Government would become a "rule maker" rather than a "rule taker", and could set rules – and provide incentives (eg lower rates of tax) – designed to make the City of London a more attractive international financial centre. But if the UK Government did so, there would be an increased risk

10. Examples of EU legislation, showing whether there are provisions for third country equivalence or not: CRD IV: None. Solvency II: For reinsurance but not for direct insurance. MiFIR: Will allow firms from third countries to offer certain securities services cross-border to wholesale customers and counterparties. UCITS: None, though there could be scope for a redomiciled management company to delegate day-to-day fund management back to the UK; and funds could be marketed from the UK as alternative investment funds (AIFs). AIFMD: Yes. Source: House of Lords EU Committee*: Brexit: Financial Services* (December 2016).

11. A bilateral free trade agreement between the UK and the EU27 would allow them both to trade with each other on terms more favourable than those under WTO rules. Unless the UK reaches a bilateral free trade agreement with the EU27, or remains in the European Customs Union (which relates to trade in goods), the EU27 cannot offer the UK more favourable treatment than it does under the WTO, without also offering the same treatment to every other country. See Clifford Chance: *The UK's Future Trade Relationships* (October 2016).

that UK regulation would be judged not to be equivalent to EU27 regulation, as UK and EU27 regulation would no longer be the same.[12]

14 It is important to note that the City of London would not necessarily be subject to less capital market regulation under UK law than it would be otherwise under EU law, as: (i) the overall regulatory framework is determined at G20 level rather than solely at EU level, and the UK will remain a member of the G20 when it leaves the EU; and (ii) the national regulators in the UK (ie the FCA and PRA) are proponents of strict regulation. There is even an argument that the UK authorities may on occasion need to go beyond the regulatory requirements in other countries, because of the size of the UK financial services sector.

The second test: access to skills

15 The second market test for the negotiations between the UK and the EU27 is whether they preserve freedom of movement for skilled people in both directions between the UK and the EU27. This test is critically important in the international capital markets, where firms rely on unrestricted access to an international pool of talent, both in relation to their *existing* workforce in the UK and the EU27, and in relation to *new* entrants in future. The Chancellor of the Exchequer has indicated that the UK Government's overall policy of controlling EU immigration would not prevent companies from bringing highly skilled working people into the UK.[13]

16 Given that the City of London is in many ways a European financial asset, there is a question whether it would be possible for the UK and the EU27 to negotiate a sectoral agreement covering wholesale financial markets and involving free movement of skilled people and unrestricted free access to the EU Single Market in both directions.[14] This would enable the City of London in practice to stay "in" while the UK as a whole would come "out" of the EU. The City would not be defined by its physical location but by the EU capital market regulation to which it would continue to be subject after Brexit under UK law. But a UK approach of this kind may be resisted by the EU27: for example, on the grounds that sectoral agreements would amount to "cherry picking", or that the EU27 would not want the City to become the "offshore financial centre of the EU" when the UK leaves.

The third test: continuity

17 Once Article 50 has been invoked (ie by the end of March 2017), the UK will leave the EU two years later, unless there is unanimity among the EU27 on extending the period beyond two years. It would be very difficult to secure unanimity in the EU27 on an extension, and the UK Government is in any case planning to leave the EU before the next General Election (scheduled for 2020). But it also looks unlikely that a bilateral agreement between the UK and the EU27 could be negotiated and ratified in two years, particularly if it has to be ratified in all 38 national and regional parliaments in the EU first. (For example, the Canadian bilateral agreement with the EU took seven years before it was signed at the end of October 2016, and was held up at the last minute by opposition in the Wallonian Parliament in Belgium). The Chief Negotiator for the European Commission has pointed out that the negotiating period under Article 50 will in practice be less than two years. When Article 50 is invoked by the end of March 2017, the EU27 will take time to respond; and the negotiations will need to be concluded by October 2018, so that there is sufficient time for ratification in Member States, the European Parliament and the UK before Article 50 expires.

18 If a bilateral agreement between the UK and the EU27 cannot be negotiated and ratified in two years (or less), the third test for the negotiations is whether the gap will be bridged by a transitional agreement covering the period between the point at which the UK leaves the EU and the point at which the bilateral trade agreement takes effect. Should that not be possible, the UK would have to fall back on trading with the EU27 under WTO rules when it leaves the EU. Agreement on a transitional period would need to be reached as soon after Article 50 is invoked as possible; and give sufficient time for market firms to prepare for implementing whatever outcome the UK and the EU27 agree. If there is a "presumption of equivalence" between the UK and the EU27, that should give market firms in the UK and the EU27 a "third party passport" during the transitional period. A transitional agreement of this kind would avoid the risk of a "cliff edge": in other words, a sudden change in the regulatory regime when the UK withdraws from the EU as well as another sudden change when the bilateral agreement between the UK and the EU27 takes effect later.

19 It is not clear whether the UK Government would need to make continuing budgetary payments to the EU27 in exchange for continuing access to the EU Single Market after the UK leaves the EU. This is a separate issue from settling the terms for UK withdrawal from its existing budgetary commitments to the EU, but the two issues may in practice become related during the negotiations between the UK and the EU27.

12. However, the UK authorities might argue that, where UK regulation differed from EU27 regulation, it would still be consistent with G20 requirements at global level, and the regulatory result would therefore be equivalent.

13. House of Commons, 25 October 2016.

14. Free trade agreements generally deal with trade in goods and services separately.

The fourth test: financial stability

20 The fourth test is whether it will be possible to maintain financial stability both during the negotiations between the UK and the EU27 and afterwards. A smooth transition – from the existing arrangements pre-Brexit to the new arrangements post-Brexit without a cliff edge – would help to achieve this. Financial stability could be put at risk if there is market uncertainty not only about the ultimate outcome of the negotiations, but also if the market perceives a risk of sudden regulatory change in the meantime. This could be the case if there are no new – or transitional – arrangements in place, when the UK leaves the EU, to ensure continuity with the arrangements that exist at present.

21 The best way of securing financial stability is to ensure that market integration between the UK and the EU27 continues. By contrast, if the market fragments between London as Europe's largest international financial centre and the financial centres in the EU27, so that there are different regulatory regimes in the UK and the EU27, this could be to the disadvantage of them both, because of the extra costs and risks involved. These risks would be greatest if the UK trades with the EU27 under the rules of the WTO and GATS (in the case of trade in services). If so, financial centres in Europe may become less competitive as centres for capital markets business, and the principal beneficiary may be New York.

22 There may also be potential implications for financial stability if the arrangements for euro clearing change once the UK leaves the EU. The European Court of Justice decided in 2015 that euro clearing can continue in London. But the position may change when the UK leaves the EU, if EU legislation is introduced to make euro clearing in the EU27 mandatory.[15]

- On one side, the argument is that euro clearing in the EU27 (or specifically in the euro area) should become mandatory, because a clearing house needs to be located in the same currency area as the central bank providing liquidity support and a "back stop", if the clearing house is "too big to fail".
- On the other side, the argument is that clearing does not need to take place in the jurisdiction in which a financial asset is denominated, as central bank swap agreements can counter any systemic risks, and it is more efficient to clear on an international basis, regardless of currency, because this allows firms to net their risk in different currencies.

The fifth test: time to prepare

23 The fifth and final test is whether sufficient time is given to capital market firms to prepare for any changes required when the UK leaves the EU. This is partly a question of how substantial the changes would be; and partly a question of how long market firms would have to prepare for them. For example, if a transitional agreement can be agreed early in the process which sets out the general direction of future relations between the UK and the EU27, and gives market firms a sufficient time to prepare for implementing them, that should help reduce market uncertainty and market disruption. Such an outcome would be less likely, if a transitional agreement is only reached later during the UK/EU27 negotiations, once the terms for UK withdrawal have been settled.

24 If capital market firms in the UK are not clear sufficiently early in the process, or not given sufficient time to prepare, they may well conclude that they need to be authorised to provide all relevant capital market products from the EU27, as a contingency, in cases in which they are not authorised already. The length of time needed to obtain these authorisations could well become a constraint, particularly if a significant number of financial institutions all apply to the same authorities in the EU27 at the same time. There is also a risk that capital market firms will need to make decisions before they know the outcome of the Brexit negotiations, particularly if they are responding to competitive pressure from their clients. Similar considerations are also likely to apply – in the other direction – to firms based in the EU27 needing authorisation to operate in the UK. Finally, the preparations for Brexit in the UK are complicated further by the requirement for large UK banks to separate their wholesale from retail activities at the same time.

Conclusion

25 Against this background, our understanding is that many ICMA member firms are still waiting to see what the UK proposes and how the EU27 respond, but that they are also undertaking contingency planning. They cannot wait for long, if they do not yet have the authorisations they would need to operate after Brexit, and they may have to take decisions before they know the outcome of the negotiations between the UK and the EU27, given the lead-times involved.

26 At ICMA, we are keeping the practical implications of Brexit on the agenda of our Market Practice and Regulatory Policy Committees to see how we can best help members both in the UK and the EU27 to prepare; we are in touch with the UK, the euro area and the EU authorities; and we are cooperating with other trade associations by sharing information where we can.

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15. This could affect euro clearing in New York as well as London.

Social bonds: fresh momentum

By Peter Munro

Summary

This article focuses on recent encouraging developments in the growing social bond market. The market has captured fresh attention following the launch of Social Bond Guidance by the Green Bond Principles (GBP) Executive Committee in June 2016, under the aegis of ICMA. The new guidance provided the first formal framework for this promising market for bonds financing projects with positive socio-economic outcomes.

"The potential impact of such a market could be hugely significant", argues Chris Wigley, Senior Portfolio Manager at Mirova. (See Box.) Issuers have capitalised on the much-anticipated Guidance, attracting strong demand for bonds aligned with its precepts.

Defining social bonds

A Social Bond Working Group, established by the GBP Executive Committee, and currently chaired by Crédit Agricole CIB and IFC, published new Social Bond Guidance at the last GBP AGM.

This Guidance applies the GBP's "use of proceeds" principle and other core principles to social bonds. It therefore requires social bonds to "be exclusively applied to finance" what the Guidance defines as "Social Projects". The other pertinent Principles of the GBP relate to the process for project evaluation and selection, management of proceeds, and reporting, as well as its recommendations on the use of external reviews.

Social Projects are defined as "activities and investments that directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially, but not exclusively, for target population(s)." Categories of social projects include affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security and socio-economic advancement.

Beneficiary target populations include those below the poverty line, the excluded or marginalised, vulnerable groups, the disabled, migrants, and the undereducated, underserved or underemployed.

The Guidance also allows for "bonds where the proceeds will be applied to both social and green projects", which can result in a broader designation, as with "Sustainability Bonds".

Market growth

The launch of IFFIm's first vaccine bond in November 2006, for $1 billion, crystallized the market's interest in social bonds at scale in a then nascent market. René Karsenti, President of ICMA and Chairman of the IFFIm Board, said: "IFFIm's success, with some $6 billion issued to date, attests to the strength of the IFFIm structure and its ground-breaking social initiatives, but also the material market interest in social-themed bonds."

As with green bonds, it would take some time for wider momentum to emerge. With some $4 billion in issuance of social and sustainable bonds during 2015-16 (source: JP Morgan), the theme has recently gained traction. Marilyn Ceci, Managing Director at JP Morgan, explains: "I can see acceptance growing for social and also sustainable bonds. 2017 could be the year we see social bonds gaining broader acceptance."

This expectation for growth is supported by the buy side: "I can definitely see growing demand from an increasing constituency of investors," says Manuel Lewin, Head of Responsible Investment, Zurich Insurance.

2017 could be the year we see social bonds gaining broader acceptance.

Impact of the new Guidance on issuance and demand

Among issuers in the vanguard was Spanish agency ICO. Its latest social issue in 2016 was a €500 million social bond targeted at employment generation. The bond was heavily over-subscribed, attracting orders for €1.4 billion. Rodrigo Robledo, Head of Capital Markets at ICO, commented: "After two successful transactions, social bonds are in our funding plan for 2017. We are confident to see more players in 2017. ICO has been involved in the Social Bond Working Group since the very beginning, to create a strong framework for social bonds, as some investors requested it."

Underlining the catalytic effect of the Guidance, a subsequent issue by the Japan International Cooperation Agency (JICA) was "upsized, partly due to the new label", says Shohei Takahashi, a lead manager of the JICA issue and Managing Director, Head of International DCM and FIG DCM at Nomura. JICA confirms this: "With investors, the label offered by this Guidance was a key factor in unlocking demand," said Masanori Yoshikawa, Director, Capital Markets Division, JICA.

The catalytic effect of the Guidance is set to continue: "The consolidation of thematic criteria delivers the potential to consider more regular issuance, and also to grow towards benchmark size, notably for issuers with a strong social pipeline, such as IFC," said Elena Panomarenko, Senior Financial Officer, Funding, at IFC Treasury.

Impact of the new Guidance on the social factor in investment decisions

The new Guidance builds on the success of the approach in the Green Bond Principles, applied for social criteria: "The 'use of proceeds' approach delivers transparency in an area that has traditionally been intransparent," says Manuel Lewin, at Zurich.

Such clarity is facilitating investment choices: "Given a choice of investments with very similar financial attributes, if one bond offers more clarity on positive social features of the use of proceeds, we may be inclined to choose that one," says Manuel Lewin, at Zurich. He adds: "Currently, social bonds allow us to align with better social outcomes for a given level of risk and return. Social risk is less likely to be material. … However, social bonds might offer relevant signals on strategy or quality of management."

With the market very much focused on measuring impact, the Guidance highlights the "number of beneficiaries" as a core metric. Work is being done to map social impact metrics in more detail. For example, JP Morgan explains the evolving variety of metrics for education, that include not only the number of people benefiting, but also metrics such as percentage of students placed in jobs afterwards.

Like the GBP, social and sustainable bonds embraced external reviews, in particular insights on impact, notably through second opinions: "In terms of second opinions on social and sustainable bonds, Sustainalytics deserve credit for taking a lead in terms of methodology and supporting the lion's share of transactions," says Marilyn Ceci at JP Morgan.

Market potential

Focusing on issuance potential, Manuel Lewin from Zurich highlights how differing capital intensity may favour certain types of issuer: "The potential for social issuance by definition seems to be less than for green at this stage, since capital intensity tends to be less in the social space, with certain exceptions. For instance: In the muni market, the potential for social bond issuance may exceed that for green bonds."

There have been pragmatic combinations of green and social as an answer to sub-scale social issuance, resulting in sustainability bonds. "We must consider the need for many issuers to reach critical mass for issuance through a combination of green and social projects," says Isabelle Laurent, Deputy Treasurer at EBRD, who began issuing microfinance bonds in 2010.

Conclusion

This is a market showing considerable potential. The creation of Social Bond Guidance has unlocked momentum, and the signs are that an increasing array of issuers and investors are preparing the next phase of growth. The Social Bond Working Group of the GBP is very active in helping that potential to crystallise, and has published its Working Group agenda for 2016-17. The recent consultation among GBP members and observers will enrich that agenda. Among the areas that may warrant further attention is impact reporting. Also, there promises to be an active market in not only social but also sustainability bonds, with mixed social and green purposes. This fits with the strong underlying market trend towards ESG investing.

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Social bonds: building a market with great potential *By Chris Wigley*

The last ten years have seen rapid growth in green bonds. Social bonds have been in the market for the same amount of time but have not experienced the same degree of growth. The Social Bond Guidance from the Green Bond Principles/ICMA is very recent – launching in summer 2016. This Guidance and the Working Group behind it, including Mirova, has boosted the market, and certain issuers have aligned their issues with the Principles.

Since both green and social bonds are now gaining wider attention, it is helpful to distinguish one from the other. At Mirova, we have the following definitions:

- Green bond – linked to a programme consisting 100% of green projects.
- Social bond – linked to a programme consisting 100% of social projects.
- Green and social bond – linked to a programme consisting 100% of green and social projects.

All three types of bond exist in a sector of sustainable bonds, growing in popularity because they disclose how the funds raised through the bond will be used. For want of a better expression, and to distinguish these bonds from other types of sustainable bonds, these are "purpose-based" bonds. In addition to disclosing the "use of proceeds", they undertake to inform investors of progress and impact with regular reporting.

Many of the issuers are multilateral development banks funding health, education and employment projects. It is relatively straight-forward for multilateral development banks to issue social bonds, as the alleviation of poverty is often in the mission statement alongside environmental programmes.

The challenge currently is to encourage corporates to issue social bonds. This is difficult as many will not have significant social programmes. What is conceivable however is the following:

- Pharmaceutical companies could issue social bonds to fund access to medicine.
- Pharmaceutical companies could also use social programmes to fund vaccine R&D.
- Banks can issue social bonds to fund access to finance.
- Financial institutions can also continue to issue social bonds to fund social mortgages and housing.
- Telecoms companies could issue social bonds to fund access to the internet.

Of course, multilateral development banks can also continue with their programmes of issuing social bonds to fund employment programmes, etc. To develop the social bond market further, the challenges appear to be threefold:

- Encouraging corporates to issue social bonds.
- Initiating a social bond Index.
- Developing social impact metrics.

There is a huge amount of work to be done in the case of all three. Perhaps most challenging is the development of social impact metrics. In the case of green bonds, carbon emissions may be quantitative. However, in the case of social bonds, with projects such as education, it is much more qualitative. Additionally, impact is potentially more than the number of beneficiaries. Impact can be developed to include, for example, not just beneficiary individuals but also beneficiary households. Additionally, questions can be asked as to the profile of the households – eg living situation, range of salaries, location of households (marginal, mid-level or affluent regions), integration factors.

Social bonds have recently received welcome new interest. Development of the market is not without its challenges. However, growing market interest may support solutions to the main challenges, and then the potential impact of such a market could be hugely significant.

Chris Wigley is Senior Portfolio Manager, Mirova, a member of the Green Bond Principles Executive Committee and the Social Bond Working Group. Mirova is an asset management company, wholly owned by Natixis Asset Management, that brings to bear almost 30 years of experience in Socially Responsible Investing (SRI).

China's green bond market

By Yao Wang and Ricco Zhang

Since the People's Bank of China (PBOC) and the National Development and Reform Commission (NDRC) published their guidelines for issuing green bonds in China at the end of 2015, along with policy endorsements from other official bodies, green bonds have become important financing tools for China's capital market to serve the real economy. China Industrial Bank and Shanghai Pudong Development Bank were the first two issuers of green bonds. Since then, many financial institutions have started to take an active role in this expanding market. According to data from Wind, as of 30 November 2016, the size of China's labelled green bond market reached RMB 195.53 billion (US$ 28.211 billion), including 46 green bonds from 26 issuers, of which four are asset-backed securities.

The development of China's green bond guidelines has relied on international experience and Chinese regulators keep regular contacts with international self-regulatory organizations, market standards providers, market participants and other regulators. In particular, China's Green Finance Committee (GFC) working under the PBOC has benefitted from the participation and input of the International Capital Market Association (ICMA) and the Climate Bonds Initiative (CBI) while developing the framework of China's green bond market. Both ICMA's Green Bond Principles (GBP) and the Climate Bonds Standards were used as references during the drafting of the Chinese green bond guidelines and the Preparation Instructions on Green Bond Endorsed Project Catalogue (2015 Edition) (GB Catalogue). A number of important Chinese institutions have also become members or observers of the GBP and partners of CBI respectively.

During 2016, China's green bond market became the largest in the world. This article looks at the factors behind its rapid development.

Official support

Green finance is now becoming a top priority for the Chinese authorities. As a major component in building the green finance system, green bonds have been included in its development strategy. On 21 September 2015, the Central Committee of the Communist Party of China (CPC Central Committee) and the State Council released its policy paper, *Systematic Scheme for Environmental Conservation Culture Structural Reform,* explaining the top-level design of China's green financial system explicitly for the first time. This scheme suggests that, in facing the challenges presented by climate change, the "new normality", the green financial system will stimulate economic growth during the 13th Five-Year-Plan period (2016-2020).

Consistency with domestic policy

In recent years, a series of reform measures in China's bond market and the more relaxed policy environment have provided a powerful driving force for the development of green bonds.

First of all, the relaxation of the regulation around bond issues has provided the conditions for the issue of all kinds of green bonds. For example, a wider range of companies are now able to issue corporate bonds, a system of private placement is allowed and project revenue bonds can be publicly issued through book building in the interbank bond market. Reform and innovation in the issue of enterprise bonds has been speeded up, simplifying the declaration procedure for enterprise bonds, increasing the efficiency of bond funds, intensifying the responsibility of the intermediaries for information disclosure and emphasizing regulatory supervision in the course of the issue and afterwards. The issuing terms for Quasi-Municipal Bonds have also been relaxed and high-quality enterprises are encouraged to issue bonds to support such key projects and areas endorsed by the authorities. More local enterprises are encouraged to raise funds using enterprise bonds. Local treasury bonds have cash management guarantees from the central and local treasury and monetary policy operating tools guarantees from the PBOC, which will benefit the issue of green municipal bonds in the future.

Second, the liberalization of the bond market in China allows easier transactions involving green bonds. For instance, approval for bond transactions in the interbank bond market is no longer a requirement and private investment funds are allowed to participate in cash bond transactions. More foreign agencies (namely other central banks, international finance corporations and sovereign wealth funds) have access to the interbank bond market. In addition, the examination and approval system will be replaced by the filing system. The restriction on the investment amounts will be relaxed and participants can choose their settlement agents themselves.

Encouragement of the use of financial bonds for infrastructure projects will also accelerate the development of the green bond market. In 2015, China Development Bank and Agricultural Development Bank of China offered a RMB 300 billion private placement to Postal Savings Bank of China as an infrastructure construction loan, which enjoys an interest subsidy at a 90% rate of the special project bond from the central finance. The speeding up of developments in asset securitization also offers development opportunities for green bonds.

Last but not least, several green bond related guidelines have been put forward by regulators, including PBOC, NDRC, Shanghai Stock Exchange, Shenzhen Stock Exchange and The National Association of Financial Market Institutional Investors, which directly give policy support to China's green bond development. Along with the development of China's green finance agenda, the GFC has been playing the key role. In the green bonds space, GFC has developed the GB Catalogue which is used to support the green bond guidelines by PBOC and Shanghai Stock Exchange. GFC is also responsible for harmonizing different Chinese green bond standards and promoting the Chinese onshore green bond market.

GFC also works closely with ICMA, GIZ and other international organizations to promote green bond development in China. Commercial institutions such as HSBC, Bank of China, Agricultural Bank of China and other institutions who are active in the international green bond market contribute to the growing interaction between the international and Chinese green bond markets.

Market foundation

The development of green bonds relies on the overall success of the Chinese bond market. Although China is an emerging market, it is already the second largest bond market worldwide, with good credit and strong liquidity, and a wide base of market and public participation. As the scale of financing through markets is expanding and interest rate liberalization is moving forward, the scale and transaction variety of the Chinese bond market is developing rapidly.

The tremendous potential of China's bond markets is the foundation for the development of green bonds. It is expected that, from 2015 to 2020, the direct financing of non-financial enterprises will increase from 17.2% to about 25%, and the value of outstanding bonds at the Chinese capital market will increase to 100% of China's GDP.[16] In 2015, China's total GDP reached RMB 67.67 trillion. If the GDP increases by 6.5% per year, China's total GDP will reach RMB 92.71 trillion in 2020, which means there is potential for more than RMB 29 trillion of issuance in China's bond market. If the ratio of green bonds increases to 1%, it means there will be RMB 290 billion of green bonds in 2020. But if the ratio of green bonds increases to 5%, it means there could be as much as RMB 1.45 trillion of green bonds in 2020.

Investor demand

Green bonds enjoy greater demand from responsible investors. Especially in the international capital market, banks, insurance companies, pension funds and some fund companies accept the principle of sustainable investment, so they have a considerable investment allocation for green projects in their asset portfolio and therefore a large demand for green bonds. In October 2015, Agricultural Bank of China issued green bonds of US$-denominated 900 million bonds and RMB-denominated 600 million bonds. The dollar bonds, including a 400 million 3-year bond and a 500 million 5-year bond, were 4.2-times oversubscribed at rates of 2.125% and 2.75% respectively. The offshore RMB bond was 8.2-times oversubscribed at a rate of 4.15%. Such successful examples show the interest that international investors have in China's green bonds and RMB-denominated green bonds.

The proceeds raised by green bonds are invested in green projects such as renewable energy, and energy efficiency improvements etc. Most of the projects enjoy subsidies from central and local government. Further preferential policies for green bonds are expected, such as lower investment thresholds and more favourable tax rates. These preferential policies can lower the financing cost to some extent, leading issuers and investors to invest more in projects for environmental protection, low-carbon development and sustainable development. Green bonds also have stricter information disclosure responsibilities and more transparent use of the proceeds, so investors can invest in environmental projects at a lower risk, at the same time satisfying their sense of social responsibility.

Conclusion

In conclusion, as green finance has become a significant part of the national strategy, the development of China's green bond market has been encouraged by the Chinese authorities. Meanwhile, a series of policy reform measures have promoted the development of the bond market, which in turn creates many opportunities for the green bond market. More issuance of green bonds in China and China's green bond popularity among responsible investors in the international capital market has expanded the investor base for green bonds. Further development of the green bond market will rely on continuing stable policies, a favourable market environment, cooperation with the international market and a growing number of green investors.

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16. By Xiaochuan Zhou, the Governor of PBOC.

Summary of practical initiatives by ICMA

The practical initiatives on which ICMA has been engaged over the past quarter with, and on behalf of, members include the following:[1]

Primary markets

1 *PSIF:* The Public Sector Issuer Forum (PSIF), for which ICMA provides the Secretariat, met at the World Bank in Washington on 6 October. The agenda included a discussion with the US Department of the Treasury about US Treasury market trends.

2 *FMSB:* ICMA is reviewing, in its Primary Market Practices Committee, the new issue guidelines published on 17 November by the FICC Markets Standards Board (FMSB), and plans to submit comments by the deadline of 17 January.

3 *MAR:* On behalf of ICMA, Ruari Ewing made a presentation on market soundings under the new Market Abuse Regulation (MAR) regime to the European Sovereign Debt Managers' meeting in Brussels on 9 November; and briefed a PSIF conference call on 16 November on Article 6, which relates to SSA issuers. He has also held several other conference calls for members on market soundings under the new MAR regime for members.

4 *Prospectus Regulation:* ICMA held a useful meeting with the European Commission team on the Prospectus Regulation on 20 October at DG FISMA in Brussels, focusing mainly on the distinction between wholesale and retail disclosure and risk factor requirements. In response to a request by the Commission, ICMA also prepared a paper consisting of technical comments, prior to the agreement by co-legislators on the Level 1 text in December.

5 *Bank of Italy Article 129 rules:* ICMA has been working with members on the practical implementation of the Bank of Italy Article 129 rules on post-issuance reporting, and sent a letter to the Bank of Italy in December highlighting the most significant concerns.

6 *PRIIPs Regulation:* ICMA is engaging with both primary and secondary market participants to discuss the implications of the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, taking account of the proposed one-year delay in implementation until 1 January 2018, and working on standard language for selling restrictions and legends for prospectuses.

7 *FSB consultation on misconduct risk*: ICMA submitted a response on 9 November to an FSB questionnaire on governance frameworks to mitigate misconduct risk. The ICMA response focused on its work to set standards of good market practice.

8 *FCA consultation on disclosure guidance and transparency rules:* ICMA has submitted a short response to the UK FCA consultation on its proposal to introduce a requirement for issuers to provide Legal Entity Identifiers (LEIs) when they file regulated information with the FCA.

9 *Primary Market Forum:* ICMA brought together 139 primary market participants from across the value chain at its 10th Primary Market Forum, hosted by Allen & Overy in London, on 23 November.

Secondary markets

10 *Corporate sector purchase programmes:* ICMA's Secondary Market Practices Committee held a meeting with the ECB on 3 November and with the Bank of England on 10 November to discuss their respective corporate sector purchase programmes.

11 *European Commission Expert Group:* Representing ICMA, Andy Hill has been invited to join the European Commission Expert Group on corporate bond market liquidity. The first meeting of the Expert Group was held in Brussels on 14 November.

12 *Presentation to ESMA on corporate bond market liquidity:* René Karsenti made a presentation on corporate bond market liquidity to the ESMA Securities and Markets Stakeholder Group in Paris on 10 November. The presentation was based on Andy Hill's second ICMA study of the subject, published in July.

13 *MiFID II and MAR:* ICMA has submitted recommendations to ESMA on Level 3 Q&A relating to MiFID II and MAR Investment Recommendations.

14 *MiFID II consolidated tape:* ICMA's Consolidated Tape Working Group responded to ESMA's consultation on RTS specifying the scope of the consolidate tape for non-equity financial instruments, and expressed market participants' concerns over ESMA's proposal for multiple consolidated tapes.

16. ICMA responses to consultations by regulators are available on the ICMA website.

15 *Review of ICMA Buy-in Rules:* 74 members responded to ICMA's consultation on possible revisions to ICMA's Buy-In Rules intended to improve the efficiency and transparency of the buy-in process, while also keeping open the possibility of a buy-in auction mechanism. ICMA is considering potential revisions to the Buy-In Rules in consultation with the Secondary Market Practices Committee.

Repo and collateral markets

16 *Collateral management:* The ICMA European Repo and Collateral Committee (ERCC) has continued to provide input to help advance work on collateral being conducted under the auspices of the Commission's European Post-Trade Forum and the ECB's COGESI.

17 *ECB/IMF workshop:* Members of the ICMA ERCC participated in an ECB/IMF workshop on money markets, monetary policy implementation and market infrastructures on 24 October, and on 25 October met the ECB to discuss market developments. Discussions have also been held with the CGFS and the Bank of England.

18 *SFTR:* The ICMA ERCC submitted a detailed response to ESMA's second consultation on draft technical standards for the Securities Financing Transaction Regulation (SFTR) by the deadline of 30 November.

19 *MiFID II:* The ICMA ERCC has written to the European Commission seeking to resolve concerns about transaction reporting of SFTs with ESCB counterparties under MiFIR and the application of MiFID best execution reporting requirements in the case of repos.

Asset management

20 *Macroprudential policy and non-banks:* The ICMA Asset Management and Investors Council (AMIC) responded on 27 October, through its Fund Liquidity Working Group, to the European Commission consultation on macroprudential policy, focusing on the need for securities regulators to be more involved in the work of the ESRB.

21 *Bail-in:* Following the latest letter from the ICMA Bail-In Working Group, chaired by Tim Skeet, to the ECB on the need for transparent, consistent and comparable treatment of bad loans and encumbered assets, and the need for a consistent approach in achieving subordination, members of the Bail-in Working Group met representatives of the European Commission, the Single Resolution Board and the ECB in October and November to discuss the letter.

22 *AMIC Council:* The AMIC Council, chaired by Bob Parker, met at BlackRock in London on 7 November, with a record attendance, ahead of the AMIC Excom meeting on 25 November.

Capital market products

23 *ECPP:* ICMA organised a seminar on European Corporate Debt Private Placements (ECPP) at KBC in Brussels on 25 October, with Olivier Guersent, Director General of DG FISMA in the European Commission, as keynote speaker. ICMA also published an updated edition of the ECPP Market Guide, which was launched at the seminar.

24 *Green bonds:* The Green Bond Principles Official Sector Contact Group held its first meeting at HM Treasury on 18 November. On 22 December, ICMA was invited by the European Commission to be an observer on its new High Level Expert Group on Sustainable Finance.

Other meetings with central banks and regulators

25 *Brexit:* ICMA has continued to keep in contact on Brexit with the UK, the euro area and the EU authorities, and to discuss with members – both in the UK and the EU27 – through ICMA Market Practice and Regulatory Policy Committees how it can best help them to prepare.

26 *Other ICMA meetings with the ECB and the European Commission:* In addition to the other meetings referred to above, ICMA representatives also held meetings at the ECB with Ulrich Bindseil, Director General of Market Operations and others in Frankfurt on 24 November, and with Olivier Guersent, Director General of DG FISMA at the European Commission, and others on 30 November.

27 *Official groups in Europe:* ICMA continues to be represented, through Martin Scheck, on the ECB Bond Market Contact Group; through René Karsenti, on the ESMA Securities and Markets Stakeholder Group; and through Godfried De Vidts on the ECB Macroprudential Policies and Financial Stability Contact Group, the European Post Trade Forum and the Bank of England's Securities Lending and Repo Committee (SLRC).

28 *Official groups in Asia:* ICMA is an official member of China's Green Finance Committee under the auspices of the People's Bank of China, and the Green Finance Study Group under the G20.

Primary Markets

by Ruari Ewing and Charlotte Bellamy

 

EU prospectus regime

A political agreement was reached on a new Prospectus Regulation, intended to replace the current Prospectus Directive regime, in December 2016. Most provisions are expected to apply at some point in the first half of 2019 (around two years after the Prospectus Regulation is published in the *Official Journal*), although some provisions will enter into application shortly after publication in the *Official Journal*, which is expected to happen in 2017.

A document dated 16 December 2016 published by the EU Council sets out the "final compromise text" of the Prospectus Regulation. For the wholesale bond market, it seems that there have been a number of welcome improvements from the Commission's original proposal (covered in the First Quarter 2016 edition of this Quarterly Report).

Two key points to highlight initially from the perspective of the wholesale vanilla bond market are as follows:

- *Wholesale disclosure regime:* The wholesale disclosure regime and summary exemption for bonds with a minimum denomination of €100,000 that applies under the current Prospectus Directive has been retained. However, the wholesale disclosure regime and summary exemption will *also* be available for bonds that are the subject of an exempt public offer (eg are offered to qualified investors only) and admitted to trading on a regulated market, or a specific segment of a regulated market, to which only qualified investors can have access. If this option is used, there would also need to be restrictions in place to prevent re-sales to "non-qualified investors".

  This compromise position is welcome and in line with the general approach suggested by ICMA following extensive discussions with members and regulators. Market participants will now need to consider exactly how the new "qualified investor only" option for wholesale prospectus disclosure will work in practice. This will include, for example, whether there are any existing "qualified investor only" regulated markets or segments of regulated markets in Europe, or whether such markets/ segments would need to be established. In addition, the detailed requirements for the wholesale disclosure regime will be set out in Level 2 measures, which are yet to be developed.

  Overall, the Level 1 position in relation to wholesale bond disclosure is significantly improved from the Commission's original proposal.

- *Risk factor disclosure:* The agreed approach in relation to new risk factor disclosure requirements may be more problematic for market participants. It appears that the Council's approach to the new risk factor requirements has been taken forward, involving (among other things) risk factors being presented in a limited number of categories depending on their nature, with the most material risk factors being mentioned first in each category. As reported in previous editions of this Quarterly Report (notably the last edition), this could represent an increase in liability for issuers and so the practical implications of this will need to be considered carefully by market participants.

There are likely to be various other important implications for the bond market that will emerge over time as market participants digest the final Level 1 text and any Level 2 measures when they are made available. An example of this might be the implications of a change to the definition of "advertisement" from an "announcement" to a "communication". This is of course a small drafting change in the legislation, but one which could have significant implications for market participants if it means that the Prospectus Regulation advertisement regime applies to any written or oral communication, including bilateral e-mails and telephone conversations. Such an approach would seem disproportionate and would likely be very challenging (if not unworkable) in practice.

It is also worth highlighting now that new provisions relating to convertible securities are expected to apply at some point in 2017, shortly after the Prospectus Regulation is published in the *Official Journal*. Broadly, the provisions introduce a new requirement to prepare a prospectus in respect of shares resulting from the conversion or exchange of other securities if the resulting shares represent 20% or more of the number of existing shares. Following extensive advocacy by ICMA, the agreed text now includes various carve-outs from this provision, including for shares qualifying as Common Equity Tier 1 of certain institutions issued as a result of the conversion of their Additional Tier 1 instruments on a trigger event. As with all provisions, the precise language used in the final agreed text will need to be studied carefully to determine the precise practical implications.

In terms of next steps, it is anticipated that the text will be adopted by the co-legislators following the usual jurist-linguist checks. It is expected that the final text would then be endorsed by the European Parliament and the Council before being published in the *Official Journal*, likely in the second quarter of 2017.

ICMA will continue to engage with members and official institutions as the legislative process progresses, in particular on Level 2 measures which are expected to be developed during 2017 and 2018.

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Market soundings under the Market Abuse Regulation

The Market Abuse Regulation (MAR) introduced a new market soundings regime which applies to the disclosure of both inside information and non-inside information.

This is a key area of focus for ICMA's members with profound implications, particularly because the new regime gives rise to a number of questions and uncertainties. ICMA has been discussing the implications of the new regime with its primary market sell-side constituency through its Committees and Working Groups in Europe and Asia. This topic has also been discussed in a number of other fora, including regional conferences, the ICMA Board and the ICMA Committee of Regional Representatives.

The main focus has been on the implications of the rules for sounding information other than inside information, especially in relation to investor meetings (where a transaction might subsequently follow) and the posting of MTN (and SSA) price levels. Considerations have included what constitutes a "transaction announcement", "acting on the issuer's behalf" and "gauging interest", noting that there is currently limited (or no) guidance from regulators on these and other relevant points. In addition, there is a question surrounding the scope of the MAR soundings regime, which ICMA understands is being considered by ESMA.

ICMA, with input from major law firms, has been developing a paper outlining the emerging sell-side thinking on these points. ICMA is intending to discuss this with relevant regulators before making it available more broadly to assist market participants in their practical dealings with market soundings. In the meantime, ICMA has also held a number of briefing calls that have been open to members, investors and issuers, the slides for the most recent of which on 13 December 2016 are available, amongst other things, on the ICMA MAR (primary aspects) webpage. The next briefing call on MAR soundings for members is expected to be scheduled for late January.

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Packaged Retail and Insurance-based Investment Products (PRIIPs)

As noted in the last edition of this Quarterly Report, various Member States expressed a view in autumn 2016 that the date of application of the PRIIPs regime should be delayed by 12 months. Since then, the date of application has indeed been delayed to 1 January 2018 by an amending Regulation published in the *Official Journal*. This delay is welcome as it will give market participants more time to familiarise themselves with the new regime and allow legislators to finalise the necessary Level 2 measures.

Notwithstanding the delay, ICMA continues to work towards consensus on the practical steps that issuers and underwriters could take to avoid making vanilla bonds that could fall within the product scope of the PRIIPs regime available to MiFID II retail investors, in the expectation that the PRIIPs KID is an unworkable concept at least in the vanilla context (see previous editions of this Quarterly Report, notably the 2014 Third Quarter edition). Such practical steps may include updated selling restrictions, related warning legends on prospectuses and final terms and additional diligence of order books. In addition, it may be necessary to consider whether admission to trading on a particular market or markets could mean that a relevant product has been "made available" to retail investors if, for example, retail investors have direct access to that market. ICMA will continue to discuss these practical questions with its primary market members and plans to work towards finalising suggested language for prospectuses in the first part of 2017. Such suggested language could be relevant for debt programme updates taking place in 2017.

MiFID II explicitly states its product governance regime is to be applied "proportionately".

It is important to bear in mind that the PRIIPs Regulation will enter into force at a similar time to the new product governance regime introduced by MiFID II (discussed in a separate article in this section of the ICMA Quarterly Report). ICMA's discussions on the PRIIPs Regulation are therefore framed with this in mind, with a view to developing a consistent practical approach for compliance with the PRIIPs Regulation and MiFID II product governance regime and, in due course, the new Prospectus Regulation.

In addition, ICMA has discussed the implications of the PRIIPs regime in its Platform Working Group and held an initial call for secondary market legal colleagues. Market consensus and practice will need to develop among secondary market participants also, given the PRIIPs regime applies whenever a relevant product is "made available" to retail investors and it is expected that issuers of vanilla bonds will be unlikely to prepare KIDs (as noted above).

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MiFID II: product governance

Among other topics under MiFID II (in effect from 3 January 2018), ICMA has been grappling for over a year with how product governance – traditionally a retail structured market concept – can operate in the institutional funding markets. How does one ensure that a fixed rate bond (a concept in existence for hundreds of years) by a car manufacturer (to, say, fund a new factory creating thousands of jobs to make green vehicles) is "designed" by underwriters for specified "target market" investors' "needs, characteristics and objectives"? (In this respect, professional investors need and want to access the market freely to pursue their often complex, evolving and confidential investment strategies).

At least MiFID II explicitly states its product governance regime is to be applied "proportionately". This will be particularly important in relation to the wholesale debt markets, which provide significant funding to the real economies of Member States, and the approach is consistent with the objectives of Capital Markets Union, which is in part to facilitate such funding, rather than to add unnecessary regulatory burdens to it.

The answer to the above question would then be arrangements to limit distribution to professional investors, who are appropriate target investors for all types of debt securities. This would involve primary market selling restrictions, warning legends and other procedures to restrict distribution to retail investors in the secondary market. Such arrangements would also represent a consistent approach across the MiFID II, PRIIPs and prospectus regimes.

Given the nature and effect of these procedures, they should, without more, satisfy both the initial and the on-going requirements of the product governance regime and enable the wholesale debt markets to continue to operate, for the benefit of issuers and professional investors alike, without excessive additional burden or cost.

In October 2016, ESMA published a consultation on product governance, to which ICMA responded on 4 January 2017 along the lines above. ICMA also responded on 4 January on the product governance aspects of a UK FCA consultation published in September 2016 on MiFID II implementation, mainly on stress testing (flagging that it exceeds MiFID II's scenario analysis requirement and querying its compatibility with vanilla debt securities).

ICMA will continue working to help its members grapple with product governance ahead of the MiFID II implementation date of 3 January 2018.

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Bank of Italy Article 129

The Bank of Italy's Article 129 reporting requirements came into effect in January 2017 for underwriters placing non-Italian issuers' securities in Italy. As reported in previous editions of this Quarterly Report, ICMA engaged with the Bank of Italy leading up to the introduction of the rules and, following various discussions among ICMA primary market members in late 2016, submitted a further letter to the Bank of Italy on 19 December setting out some key concerns for underwriters placing non-Italian issuers' securities in Italy.

The key concerns related to:

- the fact that the reporting platform should not require information to be reported that is not required under the Article 129 rules;
- the approach underwriters should take to reporting an issuer's cost of funding (including hedging costs) if an issuer does not supply hedging cost information; and
- whether the reporting platform would allow underwriters to split their reporting obligations in practice (with one underwriter providing all information in respect of the securities and others providing only distribution information), as envisaged in the Article 129 rules.

The Bank of Italy responded promptly by e-mail, with welcome indications that (i) certain fields on the reporting platform will be optional for certain securities; (ii) they agreed with ICMA's proposed approach to reporting the issuer's cost of funding where the issuer does not supply hedging cost information; and (iii) the reporting platform should allow underwriters to split their reporting obligations as envisaged in the Article 129 rules.

The Bank of Italy's assistance in responding promptly to ICMA's queries and publishing a "Frequently Asked Questions" document on its website is very helpful.

However, the new reporting requirements represent a very significant administrative burden and will increase costs for underwriters selling non-Italian issuers' securities into Italy. This has been borne out already by the significant number of hours spent by various internal teams at underwriting institutions (including syndicate, legal, compliance, regulatory change and operations colleagues) interpreting and understanding what is required.

While ICMA members have been working very hard to prepare for the reporting requirements, there is a concern that an unintended consequence of the Article 129 rules could be that non-resident entities are discouraged from placing relevant financial instruments in Italy, particularly where the placement in Italy is not significant in the overall context of the transaction.

The introduction of these onerous requirements is also particularly surprising in the context of the European Capital Markets Union initiative: applying fragmented, administratively burdensome and costly requirements in one EU Member State would seem to be out of step with the political desire to expand and deepen Europe's capital markets and run counter to the goals of Capital Markets Union.

ICMA will continue to engage with members (and regulators if relevant) to assist market participants in their understanding of these new reporting requirements as underwriters begin to implement them.

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ECP market

Asset-Backed Commercial Paper (ABCP)

On 3 October 2016, the EBA published its final guidelines on implicit support for securitisation transactions. The objective of these guidelines is to clarify what constitutes arm's length conditions and to specify when a transaction is not structured to provide support for securitisations. The guidelines will contribute towards the successful implementation of the Commission's securitisation package under the CMU reform, giving clarity on the matter to credit institutions. The guidelines' scope of application is explained in paragraph six, which states that "These guidelines apply in relation to the support provided to securitisations by sponsor institutions and originator institutions beyond their contractual obligations". As such, the guidelines do not apply to fully supported conduit sponsors, since the sponsor's support in the case of a fully supported ABCP conduit is contractually documented.

ICMA joined seven other leading European trade associations representing investors, originators, issuers and other market participants in signing a, 10 October, paper highlighting the importance of securitisation for jobs and growth in Europe, and underlining their commitment to supporting a safe and sustainable market that serves the real economy. Amongst examples given of the many different ways in which securitisation can support SMEs and households, this paper reports that the ABCP market "is a major source of credit for European SMEs. An annual average of €288 billion of ABCP has been issued in the last five years, with 63% of this funding trade receivables, floorplan loans (stock finance for auto dealers) and equipment leases, which are primarily granted to SMEs.

The paper goes on to highlight that transparency and disclosure standards are already robust in the European market, such that the signatories believe it to be appropriate that further requirements should build on existing infrastructure and be carefully calibrated. Accordingly, care should be taken to ensure that a sensible balance is struck, both with proper recognition of the legitimate and reasonable commercial and confidentiality concerns of originators and ensuring that high-quality data that is practically useful is delivered to investors. The paper flags that the "need for adjusted, principles-based transparency requirements for private transactions (including ABCP) is particularly important."

As more fully reported in the Asset Management section of this ICMA Quarterly Report, the debate regarding an EU Regulation creating a simple, standardised and transparent securitisation label has been accelerated following the successful adoption of a report in the European Parliament, on 8 December, paving the way for adoption in plenary and for the trilogues to start in 1Q 2017. During this process, one of the remaining priority topics for debate is ABCP maturity limitations, which continue to threaten to undermine the effective functioning of this important financing tool.

Money market funds (MMFs)

On 7 December 2016, the Slovak Presidency of the EU Council announced that it had successfully concluded negotiations on the EU's proposed regulatory framework for MMFs, which had been ongoing for more than three years. In November, the Slovak Presidency concluded political discussions with the European Parliament and European Commission on the principles for the future functioning of MMFs in the EU, and on 7 December the Committee of Permanent Representatives (COREPER) approved the final text of the legislation. The final text will now be examined by lawyer-linguists and will subsequently be published in the *Official Journal* – it will enter into force 20 days after such publication, but will generally only apply from one year after its entry into force.

The EU Council has made available the final MMFR compromise text, based upon which there are some significant points to be noted from a commercial paper perspective.

Within Chapter 1 of the EU MMFR, Article 2a.1 provides that EU "MMFs (money market funds) shall be set up as one the following types: (a) VNAV (Variable Net Asset Value Money Market Fund) MMF; (b) Public debt CNAV (Constant Net Asset Value Money Market Fund) MMF; (c) LVNAV (Low Volatility Net Asset Value Money Market Fund) MMF." Any of these three types of MMFs may take the form of a short-term MMF (per Article 21.1b), but only a VNAV MMF can take the form of a standard MMF (per Article 22.5).

Chapter II covers obligations concerning the investment policies of MMFs. Section I of this chapter covers general rules and eligible assets, including Article 8.1 which provides a limited list of financial assets categories in which MMFs may invest; and Article 8.2 which lists certain activities which a MMF shall not undertake. Article 9 then elaborates on the eligibility requirements relating to any MMF investment in money market instruments, which is the applicable category within which investments in CP fall. Additional eligibility requirements applicable in the case of ABCP (and other securitisations) are laid out in Article 10. The limitations on term are naturally stricter, broadly speaking being set at 397 days, for short-term MMFs than those for standard MMFs.

Section II of Chapter II concerns provisions on investment policies, with Article 14 setting out diversification requirements and Article 15 laying down concentration limits. The basic rules in these regards are that an MMF shall invest no more than 5% of its assets in money market instruments, securitisations and ABCPs issued by the same body (Article 14.1(a)); and that an MMF may not hold more than 10% of the money market instruments, securitisations and ABCPs issued by a single body (Article 15.1). And, Section III of Chapter II governs the credit quality of money market instruments, securitisations and ABCPs.

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Public Sector Issuer Forum

by Nicholas Pfaff and Valérie Guillaumin

The Public Sector Issuer Forum (PSIF) brings together sovereigns, supranationals and agencies (SSAs) active in the European capital markets, and is convened by ICMA. There are 36 institutional members, including key European DMOs, the European Commission (as an issuer), major agencies, and multilateral development banks and other supranationals.

The PSIF is coordinated by a Steering Committee consisting of three senior representatives representing each a key SSA constituency: Arunma Oteh (Vice President and Treasurer of the World Bank), Frank Czichowski (Senior VP and Treasurer, KfW) and Anne Leclercq (Director Treasury, Belgian Debt Agency).

The primary objective of this Forum is to promote the sharing of information and experience amongst the participants on their capital markets activity, focusing both on market practice and on the impact of new financial regulation on their operations. The PSIF is characterized by its high-quality dialogue with regulatory and public authorities. Major market participants and stakeholders are also invited from time to time for discussions on key topics relating among others to regulation, financial innovation, market liquidity and financial stability.

The PSIF held three formal meetings in 2016. The first took place in March 2016, kindly hosted by Agence France Trésor in Paris. Topics discussed included the ECB's quantitative easing programme, financial regulations with a potential impact on market liquidity, and research relating to the evolution of the green bond market and its potential. ICMA organised in June a PSIF meeting at its London office where FinTech was the core topic. The World Bank kindly hosted in October in Washington the PSIF's final meeting of 2016, discussing current trends in the US Treasury market and an update on the US dollar market.

In between regular meetings, the PSIF also now offers regular calls focused on technical and/or regulatory issues with the benefit of ICMA staff or a member firm providing a briefing followed by a Q&A and a general discussion. The next full PSIF meeting will take place in March 2017, in Frankfurt, hosted by the Deutsche Finanzagentur. Subsequent meetings during the year are likely to take place in London, hosted by ICMA, and in Washington, hosted by the World Bank.

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Financial Institution Issuer Forum *by Katie Kelly*

The ICMA Financial Institution Issuer Forum (FIIF) has been operational for over five years, and – alongside the ICMA Corporate Issuer Forum and the Public Sector Issuer Forum – completes the suite of ICMA issuer representation. Membership comprises senior treasury representatives of the major frequent bank issuers in the euro markets, spanning the UK, continental Europe and Scandinavia.

The FIIF is a high-level forum designed for sharing market experiences relating to the execution processes of a range of DCM transactions, market practice issues and the regulatory landscape affecting the bank treasury function. The FIIF members interface with other financial institutions, other ICMA market participants and regulatory authorities, with a view to promoting resilient and well-functioning debt capital markets. The FIIF convenes three times per year, the discussion is of high quality and based on a tightly-packed, member-led agenda.

The FIIF ensures a candid exchange among its members in a non-deal context. Representatives of other ICMA groups, such as the Primary Market Practices Committee, Legal and Documentation Committee and the Asset Management and Investors Council are often invited to attend and contribute to the meetings.

A number of major themes have emerged as key to FIIF members, just a few of which are highlighted below:

- Regulation which is currently impacting the primary debt markets: for instance, the Prospectus Regulation and the Market Abuse Regulation – in particular, market soundings in the context of inside information and non-inside information.
- In a related context, a perennial focus is new issue processes – syndication issues, allocation policies and transaction execution.
- The bail-in mechanism under the Bank Recovery and Resolution Directive is a hot topic for bank issuers. As well as discussing bail-in for their own institutions, and exactly what MREL and TLAC will look like, the FIIF members also consider concerns from the buy-side: the unintended consequences of ever-changing regulation and uncertainty of the exact application of bail-in, which is causing confusion or indifference among investors, and, fundamentally, is affecting investors' ability to be able to price risk, to which bank issuers are sympathetic.
- The negative interest rate environment, where if rates stray into negative territory, there is no obligation on the investor to pay interest to the issuer, is a challenge addressed by the FIIF. Mindful of the legal, ICSD and listing issues, together with any central bank, tax and repo issues and regulatory requirements for investors' capital protection, this issue requires serious consideration, thought leadership and, ultimately, market acceptance.
- In a world where corporate behaviour is becoming as subject to scrutiny as financial performance, the FIIF has explored recently the use of green bonds as part of an issuer's environmental, social and governance strategy, by reference to members' experiences.

This serves as just a summary of the myriad issues discussed in the FIIF, and with other matters on the horizon, such as the secondary market liquidity conundrum when quantitative easing programmes cease, and Brexit, the FIIF remains a critically important forum for constructive debate, open exchange and substantive output.

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ICMA Primary Market Forum *by Katie Kelly*

The ICMA Primary Market Forum took place on 23 November 2016. Hosted by Allen & Overy, the event attracted over 140 professionals.

The Primary Market Forum comprised a banker/investor discussion between Melanie Czarra of UBS and Neil Dwane of Allianz GI, and a full panel comprising an issuer (Darach O'Leary, Bank of Ireland), a banker (Marc Templeman, BAML), a lawyer (Amanda Thomas, Allen & Overy) and an investor (Matt Rees, LGIM), all moderated by a syndicate manager, Armin Peter of UBS. Victoria Clarke of HSBC gave an insightful presentation on the emergence and trajectory of the green bond market, and David Hopkins of RBS and Ruari Ewing of ICMA also gave a more detailed overview of the ICMA Legal and Documentation Committee and the Primary Market Practices Committee.

Set against the obvious backdrop of geopolitical developments in the EU and US, and based on economic projections, both panels discussed resulting pertinent issues, including the overall effect on the markets of these and other factors, such as the hunt for income, regulation and monetary policy. When considered together, all these factors are capable of affecting market dynamics and may result in changes to issuance and investment behaviour and strategies, such as looking to alternative markets and products (US high yield, Asian emerging markets, private placements). In the regulatory space, there remain many uncertainties, not least with the Prospectus Regulation and the Market Abuse Regulation, with potential deregulation seeming unlikely. Overall, the outlook for 2017 is that flexibility will be required to overcome the inevitable volatility which will largely stem from recent political developments, and that green bonds will continue to feature more heavily as part of issuers' environmental, social and governance strategy.

This being the 10th Primary Market Forum, it was a good opportunity to reflect on the changes seen at ICMA in the last decade, including: an increase in geographical spread with offices opening in Paris and Hong Kong; new members joining from South America to the Middle East, from South Africa to Asia; adding three different issuer groups to the suite of market participants; setting up the Asset Management and Investors Council as a significant member group of ICMA; building up a successful secondary market practice; reaching out to women in debt capital markets through the ICMA Women's Network and the pipeline of future leaders through the Future Leaders Committee. The event closed with the traditional ICMA quiz.

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Other primary market developments

*MiFID II underwriting and placing***:** On 16 December, ESMA published updated Questions and Answers on MiFID II and MiFIR investor protection topics, including three new entries relating to underwriting and placing (section 6) and most notably what records should be kept to justify final allocations (Question/Answer 2). ICMA will consider these points carefully with its lead-manager members.

FMSB: new issue processes: In November 2016, The Fixed Income, Currencies and Commodities (FICC) Markets Standards Board (FMSB) published a *Transparency Draft New Issue Process Standard for the Fixed Income Markets*. The FMSB's contribution and its recognition of the ICMA Primary Market Handbook are welcome. Many of the practices described in the Draft Standard seem generally accepted – at least in the context of syndicated cross-border investment grade debt securities issues that the Handbook covers. ICMA is working with its members to submit comments ahead of the 17 January deadline for comments, notably on various ambiguities that seem to arise from the Draft Standard. (The FMSB was established in response to a recommendation of the Fair and Effective Markets Review (FEMR), which was launched by the UK authorities in June 2014 to reinforce confidence in the wholesale FICC markets and to influence the international debate on trading practices.)

FCA ICB market study: In October 2016, the UK's FCA published the final report relating to its investment and corporate banking (ICB) market study (see prior coverage

In relation to debt issuance allocations, the FCA "said that we had not identified concerns ...".

in the Third Quarter 2016 edition of this Quarterly Report concerning the FCA's preceding Interim Report). The final report focused on various aspects (contractual ties, league tables, IPO allocations and IPO prospectus timing) that do not relate exclusively to new bond issues and that are being covered by other industry bodies. In relation to debt issuance allocations, the final report notes that in the preceding interim report the FCA "said that we had not identified concerns about the other market practices *[ie beyond the above aspects]* and issues we investigated and therefore we did not intend to pursue these issues further at this stage".

Legal Entity Identifiers: A Transparency Directive Level 2 measure states that Official Appointed Mechanisms (OAMs) shall use legal entity identifiers (LEIs) as the unique identifiers for all issuers from 1 January 2017. ICMA understands that OAMs in Ireland, London and Luxembourg have generally been encouraging issuers to obtain a LEI if they have not already done so.

In particular, the UK FCA published a Quarterly Consultation Paper in December 2016 which proposed, among other things, new rules requiring issuers to supply an LEI when they file regulated information with the FCA. ICMA responded to this consultation on 23 December 2016, noting that it would be useful if the FCA could ensure that clarity is provided on the timing for the proposed rules coming into effect, to ensure that issuers can prepare accordingly. In addition, ICMA's response noted that it would be useful if the FCA could provide comfort to market participants that filing of regulated information with the FCA before the proposed rule comes into effect will not be delayed if an issuer does not have an LEI.

Separately, the CBI published a Transparency Regulatory Framework Q&A document, which states among other things: "... From 1 January 2017 issuers will be requested to enter their LEI code, where available, when filing regulated information via the ISEdirect system. Issuers that do not currently have an LEI code are advised to obtain one. The Central Bank may introduce a specific obligation on issuers to obtain a LEI in the future." We understand that the Irish Stock Exchange also distributed a memorandum on this point to relevant entities.

BRRD Article 55: The European Commission published proposed amendments to BRRD, CRD and CRR on 23 November 2016. The proposed changes to BRRD included amendments to BRRD Article 55. Broadly speaking, the European Commission has appeared to recognise the practical difficulties caused by BRRD Article 55 (as reported in previous editions of this ICMA Quarterly Report such as the First Quarter 2016 edition) and proposes that resolution authorities can waive the requirement for a bail-in recognition clause if they determine certain conditions are met. ICMA understands there are some concerns with the precise drafting of the proposed amendments, which are being discussed with European authorities by other trade associations. In the meantime, it seems that market practice in relation to the inclusion of BRRD Article 55 clauses in non-EEA law governed documentation in a vanilla debt capital markets context has bedded down.

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Secondary Markets

by Andy Hill and Elizabeth Callaghan

Central bank corporate bond purchase programmes

This section summarises ICMA's discussions with the ECB and with the Bank of England on their respective corporate bond purchase programmes.

The ECB's Corporate Sector Purchase Programme

On 3 November 2016, The ECB attended a meeting of ICMA's Investment Grade Corporate Bond Secondary Market Practices Committee (SMPC) to discuss the progress of its Corporate Sector Purchase Programme (CSPP) with ICMA members.

The ECB began the discussion with a brief progress report on the implementation of the CSPP to date:

- As of end-October, there had been €38 billion of purchases made, covering around 680 bonds, 180 issuer groups, and 18 issuer countries (measured by country of risk).
- The share of primary market purchases increased in September, to 19.7% of total monthly purchases, from 3.7% in June.
- Trade tickets are primarily smaller sizes (around 60% of tickets less than €10 million). Around 10% of trades are in clips above €50 million.
- More than one third of counterparty offers received are in bonds issued in the past year.
- Secondary market yield spreads initially declined and later stabilized, with non-eligible bond spreads also tightening.
- ECB staff analysis suggests that the CSPP has been the main driver of the decline in corporate bond yields in the two-week period after the announcement of the Programme in March 2016.
- As of end-October, around 15% of eligible bonds traded at negative yields (compared with practically none at the beginning of the year).
- Overall issuance has increased since the CSPP announcement, while the share of euro-denominated issuance has remained stable, and there has been no notable increase in euro-denominated issuance of corporates outside of the euro area.
- Borrowing costs for non-financial corporates (NFCs) have been declining and converging across countries.

The key points arising from the discussion with SMPC members are summarized below:

Major impacts of the CSPP: The forum noted that the corporate bond market had become more expensive as the CSPP introduced a large, structural buyer to the market. From the fund manager perspective this was changing the way that funds were being managed, particularly in terms of selecting between eligible and non-eligible bonds. For example, there was now a preference for lower-rated, subordinated debt, since these assets afforded more protection against interest rate volatility. This was also changing behaviour in the primary market, where fund managers were becoming more selective in terms of target levels, and not participating where issues came below

In general, it was felt that the CSPP has been relatively successful to date.

those levels. In general, it was felt that the CSPP has been relatively successful to date, and the level of purchases was above expectations without having too much impact on market liquidity. However, ultimately corporate bonds remain an illiquid asset class and so there are some concerns about how much the National Central Banks (NCBs) can buy, particularly given an individual ISIN limit of 70% of issuance.

Private placements: The ECB clarified that it does not rule out using private placements, which is a normal market practice, however its maximum 70% issue limit would still apply. This would therefore require other participants to purchase at least 30% of any issue.

Liquidity impacts: The forum suggested that, since the announcement of the CSPP, the Programme had helped support the bid side of the market, and, while this was likely to be a short-term effect, at the margin it could be argued that this has improved liquidity. However, the longer-term impact may not be so positive, particularly where the ECB does buy 70% of any issue, which will naturally erode liquidity in those lines. It was suggested that the ECB consider not only publishing the ISINs of bonds purchased under the CSPP, but also the quantity of bonds purchased, which would help the market to assess better the potential liquidity of different issues. It was also noted that many buy-side firms who purchase bonds in the primary market can be tempted to sell their bonds back into the secondary market shortly after in the event that the bonds tighten through target spreads, and which helps add to secondary market liquidity.

On the 70% ISIN limit, the ECB commented that this was consistent with the other private sector purchase programmes.

The sell-side perspective put forward largely corroborated the experiences relayed by the buy-side members. It was noted that there had been a squeeze on spreads and liquidity post-announcement, but it was felt that this was unsustainable and it was expected that conditions would correct. Since the start of the Programme, volumes had held steady, and liquidity had not noticeably reduced. What did seem to be happening, however, was that there was now more focus on client and dealer axes. One concern, however, was going into year-end, with the seasonal thinning of liquidity, and the potential impact should the ECB continue at its current rate of purchases.

The ECB commented that the overall Asset Purchase Programmes (APP) target of €80 billion per month was embedded with some flexibility to reduce or increase monthly purchases taking into account market conditions at specific points in time.

Reverse auctions: A further suggestion was that the ECB consider using a reverse auction mechanism similar to the Bank of England's Corporate Bond Purchase Scheme (CBPS), which would not only provide an advantage to the buy side who would be able to tender blocks of specific holdings, but would also potentially allow the ECB to purchase more bonds.

With respect to reverse auctions, the ECB's experience with bilateral purchases from the other purchase programmes had been positive and offered a high degree of flexibility. Three of the NCBs did use reverse auctions for some segments in the Public Sector Purchase Programme (PSPP), and it was something that the ECB could potentially consider in the future for the CSPP.

Spread compression: One member raised the point about the impact of the CSPP on spreads on eligible bonds, and asked whether the ECB had considered the outcome for buy-side firms that are required to match liabilities and generate guaranteed returns, such as insurance funds, who had little flexibility in terms of the assets they can buy.

Credit protection features, downgrades, and eligibility: The ECB was asked about the non-eligibility of bonds with certain credit protection features, such as step-up coupons, which had widened with respect to vanilla, eligible issues by the same issuer, and whether they could consider buying these issues.

The ECB noted that such features could be viewed as a positive from an investor perspective, however they were bound by their collateral rules which excluded such bonds, and that issuers would need to consider this if looking to issue eligible bonds. Furthermore, while it was possible that the collateral eligibility criteria could be reviewed in the future, particularly if it was felt it was necessary, there was no indication on whether this could happen within the current projected timeframe of the CSPP.

On a related theme, the ECB was asked what happened in the event of bonds becoming "junked", and whether they would continue to hold them, or would have to sell the position.

The ECB responded that in the event of a holding being downgraded to sub-investment grade they would assess the appropriate response on a case-by-case basis as also explained on its website.

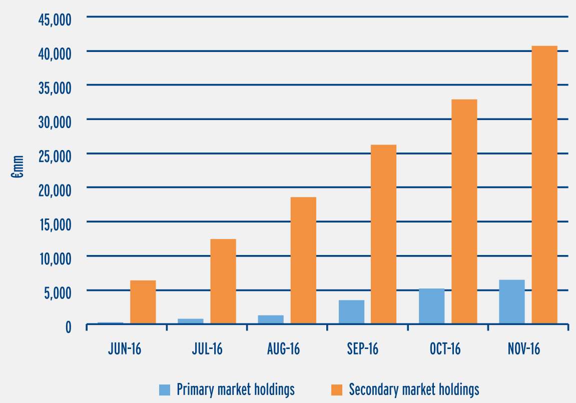
Changes in participant behavior: The ECB asked the Committee whether the CSPP had changed the way different firms operate in the market, whether in terms of transaction sizes, approach, or other behavioral aspects, including issuance.

One buy-side member responded that as a "bottom-up" investor, who is focused on primary market initial price talks (IPTs), it has had to pull out of several deals where the ECB is thought to be a buyer, and where the IPTs became squeezed.

An SMPC member suggested that there had been no discernable change in issuer behaviour, and that corporates were very much still driven by their business or refinancing needs.

Other: At the 3 November SMPC meeting with the ECB, SMPC members also commented on the question of a December pause and on the question of extending the CSPP.

CSPP cumulative holdings (book value)



Source: ECB

Modifications to the Asset Purchase Programmes: Following its meeting on 8 December 2016, the Governing Council announced that it was extending the APP, due to finish in March 2017, to December 2017. The pace of targeted monthly purchases is to decrease from €80 billion to €60 billion from April 2017. However, it is expected that the size of purchases under the CSPP is likely to remain relatively constant at around €5 to €10 billion per month.

The Bank of England's Corporate Bond Purchase Scheme

On 10 November 2016, the Bank of England joined a meeting of ICMA's SMPC to discuss its Corporate Bond Purchase Scheme (CBPS), which was launched in September 2016.

Key discussion points arising from that meeting are summarized below:

Pace of purchases: As of 3 November 2016, the Bank had purchased £2.4 billion of eligible corporate bonds, which was ahead of schedule with respect to a target of £10 billion in 18 months. The Bank noted that the size of auctions, which were designed to be able to respond to a potential large supply of bonds in the initial stages, had not fallen as quickly as some might have expected. It was suggested by some participants that, at the current run-rate, the CBPS could be completed as early as March 2017.

At the current run-rate, the CBPS could be completed as early as March 2017.

Impact on spreads: It was noted that, while the CBPS had originally tightened spreads (following the announcement), spreads had subsequently widened and had not been under any pressure since the purchases began. Nobody seemed to think that the purchases were causing any market dislocations or stresses. The point was also made that there had not been any significant impact on tightening non-eligible spreads.

Risk of cliff-edge effect: Some market participants raised a concern about a possible "cliff-edge" effect once the Scheme finished, and a subsequent sharp sell-off. The Bank felt that this depended on whether the impact was a flow impact or a stock impact.

Primary market impacts: In terms of primary issuance, it was noted that there had been a marked increase in new sterling deals following the announcement, but this had tapered off since.

Secondary market liquidity: The Bank was interested to know whether the Scheme had impacted secondary market liquidity. Some comments suggested that the Scheme had possibly helped liquidity, with dealers feeling more confident showing bids for eligible bonds. However, another view was that dealers could not be certain of being able to sell eligible bonds to the Bank as the auctions tended to be over-offered, and so had little impact on dealers' decisions. One inter-dealer broker (IDB) commented that inter-dealer flow had certainly slowed since the start of the Scheme. A further comment was that dealers now avoided shorting smaller eligible issues, but for larger issues it was business as usual.

Repo market: One dealer commented that there had been no impact on the sterling repo market, and that borrowing and financing rates were unchanged.

Eligibility issues: There was a lengthy discussion about how the Bank updated and communicated the eligibility list. The concept of bonds issued by companies "that make a material contribution to economic activity in the UK" had caused confusion, and it was difficult to predict what was eligible or not as there seemed to be no consistent criteria. The Bank explained that eligibility is a risk management decision and there is legal due diligence on individual issues, although it could not comment on why some credits (eg Morrisons and GKN) are not in scope.

Bonds with calls: The Bank was asked why it excluded bonds with three month calls, particularly as this excluded a significant amount of potentially eligible bonds. The Bank suggested that the Scheme was designed as a long-term investment strategy and not to manage optionality. However, it suggested that this could be a consideration at a future date.

Exit strategy: The Bank was asked whether it had an exit strategy for the Scheme. It stated that this would be a policy decision of the MPC.

Transparency and comparisons with the CSPP: The Bank asked about the transparency and methodology of its Scheme compared with the ECB's CSPP. Most felt that the auction system worked well, rather than bilateral purchases. It was felt that the pre-trade transparency provided by an auction process allowed the Scheme to reach end-investors. However, in terms of post-trade transparency, market participants would appreciate not only an ISIN list of purchases, but also the sizes purchased. It was noted that this was how the Bank operated its 2009-10 corporate bond purchase scheme; however, the Bank explained that the 2009-10 programme had a very different objective (essentially to be "market-maker of the last resort"), whereas the CBPS was effectively an investment strategy and so it could not provide too much post-trade transparency.

Auction window timing: The Bank was interested to know whether the 45 minute auction window was appropriate. Market participants felt that now dealers were comfortable with the process the window should be much shorter. This would help reduce the uncertainty over auction periods, and so improve liquidity.

Follow-up with both the ECB and Bank of England

ICMA, through its SMPC, will continue to remain in close contact with both the ECB and Bank of England in order to facilitate ongoing communication between the market and the respective central banks on the impacts of their corporate bond purchase programmes.

Further details of both central bank purchase programmes, as well as the SMPC, can be found on the ICMA website.

The next meeting of the SMPC will take place in London on 25 January 2017. All members with an interest in the European investment grade corporate bond markets are welcome to attend or dial-in, and should contact the SMPC secretary, Andy Hill, for further details or to register their participation.

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European Commission Expert Group on Corporate Bond Market Liquidity

As part of its workstream on European corporate bond markets under the *Action Plan on Building a Capital Markets Union* (CMU), DG FISMA has created an Expert Group on Corporate Bond Market Liquidity.

The Expert Group is made up of 17 individuals representing a broad cross-section of corporate bond market interests and participants. The task of the Group is to assist the Commission in the preparation of analysis of market developments, policy evaluation, and definition related to European corporate bond markets. A number of ICMA member firms are represented in the Expert Group, as well as several individuals active in ICMA committees and working groups. ICMA is also pleased to be appointed as a member of the Group.

The Expert Group's mission is stated as: "With a view to improving the efficiency and resilience of corporate bond markets, the group will advise the Commission on its review of liquidity in European corporate bond markets, in the context of the *Action Plan on Building a Capital Markets Union*. Drawing on insights from a cross-section of market participants and end users of financial services, the participants should present an authoritative analysis of recent changes in European corporate bond markets and the principal drivers of those changes. The group should assess the strengths and weaknesses of the emerging market architecture, and its resilience under different scenarios. The group will identify actions (market-based or policy-led) that contribute to a better functioning of these markets – as a source of funding and investment opportunities – in the context of the new (post-crisis, post-regulatory reform, unconventional monetary policy) financial landscape."

The inaugural meeting of the Expert Group was held on 14 November 2016 in Brussels, and the minutes from that meeting are available on the Commission's website. It was agreed that, in order to facilitate its deliverables, members of the Group would form sub-groups based on their individual expertise and interests. The foci of the sub-groups will be:

- Issuers and issuance.
- Intermediation function and market-making.
- Demand side.
- Ecosystem and framing conditions.

The next meeting of the Expert Group will take place on 23 January 2017.

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MiFID II: secondary markets

Background: Generally speaking, MiFID II concerns the framework of trading venues and structure in which financial instruments are traded. MiFIR on the other hand, concentrates on regulating trading venues and the structuring of their operations: so, "who" the market structures are, "what" they trade and then "how" they trade. Regarding trading, the secondary market issues that ICMA is covering and considers to be the most important for members are the pre- and post-trade transparency regulations and best execution obligations.

Timeline:

- *3 July 2017:* MiFID II transposed into the national law of EU Member States.
- *3 January 2018:* MiFID II and MiFIR apply in EU Member States.

Systematic Internaliser regime delay: Systematic Internalisers (SIs) have an obligation to make public firm quotes in respect of bonds. The SI regime is intended to bring transparency to the OTC market. ESMA has established a new timeline for its publication of the first set of data needed to implement the SI regime, and the date by when firms must comply with the SI regime for the first time. The key dates are:

- *1 August 2018:* ESMA will publish information on the total number and the volume of transactions executed in the EU for the first time by 1 August 2018, covering the period from 3 January 2018 to 30 June 2018.
- *1 September 2018:* Investment firms must undertake their first assessment and, where appropriate, comply with the SI obligations (including notifying their national competent authority) by 1 September 2018.
- *Quarterly updates:* For subsequent assessments, ESMA will publish data by the first calendar day of February, May, August and November. Investment firms are expected to perform the calculations and comply with the SI regime by the fifteenth calendar day of February, May, August and November.
- *Application date:* The earliest mandatory deadline on which firms must comply with the SI regime, when necessary, is 1 September 2018 although MiFID II and MiFIR apply from 3 January 2018. However, ESMA stresses that investment firms can opt in to the SI regime for all financial instruments from 3 January 2018.

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The secondary market issues most important for members are the pre- and post-trade transparency regulations and best execution obligations.

MiFID II: EU consolidated tape for non-equity financial instruments

On 3 October 2016, ESMA published a Consultation Paper regarding the RTS specifying the scope of the consolidated tape for non-equity financial instruments. The aim of the Consultation Paper was to gather input from stakeholders who were deemed potential consolidated tape users in order to assist ESMA in finalising its draft RTS. Taking account of input from potential consolidated tape users, ESMA is proposing to finalise the draft RTS and then submit a final report to the European Commission for endorsement.

ICMA set up a Consolidated Tape Working Group to respond to ESMA's Consultation Paper. The Consolidated Tape Working Group was composed of 14 member buy-side heads of global or European trading desks representing investment managers in Belgium, Denmark, France, Germany, Norway, Switzerland, the UK and the US, as the interest in a consolidated tape is primarily voiced through buy-side traders. The ICMA Consolidated Tape Working Group response, submitted to ESMA on 2 December, represented a consensus view among the 14 member buy-side heads of trading. In the response, the ICMA Consolidated Tape Working Group welcomed ESMA's efforts to specify the draft RTS outlining the scope and financial instrument data required for MiFID II's non-equities consolidated tape, but had a number of comments, which can be summarised as follows.

ESMA proposal

By leaving the IT architecture scope requirements indistinct, ESMA has primed the landscape for the emergence of potential multiple consolidated tapes for non-equities. ESMA views more than one consolidated tape a benefit to users, as it refers to "the clear intention of legislators to provide for an environment that is likely to lead to the provision of one or more consolidated tapes that will be of real value to users of data".

To further support this view, in the Regulatory Technical and Implementing Standards – Annex I – MiFID II/MiFIR (28 September 2015), ESMA states:

"In order to ensure efficient dissemination of information made public by approved publication arrangements and consolidated tape providers and an easy access and use of such information by market participants, the information should be published in a machine readable format through robust channels allowing for automatic access to the data. While websites may currently not always … offer an architecture that is robust and scalable enough and that allows for easy automatic access to data, these technological constraints may be overcome in the future. A particular technology should therefore not be prescribed, but criteria should be set out that need to be met by the technology which is to be used."

The benefits of a single-source consolidated tape are clear.

And…

"Given the different requirements for the operation of those tapes, and in particular the significantly broader scope of financial instruments covered for non-equity instruments and the deferred application of the provisions for the non-equity consolidated tape, this Regulation only specifies the scope of the consolidated tape provider (CTP) consolidating information on equity-instruments."

ESMA also believes that it is *not* necessary for consolidated tape providers to gather all available bond trade data, as it states in the Consultation Paper: "Consolidated tape providers *should not* be required to collect information from *all* trading venues and approved publication arrangements (APAs), which publish trade reports on behalf of investment firms, since the costs of including all those sources – trading venues and APAs - would be very high while the *added value for users of adding sources with only minor activity is limited*."

Lastly, ESMA suggests: "requiring the inclusion of a trading venue or APA into the consolidated tape provider if the trading venue or APA meets any of the *thresholds* (eg cumulated volume of trades and/or number of trades reported exceeds 2.5%)." … "Contrary to the equity CTP where all sources have to be included unless the data source ceases its activity, a source to the non-equity consolidated tape provider may not have to be included anymore where it does *not* meet the thresholds. "

ICMA Consolidated Tape Working Group concerns

ESMA has not provided clear direction as to a functioning dissemination of post-trade data for transparency purposes or suggested a streamlined IT architecture for market participants to work towards. Instead, ESMA has created the likelihood of multiple consolidated tapes emerging for non-equities. (For the response, ICMA used cash bonds as a proxy for "non-equities".) ESMA has further introduced the concept of thresholds based on volume and/or number of trades as well as only collecting data from venues and APAs that meet or exceed those thresholds. The ICMA Consolidated Tape Working Group believes these points are flawed and will lead to a fragmented and inefficient post-trade landscape.

The Consolidated Tape Working Group members are particularly concerned about ESMA's proposal as they believe multiple tapes will increase the cost of assembling a "single source" tape (necessary for an all-inclusive EU view) while potentially introducing trade data errors, duplications and differences between the various "consolidated" tapes. All of this would result in the lack of a single authoritative tape, potentially leading to a set of multiple platform-dependent solutions and fragmentation. CTP fragmentation will hamper pre-trade price discovery and decrease confidence that the price you are seeing is indeed the "true" picture.

Consolidated Tape Working Group members are also concerned about the high probability of paying for their own raw data. However, they are not averse to paying for market data that is "enriched", for example: advanced analytics such as benchmark spread calculations (complicated to calculate, eg asset swap spreads, Z-spreads), data presentation and visualization tailored to trader workflow, watch lists and dynamic charting capabilities etc.

Lastly, Consolidated Tape Working Group members highlighted their concern about ESMA's opinion that venues and APAs with minor activity is of "limited value to users". A consolidated tape is a sourcing tool for the market. Trade data from *all* trading venues and APAs, however obscure, in one place allows for more accurate sourcing, price discovery and formation. Capturing additional pricing data is highly valued and as such, crucial to constructing an accurate estimate of a bond's market value. Therefore, informational value overrides the burden of data collection.

Consolidated Tape Working Group members stress the benefits of a consolidated tape to the market in the response. For them, the benefits of a single-source consolidated tape are clear. The consolidated tape can help protect the smaller investor who may not have (or be able to have) access to several consolidated tapes or the ability to pay for an aggregator, and would be disadvantaged by the existence of multiple tapes. While at the other end of the spectrum, the large pension fund portfolio manager or trader involved in pre-trade price discovery before advising on or executing a trade would greatly benefit by having condensed, succinct and accurate information. What is more, with a consolidated EU view of trade data, a market participant can identify counterparties he or she has previously never traded with, allowing interaction between regionally diverse market participants who may never had previously heard of each other, much less traded.

ICMA Consolidated Tape Working Group's alternative proposal

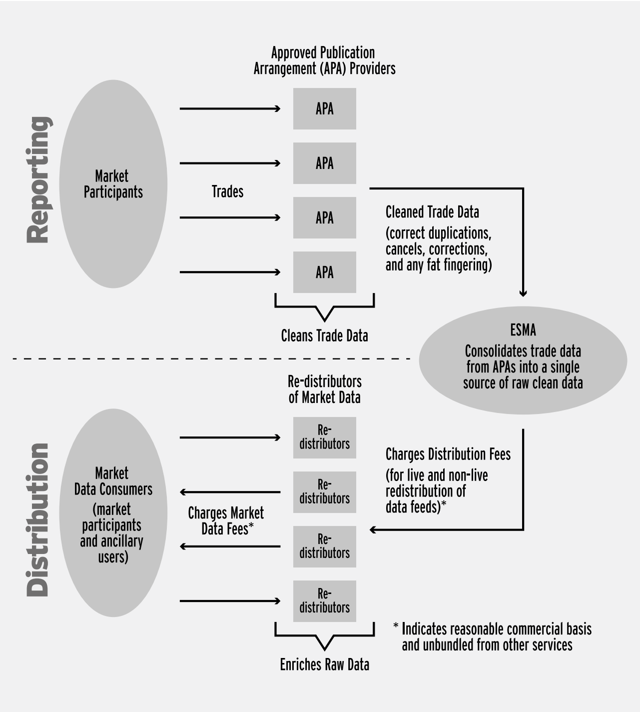
The ICMA Consolidated Tape Working Group considers that a different approach to ESMA's is needed. The Consolidated Tape Working Group's proposed solution is that ESMA owns and governs the process (which is self-funded) of assembling clean raw data into one consolidated source to be redistributed to the market, on a reasonable commercial basis and not bundled with other services.

The Consolidated Tape Working Group's preference is for ESMA to create one single-source clean consolidated tape, owned and governed by ESMA. The purpose of a consolidated tape is to make available the clean reconciled bond trade raw data to market redistributors on a reasonable commercial basis (funded through charging for a live and non-live data feeds). The market data redistributors will then make available the data to market participants, also on a reasonable commercial basis. Market participants will pay for one of or a combination of: live, non-live, enriched or non-enriched data feeds.

The Consolidated Tape Working Group also proposes "eligibility criteria" for reporting across the EU. Any instrument traded by a MiFID II regulated venue or investment firm trading OTC should be required to report to an APA. The exception to reporting for MiFID II regulated venues and investment firms trading OTC is for trades below €10,000 (which are considered to be retail size).

Most notably, the Consolidated Tape Working Group believes that the consolidated tape should be based on MiFID II bond sub-asset classes: sovereign, corporate, covered, convertible and other public bonds. There should *not* be more than one European single-source consolidated tape per MiFID II bond sub-asset class.

A diagram of the ICMA Consolidated Tape Working Group alternative proposal follows:



As a final point, the ICMA Consolidated Tape Working Group understands and agrees with ESMA's desired goal of creating a pragmatic, feasible approach for an all-encompassing consolidated tape in the cash bond space, having the "advantage of offering a one-stop shop for users". Through the ICMA Consolidated Tape Working Group's alternative proposal, the members believe the recommendation to assemble a single-source consolidated clean tape under the stewardship of ESMA (on a self-funding basis), will form a functioning "golden source" of data, enabling advanced data mining and enrichment to facilitate cash bond market liquidity analysis and sourcing well into the future.

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Consultation on the ICMA Buy-in Rules

In response to growing demand from ICMA's members, ICMA's Secondary Market Practices Committee (SMPC) authorized a review of the existing ICMA Buy-in Rules with a view to modifying the Rules to improve their efficiency and practicability, and to ensure that buy-ins remained an effective remedy available to all participants in the non-cleared, cross-border bond markets in the case of failed trades.

The survey was made available in an on-line format for ICMA members, between 5 September2016 and 21 October 2016.

The key areas of focus of the survey were:

- time between the buy-in notice and execution of the buy-in;
- the requirement to appoint a buy-in agent;
- the possibility for auctions to be executed by means of an on-venue auction;
- the possibility for cash compensation where a buy-in is not possible.

Summary of the results

74 respondents replied to the survey, representing 64 different entities.

The key results of the consultation are:

- 77% of respondents would like more flexible timing for the buy-in process.
- 74% of respondents agree that the appointment of a buy-in agent should no longer be a requirement.

- 93% of respondents approve of the possibility for a buy-in auction mechanism.
- 79% of respondents agree that a cash compensation resolution should be possible.
- 70% of respondents consider that cash compensation should be mandatory after a specified period.

The full results of the survey, along with the proposed amendments to the ICMA Buy-in Rules, can be found on the ICMA website.

Proposed amendments to the Buy-in Rules

A call with ICMA members was held on 2 December 2016 to discuss the proposed amendments. A note of the call can also be found on the ICMA website. The proposed amendments to the ICMA Buy-in Rules in response to the survey and call are as follows:

- The Rules should allow for the non-defaulting party initiating the buy-in to determine the date of the buy-in anywhere between four and ten business days from the notification date of the buy-in.
- The Rules should no longer require the appointment of a buy-in agent to execute the buy-in, allowing the non-defaulting party to execute the buy-in themselves, subject to executing at the best available price for guaranteed delivery.
- The Rules should explicitly allow for the non-defaulting party to execute the buy-in by means of an auction process on a regulated exchange or trading venue, subject to the process complying with the ICMA Rules.
- The Rules should prohibit the partial delivery of shapes that would render the residual buy-in amount a non-tradeable shape.
- To the extent that they are equally relevant or applicable, the Rules for sell-outs should be updated to be consistent with the Rules for buy-ins.
- The Rules should provide explicitly that the non-defaulting and defaulting parties can negotiate a cash remedy settlement in the case that the buy-in is unsuccessful or as an alternative to the buy-in. Both parties will need to agree the appropriate reference price on a case-by-case basis.

GMRA and Buy-in Rules interoperability

A number of members have highlighted that it would be helpful if the ICMA Buy-in Rules provided for a "bridge" between the GMRA mini-close-out for repos and cash buy-ins where repo and cash fails are linked. ICMA recognizes the issue and proposes to undertake further work on this.

There is a need for a buy-in framework that addresses market concerns and provides for an orderly and effective remedy.

Next steps

ICMA welcomed further comments on the consultation and the proposed revisions to the Buy-in Rules up to 31 December 2016. The amended Rules are expected to be introduced in early 2017, and members will be informed ahead of their application.

The ICMA Buy-in Rules and CSDR Mandatory Buy-ins

The CSD Regulation (CSDR) will enforce an EU-wide regime for buy-ins, which is expected to be in force from early 2019. Under CSDR, buy-ins will be mandatory (not discretionary), will not allow for flexibility in the timing, require the appointment of a buy-in agent, and provide for a mandatory cash compensation remedy in the event that the buy-in is not successful.

Only one respondent to the ICMA consultation suggested that the ICMA Rules should be aligned with the framework provided for in CSDR. This is consistent with general membership feedback and market sentiment that the CSDR buy-in regime is an unwelcome and unhelpful regulatory intervention, and that in the interim there is a need for a buy-in framework that addresses market concerns and provides for an orderly and effective remedy.

However, once there is finalization of the technical and implementing standards for the CSDR buy-in regime, and closer to its eventual implementation date, it may be appropriate to conduct a further review and consultation of the ICMA Buy-in Rules with a view to potential closer alignment with the CSDR framework.

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ICE Data Services Liquidity Tracker

ICE Data Services has established a means of tracking liquidity conditions in fixed income markets, in response to a request from ICMA.

ICE Data Services Liquidity Indicators

The model is based on ICE Data Services' Liquidity Indicators, which are designed to provide an independent view of near-term relative liquidity, defined as "the ability to exit a position at or near the current value." The indicators use a transparent methodology to assign a liquidity ratio to an individual security, based on the interaction between projected price volatility and trade volume capacities.

ICE Data Services provide estimates of trade volume capacity, future price volatility, days to liquidate, and market price impact. Liquidity ratios for all securities are ranked from least liquid to most liquid, and scored between 0 and 10 (with 10 being the most liquid). These scores, based on ICE Data Services' extensive evaluation and reference data, are updated daily.

ICE Data Services Liquidity Tracker

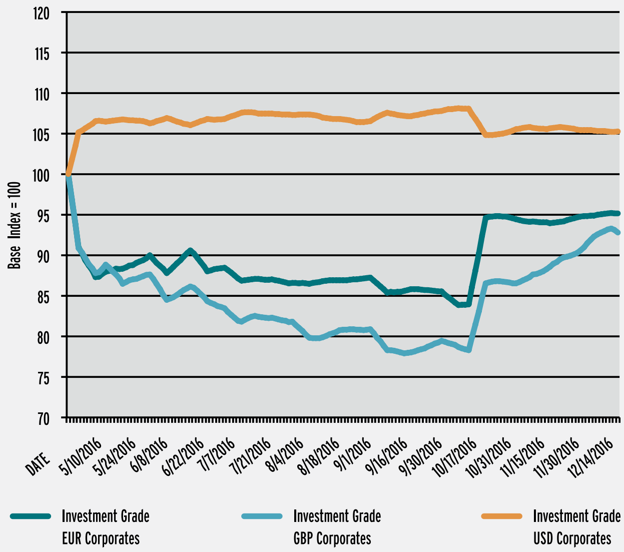
The ICE Data Services Liquidity Tracker is based on the average liquidity ratios of an extensive basket of securities for each market segment. The current number of underlying ISINs used to calculate the tracker are: IG USD 14,525; IG EUR 2,494; IG GBP 413; HY USD 10,914; HY EUR 1,755; HY GBP 413. Investment grade is determined by a minimum BBB- rating from one of the three main rating agencies, and includes financials and non-financials.

The starting reference point for the tracker is 27 April 2016, where it is assigned a value of 100. Data is then run on a look-back basis to determine relative changes in market liquidity since the reference date. To ensure continuity in the data series, only issues active at the reference date are included in the ICE Data Services Liquidity Tracker.

Using the Tracker

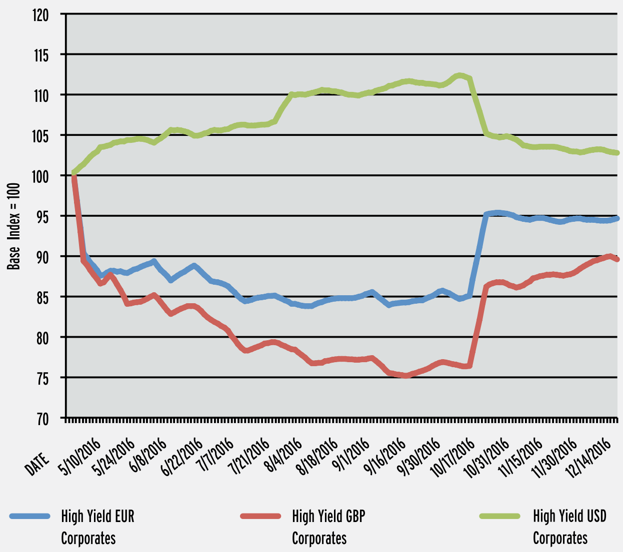
With the permission of ICE Data Services, ICMA intends to publish and monitor the ICE Data Services Liquidity Tracker on a quarterly basis. There is also the possibility of extending the ICE Data Services Liquidity Tracker to other asset classes, including sovereign bonds, as well as creating a more granular sector based tracker.

ICE Data Services Liquidity Tracker: IG Corporates



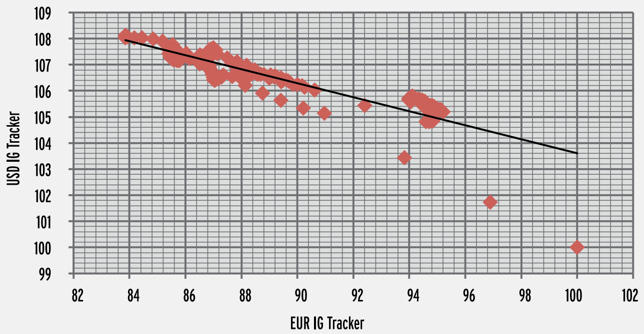
Source: ICE Data Services

ICE Data Services Liquidity Tracker: HY Corporates



Source: ICE Data Services

USD vs EUR IG Liquidity Trackers



Source: ICE Data Services

> **The Trackers suggest that liquidity in both the EUR and GBP investment grade and high yield markets declined from the start of the series in April 2016.**

Interpreting the Tracker data

The Trackers suggest that liquidity in both the EUR and GBP investment grade and high yield markets declined from the start of the series in April 2016, through to the end of the first quarter. This is perhaps not surprising in light of the market uncertainty generated by the UK's EU referendum results, and the ongoing intervention of the ECB and Bank of England through their respective corporate bond purchase programmes.

Interestingly, liquidity conditions in both the US IG and HY markets improved over the same timeline, perhaps suggesting a "flight to liquidity".

At the start of the fourth quarter, we see a sharp reversal in these trends, with USD IG/HY liquidity in sharp decline (perhaps sparked by uncertainty around the US election, stronger jobs data and the increased likelihood of Fed hikes, higher oil prices, and a sharp bond market sell-off). Meanwhile, liquidity conditions in the EUR and GBP markets appear to have improved.

Plotting the Tracker data for the USD and EUR IG markets in a scatter chart would seem to suggest a noticeable inverse relationship between the markets, which perhaps corroborates the suggestion of "liquidity flights" between the USD and non-USD corporate bond markets.

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Repo and Collateral Markets *by David Hiscock and Alexander Westphal*

Securities lending under the ECB Asset Purchase Programmes (APP)

Over the course of the last few years the ICMA European Repo and Collateral Council (ERCC) has commented on a number of occasions on the need for having effective arrangements in place for securities lending of holdings under the ECB's expanded APP. In the meantime, the ECB has itself helpfully made available information to explain the securities lending arrangements which are currently in place relating to the expanded APP.

Within the APP, the Public Sector Purchase Programme (PSPP) is the point of focus for the European repo market, which is approximately 80% based upon government bond collateral. Indeed, based on the ICMA survey data, more detailed collateral analysis by type of asset suggests an increase in the use of APP-related assets, with the share of government bonds, agencies, supranationals, corporate and covered bonds having risen to almost 90% from about 70% one year ago. And, at the same time, collateral decomposition by issuers and type suggests a notable increase in the share of German and Italian Government bonds.

As was inevitably going to be the case once the PSPP was embarked upon, the amount of the holdings has grown and started to represent a significant amount of the government bonds in the European markets. And for now, we can of course only expect that these amounts will continue to grow, also considering the ECB's, 8 December 2016, announcement that purchases under the APP will be extended until the end of December 2017, or beyond if necessary; albeit that from April 2017 the net asset purchases are intended to continue at a monthly pace of €60 billion, rather than the current €80 billion, and that the ECB concurrently announced some easing of the parameters of the APP.

Holding securities within the PSPP naturally removes them from the market and it is only through the arrangements for securities lending that these holdings can then be made available to assist the market in meeting its operational needs. In consequence, collateral availability could decline, at a time when collateral demands are increasing. In particular, new derivative margining requirements are starting to be imposed, and this comes at a time when there is already evidence that pressure on the collateral market has been increasing.

Accordingly, the ICMA ERCC is pleased to see the ECB also introduce the possible use of cash collateral for PSPP securities lending facilities, reflective of one of the suggestions for adaptation of these arrangements which the ICMA ERCC has made. But the ICMA ERCC considers that this alone will not solve current concerns and that there remains scope to further enhance the effectiveness of the securities lending arrangements; and has already suggested other adaptations which have not yet been taken up.

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Reduced dealer willingness to extend repo finance

On 30 November 2016, the Bank of England published its latest Financial Stability Report (FSR), which sets out the view of its Financial Policy Committee on the UK financial system's stability and an assessment of any risks to it. The chapter on market-based finance (at page 34) notes that this is an important component of the UK financial system, supporting the provision of financial services to the real economy; and that the provision of market-based finance relies on the resilience of market liquidity, which remains uneven. Within this chapter the following section (from pages 35-36) is the most pertinent from an ERCC perspective:

"While dealers remain resilient, they continue to appear less willing to build inventory and extend repo financing.

The resilience of dealers has strengthened markedly since the global financial crisis. Although the aggregate leverage ratio of the world's largest dealers ticked down in the first half of 2016, it remained high at 4.8% (Chart B.12).

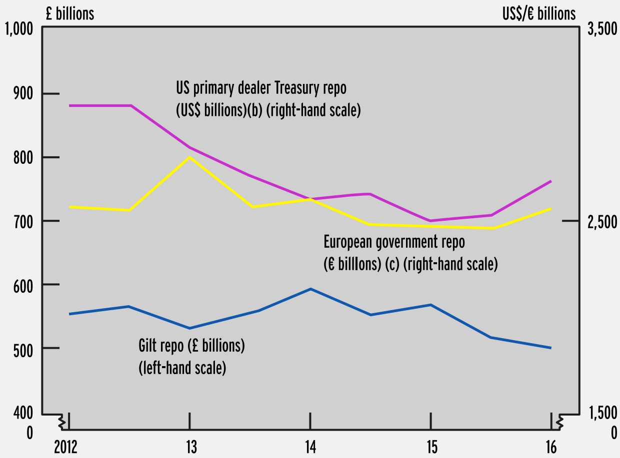
Dealers have an important role to play in ensuring market functioning, including through the provision of securities financing via the repo market. As set out in the July report, repo market activity has declined over the past few years, particularly in the UK and US markets (Chart B.13).

In the United States, there has been a pick-up in repo market activity more recently. This may in part reflect the implementation of reforms in mid-October that aim to address risks associated with money market fund (MMF) holdings of private sector assets. As a result of these reforms, there has been growth in US Government MMFs, which conduct a significant amount of repo with banks collateralised with government securities. In the United Kingdom, the latest Bank of England Money Market Liaison Committee (MMLC) survey, conducted in the first half of 2016, found that, on balance, perceptions of sterling secured market functioning improved in the six months to May (Chart B.14). However, the market was deemed to be functioning poorly overall.

Given its conclusion in the July report that there has been some reduction in the liquidity of some government and corporate bond markets in recent years, most markedly in the repo markets, the FPC welcomes the announcement that the Financial Stability Board (FSB) will undertake further monitoring and analysis on global market depth and funding liquidity conditions. This will include a cross-jurisdiction study of developments in repo markets by the Committee on the Global Financial System, given the importance of these financing markets for overall market liquidity and functioning."

Chart B.13 Repo market activity has fallen in recent years, particularly in the United Kingdom and United States

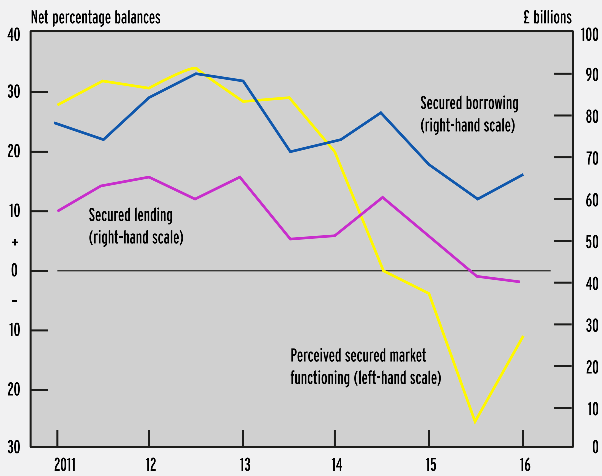
UK, US and European government repo market activity (a)



Sources: Bank of England. ICMA. SIFMA and Bank calculations
(a) Includes both repo and reverse repo (b) Pre-2013 US data is approximate due to less detailed data set
(c) European government repos include those backed by the central government of Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands and Spain

Chart B.14 Despite recent improvement, perceptions of secured market functioning remain poor

Respondents' views of overall market functioning (a)



Sources: Bank of England. ICMA. SIFMA and Bank calculations
(a) 'Net percentage balance' is calculated as the difference between the balance of lenders reporting that, on a scale of 1-5, the market was functioning very poorly (1) to very well (5). The net percentage balances are scaled to lie between ±100: more extreme responses (1 and 5) attract a weight of 100%, less extreme responses (2 and 4) attract a weight of 50% and central responses (3) attract a weight of zero.

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Money market funds (MMFs)

On 7 December 2016, the Permanent Representatives Committee approved, on behalf of the EU Council, an agreement with the European Parliament on MMFs. The final compromise text of the EU MMF Regulation (MMFR) remains subject to a formal process, but this is now expected to be substantively the final form of this new EU Regulation. Once finalised, the text of the EU MMFR will be published in the *Official Journal* – it will enter into force 20 days after such publication, but will in generally only apply from one year after its entry into force. There are some significant points to be noted from a repo market perspective.

Within Chapter 1 of the EU MMFR, Article 2a.1 provides that EU "MMFs shall be set up as one the following types: (a) VNAV (Variable Net Asset Value Money Market Fund) MMF; (b) Public debt CNAV (Constant Net Asset Value Money Market Fund) MMF; (c) LVNAV (Low Volatility Net Asset Value Money Market Fund) MMF." Any of these three types of MMFs may take the form of a short-term MMF (per Article 21.1b), but only a VNAV MMF can take the form of a standard MMF (per Article 22.5).

Chapter II of the EU MMFR covers obligations concerning the investment policies of MMFs. Section I of this chapter covers general rules and eligible assets, including Article 8.1 which provides a limited list of financial assets categories in which MMFs may invest (including (d) reverse repurchase agreements and (da) repurchase agreements); and Article 8.2 which lists certain activities which a MMF shall not undertake (including (d) securities lending agreements and securities borrowing agreements). Article 12a then elaborates on the eligibility requirements relating to any MMF investment in eligible repurchase agreements and Article 13 does the same for eligible reverse repurchase agreements. Section II of Chapter II concerns provisions on investment policies, with Article 14 setting out diversification requirements – specifically including that "The aggregate amount of cash provided to the same counterparty of a MMF in reverse repurchase agreements shall not exceed 15% of its assets" (Article 14.4).

Chapter VII covers transparency requirements, specifically including in Article 37.1a(d) that MMF managers shall inform their MMF investors, at least weekly, of the "details of the ten largest holdings in the MMF, including the name, country, maturity and asset type, and the counterparty in the case of repurchase and reverse repurchase agreements"; and in Article 38.2(e)(ii) that MMF managers shall inform their competent authorities at least quarterly (or annually for MMFs with AUM of ≤ €100 million) of information on the assets held in the portfolio of the MMF, including "the type of asset, including details of the counterparty in the case of derivatives, repurchase agreements or reverse repurchase agreements".

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MIFID II: repo markets

In a letter dated 31 October 2016, the ICMA ERCC states that as a generic matter it considers that Regulation 2015/2365/EU, of 25 November 2015 on transparency of securities financing transactions and of reuse (SFTR), is the appropriate legislative instrument for applicable repo reporting requirements appropriately tailored to the specificities of these important financing transactions. The corollary of this is that the ICMA ERCC does not consider that Regulation 2014/600/EU of 15 May 2014 on markets in financial instruments (MiFIR), and Directive 2014/65/EU of 15 May 2014 on markets in financial instruments (MiFID), are well suited to the creation of meaningfully designed repo reporting requirements.

Given this overall perspective, the ICMA ERCC is pleased to note that almost all MiFIR transaction reporting in relation to SFTs is disapplied by way of a specific exemption in RTS 22, recognising that SFTR will collect the necessary information. And the ICMA ERCC is actively engaged in seeking to assist in ensuring that well designed SFTR reporting is now appropriately implemented. In the spirit of the CMU project which seeks to promote among other things a pragmatic approach in the roll-out of the various regulatory initiatives, the ICMA ERCC continues to urge that this exemption be extended to also cover those SFTs where the counterparty is a member of the ESCB.

Also in the spirit of the CMU project, the ICMA ERCC has identified that there is an urgent need to understand the relevance of MiFID best execution reporting requirements, as specified in RTS 27 and RTS 28, in relation to repo transactions. This matter is urgent because, with MiFID best execution reporting requirements due to be implemented from January 2018, the time available to develop necessary reporting applications is limited. Yet it is not apparent to ICMA ERCC members why such best execution reporting obligations should apply to repo transactions, nor how any information reported on repo best execution could prove to be meaningful in case such best execution reporting obligations were to be applied.

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CCP recovery and resolution

On 28 November 2016, the European Commission announced its proposed new EU rules for the recovery and resolution of CCPs, in the form of a draft Regulation subject to approval and adoption by the European Parliament and the EU Council. These proposed rules for CCPs set out provisions comparable to those for banks in the BRRD and are based on international standards – however, as CCPs are very different businesses to banks, this proposal contains CCP-specific tools that better align with CCPs' default management procedures and operating rules, especially to determine how losses would be shared. The proposed rules require CCPs and authorities to prepare for problems occurring, intervene early to avert a problem, and step in when things have gone wrong.

Much of the debate thus far regarding this topic has focused on the importance of CCPs for the clearing of derivatives, as now mandated for certain contracts in order to reduce bilateral counterparty exposures. Yet we know that in Europe CCPs are used for a very significant proportion of repo business and that CCPs are themselves significant participants in repo markets. As such it is essential that the implications of this proposed new EU Regulation are suitably considered from a repo and collateral perspective, so that any potentially necessary amendments can be suitably debated during the coming months, as consensus is sought regarding a final text of this Regulation to be adopted into EU law.

Specifically considering the proposed resolution powers and tools, in line with the guidance of the FSB, a CCP will be placed in resolution when it is failing or likely to fail, when no private sector alternative can avert failure, and when its failure would jeopardise the public interest and financial stability. In addition, it could be placed into resolution where the use of further recovery measures could compromise financial stability even when the conditions above are not met. Resolution should be undertaken by way of several tools which could be used separately or in conjunction: (i) sale of a CCP's entire or critical functions to a viable competitor, (ii) creation of a publicly controlled bridge CCP, and (iii) allocation of losses and positions among clearing members.

The Regulation does not mandate which tools and powers to use in different scenarios but leaves the choice to the authority, depending on the circumstances but where practicable in line with the resolution plan agreed by the resolution college. The various loss and position allocation options would provide the resolution authority with means to re-match the CCP's book, stem further losses and obtain additional resources to recapitalise the CCP. Furthermore, the Regulation does not exclude the possibility for resolution authorities to exercise other options including to call on further private resources, either within the CCP (eg using default funds of non-affected product lines) or from outside parties (eg calling on clearing members to voluntarily accept further allocations of positions; a partial or full tear-up of contracts; or haircuts of outgoing variation margin payments).

In order to ensure that resolution decisions are taken in accordance with key principles regarding property rights, compliance with relevant securities and company law and national constitutional arrangements, the proposed Regulation includes the necessary provisions and steps which resolution authorities would have to comply with before and upon taking resolution decisions. For example, these include ensuring an accurate valuation of the balance sheet of the CCP, safeguards for affected stakeholders to receive compensation if they end up worse than if the CCP had not been resolved but they would have been subject to further possible actions under the CCP's internal rules for allocating losses or in insolvency and the procedural steps by way of which authorities should notify the CCP and other authorities concerned of resolution decisions.

To facilitate resolution and the objective of safeguarding financial stability, the framework also includes a temporary moratorium on certain obligations of the CCP and stays on the ordinary rights of counterparties to terminate and close-out against the CCP arising solely by virtue of the exercise of resolution powers in relation to the CCP. Accompanying these steps are appropriate protections for payments due to other financial market infrastructures and for collateral and netting arrangements in line with those in the BRRD.

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Haircuts

As explained in Issue 43 of the ICMA Quarterly Report, Article 29.3 of the EU SFTR requires that "ESMA shall, by 13 October 2016, submit a report to the Commission assessing: (i) whether the use of SFTs leads to the build-up of significant leverage that is not addressed by existing regulation; (ii) where appropriate, the options available to tackle such a build-up; (iii) whether further measures to reduce the pro-cyclicality of that leverage are required." On 4 October, ESMA duly published its report to the Commission. While remaining cautious when considering the introduction of new quantitative regulatory requirements on SFTs, ESMA recommends to:

- introduce the FSB's qualitative standards in the methodology used to calculate haircuts;
- address the pro-cyclicality of collateral haircuts in CCPs in the context of the EMIR review;

- assess the possible extension of the FSB's scope for numerical haircut floors, in particular to government bonds, and the calibration of these floors using SFTR data which will become available in 2018; and
- assess pro-cyclicality and the potential need for further policy tools once sufficient data becomes available.

ESRB working paper no. 27, *(Pro?)-Cyclicality of Collateral Haircuts and Systemic Illiquidity*, was published on 20 October. The authors note that pro-cyclicality of collateral haircuts and margins has become widely discussed not only by academic literature but also by regulatory authorities in Europe. Pro-cyclicality of haircuts is assumed to be a trigger of liquidity spirals due to its tightening effect on collateral portfolio values in times of market distress. However, empirical evidence on this topic is quite sparse and the discussions are primarily driven by insights derived from theoretical models. Nonetheless, oversight bodies are discussing macroprudential haircut add-ons in order to curb the potential effects of pro-cyclicality in distressed periods.

Based on a unique data set provided by a large European CCP, the authors have constructed a measure of systemic illiquidity of bond collaterals and analysed the relationship between haircuts, the development of periods with explosive behaviour and systemic illiquidity. They estimate the noise of bond yields to measure systemic illiquidity with and without considering haircuts; and then apply an explosive roots bubble detection technique to identify irrational periods of each of these time series and to a combination of both. Finally, the authors propose a quantitative trigger and design for macroprudential haircut add-ons. Their results confirm that (i) bond collateral markets face irrational (ie bubble-like) illiquidity during periods of systemic distress; (ii) haircuts are not amplifying or increasing with systemic illiquidity; and (iii) the proposed haircut add-on mechanism exhibits desirable features to mitigate systemic illiquidity during lasting periods of distress.

On 24 October, the ESRB's response to the European Commission's consultation on the *Review of the EU Macroprudential Policy Framework* was published. In the Executive Summary, this states that "While recognising that macroprudential instruments outside banking already exist for selective purposes, there is a general need to establish a comprehensive macroprudential toolkit beyond banking. In particular, instruments such as margin and haircut requirements for derivatives and securities financing transactions, as well as liquidity and leverage requirements for investment funds, should be further investigated and, where appropriate, the regulatory framework could be expanded. Moreover, the design of recovery and resolution regimes for central counterparties and insurance corporations should have a macroprudential profile."

"The General Board of the ESRB endorsed the publication of the ESRB report on *The Macroprudential Use of Margins and Haircuts.*

In section 4 of the response it is stated that "The ESRB believes that the legal basis for using macroprudential tools beyond banking should be created to ensure that authorities have these tools available in the foreseeable future. Examples of such tools include macroprudential margins and haircuts for securities financing transactions and derivatives, and the imposition of leverage limits on alternative investment funds, where work on technical aspects is well advanced at the ESRB level."

As further outlined in the macroprudential risk section of this ICMA Quarterly Report, on 28 November, the ESRB published a report on the macroprudential issues arising from low interest rates and structural changes in the financial system of the EU. The policy options in the report are not to be taken as ESRB recommendations, but rather as a set of proposals for further consideration by the relevant stakeholders. Within the report, section 3.2, "Policy options to mitigate conjectured future risks", includes (at page 24) that: "Further steps could be taken towards a framework using margins and haircuts as macroprudential instruments. This could also include assessing the adequacy of setting minimum margin requirements and, in the longer term, exploring possible obligatory central clearing for securities financing transactions." The idea of developing margins and haircuts as macroprudential instruments is then further detailed under POLICY B.2.2.2 (on page 58); but it is also worth noting POLICY B.1.1.1 (on page 47), regarding data sharing to better monitor risk, and POLICY B.1.1.2 regarding activities of funds and other non-banks, including their use of SFTs and collateral re-use.

At its meeting on 15 December, the General Board of the ESRB endorsed the publication of the ESRB report on *The Macroprudential Use of Margins and Haircuts*, which explains the rationale for macroprudential policies to mitigate systemic risk that arises from excessive leverage and pro-cyclicality in collateral requirements. This report also discusses how margins and haircuts could be used as macroprudential tools and highlights practical challenges in the use of such tools. The report aims to contribute to the understanding of the macroprudential use of margin and haircuts and to inform ongoing international discussions.

The General Board was also updated on the recent consultation with the private sector stakeholders conducted by the ESRB High-Level Task Force on Safe Assets. Chaired by the Governor of the Central Bank of Ireland, this Task Force is investigating the potential creation of sovereign bond-backed securities (SBSs) consisting of senior and junior claims on a diversified portfolio of sovereign bonds. The Task Force will continue its feasibility study of SBS via analyses, an ongoing dialogue with industry and discussions by its workstreams; and before the end of 2016, the ESRB will announce on its website a survey on SBSs, inviting market participants to respond by 27 January 2017. If created, SBSs would quite likely prove to be an attractive new form of high-quality collateral.

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SFT Regulation

On 30 November 2016, the ICMA ERCC submitted a detailed response to ESMA's latest Consultation Paper on draft RTS and ITS under the SFTR. The submission consists of the main response to the long list of questions posed by ESMA as well as a document with specific comments on the individual reporting fields proposed.

One of the key concerns highlighted in the ICMA ERCC response is with the general workability of the proposed reporting regime for SFTs. As the response points out, the ICMA ERCC believes that it is a mutual interest of industry and supervisors that the SFTR reporting regime is both effective in its ambition to increase the transparency of SFT markets and efficient in achieving its goals without disproportionately burdening reporting firms. The ICMA ERCC's response thus includes some concrete proposals that aim to improve both. In particular, the ICMA ERCC stresses that the number of required reporting fields, which goes far beyond similar existing reporting initiatives for SFTs, could be significantly lower without reducing the overall level of transparency. Many fields could be derived by regulators, trade repositories (TRs) or indeed the ECB's SFT Data Store that is being set up, either from other reported information or central data sources. Similarly, given that it is a double-sided reporting regime, the ICMA ERCC urges ESMA to reduce drastically the number of proposed reconciliation (ie matching) fields and/or to increase substantially the proposed tolerance levels in order to allow for meaningful matching rates. Another possibility would be to consider a phased implementation that would require initially only a small subset of fields which could then be gradually increased. Other high level proposals from the ICMA ERCC's response include:

- Collecting information directly from the relevant market infrastructures, such as CCPs and tri-party agents, would reduce the reporting burden and increase both accuracy and timeliness of the reporting.
- On the reporting of collateral re-use, while problematic in its own right, the ICMA ERCC strongly supports reporting on a monthly, not on a daily basis.
- The current framework for the reporting of margin data needs further adjustments for both CCP-cleared as well as bilateral trades.
- While the increased alignment with EMIR and global reporting standards is clearly welcome, there are important differences between OTC derivatives and SFT markets which need to be appropriately reflected in the reporting framework.

Prior to the consultation deadline, ESMA held a Public Hearing at its offices in Paris, which provided industry representatives with an opportunity to raise their main concerns with the proposals and to receive some clarifications from ESMA. In terms of the implementation timeline, it is noteworthy that ESMA confirmed at the Hearing that they will not be able to submit the final draft technical standards to the Commission by January 2017, as required by the SFTR Level 1 text, but aim to submit these by the end of March. While this delay is welcome as it allows slightly more time to consult market participants on this important and complex file, this also means that the overall implementation timeline will slip. The formal adoption of the final standards is thus now expected around October 2017, with an additional year for financial institutions to prepare before the actual start of reporting. Given the significant implementation challenges expected, it will be important for firms to start preparing as early as possible. The ICMA ERCC, through its Operations Group, is acutely aware of the scale of the challenge, and has been working to facilitate implementation through many of its existing work streams such as the work on trade matching and affirmation. The ICMA ERCC Operations Group is also collaborating closely with the relevant vendor firms, given that these are expected to play an important role in the practical implementation of the reporting regime. A kick-off event with vendors is planned in early 2017.

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Asset Management

by Patrik Karlsson

Macroprudential policy review

On 21 September 2016, the ICMA Asset Management and Investors Council (AMIC) submitted a response to the consultation by the FSB on proposed policy recommendations to address structural vulnerabilities from asset management activities, led by the AMIC Fund Liquidity Working Group. The Working Group was set up in 2015 to draft, in cooperation with the European Fund and Asset Management Association (EFAMA), a research report on liquidity risk management in investment funds. AMIC strongly welcomed the approach by the FSB to focus on the activities of asset managers rather than designating individual asset managers

On 24 October 2016, AMIC submitted its response to the European Commission's consultation on whether the existing EU macroprudential framework is functioning optimally. The work on the response was carried out within the AMIC Fund Liquidity Working Group as part of AMIC's on-going engagement on systemic risk issues related to asset management and investors.

In its response to the European Commission's consultation on macroprudential policy, AMIC urged the Commission to tread cautiously in expanding the role and remit of the European Systemic Risk Board (ESRB) on systemic risk issues. AMIC noted that macroprudential policy is still in its infancy and remains unproven. There is still a lack of clarity over the purpose of macroprudential policy. It is unclear whether it is designed to prevent systemic risk or whether it is designed to act as a monetary policy tool to withdraw momentum from an overheated market or to add stimulus to a slowing market.

Furthermore, AMIC asked the Commission not to expand the ESRB to non-banking activities until its structure and governance is reformed to consider the expertise of securities regulators. Currently, of the 38 voting members of the ESRB General Board, 28 are members of national central banks.

AMIC also stressed that macroprudential policy should not be used to view asset management in isolation from the rest of the financial ecosystem. The authorities should consider the impact of market-wide activities of all investors and asset owners, not only asset managers.

Finally, regarding one of the main concerns in the consultation, AMIC agrees that market data need to be utilised better in the future to allow regulators a better picture of where systemic risk might arise. However, AMIC urges the Commission to improve the sharing of existing data that are already reported by market participants, instead of requesting additional or duplicative data reporting.

The European Commission will now consider responses to its consultation and issue any relevant policy recommendations in 2017.

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Leverage in investment funds

Members of the AMIC Fund Liquidity Working Group have identified leverage as the next key topic for the Working Group. The topic was extensively explored by the FSB in its June 2016 *Consultation on Proposed Policy Recommendations to Address Structural Vulnerabilities for Asset Management Activities*. Leverage is also likely to be explored by the European Commission in its review of the AIFMD and UCITS in 2017.

In light of this, the Working Group is looking to draft a similar report to the *Fund Liquidity Risk Management Paper*, issued jointly with EFAMA in April 2016, on the use and measurement of leverage in investment funds in Europe. The aim of the paper on leverage is to explore the reasons for using leverage in investment funds, including both hedging and investment, and the different leverage measurement tools being used: gross method, commitment method and advanced method, and the Value at Risk (VaR) method of calculating risk. The Working Group also intends to outline the regulatory requirements existing in UCITS and AIFMD on leverage. In addition, the paper will examine the benefits of the existing EU regulatory framework set out in UCITS and AIFMD, which allows investment funds to use an appropriate measure of leverage tailored to their funds' specific needs.

The AMIC and EFAMA Secretariats have begun work on the paper, including by consulting members in the AMIC Fund Liquidity Working Group and in EFAMA on the content and framework of the arguments. AMIC and EFAMA aim to finalise the paper in time for the AMIC Council event that will take place in the spring of 2017.

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STS securitisation

The EU debate on a Regulation creating a simple, transparent and standardised (STS) securitisation label has intensified following the adoption of a report in the European Parliament on 8 December 2016 paving the way for adoption in plenary and for the trilogues to start in the first quarter of 2017.

There are several problematic elements in the Parliament's text that would be very difficult for both issuers and investors to handle. The Parliament text has introduced a limit on "investors" to only those that are EU institutional investors or investors in a third country with an equivalent regime. Furthermore, only EU credit institutions are allowed to be originators.

Following significant discussions on risk retention, the Parliament text sets risk retention at a 10% or 5% combination. The limit on retention across the board is set as 10% or 5% as follows:

- the retention of no less than 10% of the nominal value of each of the tranches sold or transferred to investors;
- in the case of revolving securitisations or securitisations of revolving exposures, the retention of the originator's interest of no less than 10% of the nominal value of each of the securitised exposures;
- the retention of randomly selected exposures, equivalent to no less than specified 10% of the nominal value of the securitised exposures, where such non-securitised exposures would otherwise have been securitised in the securitisation, provided that the number of potentially securitised exposures is no less than 100 at origination;
- the retention of the first loss tranche and, where such retention does not amount to 5% of the nominal value of the securitised exposures, if necessary, other tranches having the same or a more severe risk profile than those transferred or sold to investors and not maturing any earlier than those transferred or sold to investors, so that the retention equals in total no less than 5% of the nominal value of the securitised exposures;
- the retention of a first loss exposure of between 5% and 10% of every securitised exposure in the securitisation (the exact level to start at 7.5% and to be varied according to technical analysis performed by the EBA).

Furthermore, an additional measure on macroprudential oversight mandates the EBA to specify whether to raise the overall risk retention level to 20%, and seems to imply that unless RTS are adopted then the retention rate goes up to 20% regardless for the whole market.

On investor reporting, the report requires investors in securitisations on the secondary market to report to their regulator their beneficial owner and the size of their investment and to which tranche of the securitisation it relates. However, there is also a requirement that ESMA must "safeguard transparency" by publishing securitised assets, issuers and investment positions. This investor name give-up could be a significant setback to investors' willingness to invest in European securitisation if it remains in the final text.

The text also adjusts with the provisions on Asset-Backed Commercial Paper (ABCP). On the maximum underlying maturity for underlying transactions, the text limits the weighted average maturity to one year (instead of the original two years), while the maximum allowed maturity stays at three years. However, auto loans, auto leases and equipment lease transactions have a different regime: they are allowed a weighted average of a four-and-a-half-year maturity and a maximum maturity of six years.

On a critical issue for investors, the Parliament text explicitly allows originators to use third parties to check compliance of an issue with STS criteria, but without altering the liability of the originator. There are no rules specifying what the third-party certification must be or how it should be regulated, unlike the extensive new section regulating trade repositories.

The unnecessary debate on risk retention is not helpful and the suggested changes to the 5% level by the European Parliament are detrimental to investor certainty in European securitisation. More broadly, AMIC remains very concerned about the slowness of the general progress of this legislation, because the European Commission has indicated it will not propose amendments to capital calibration for securitisation in Solvency II without agreement on STS first. This is disappointing to investors as the main benefit of the STS framework is the capital benefit it will give to investors.

The longer that insurance investors stay out of the securitisation market, the less likely they are to re-enter the market, even if lower capital levels are agreed in the future.

Insurers and their portfolio managers have disinvested from securitisation for many years now, mostly in response to the clear signal from regulators that the product is too risky to invest in, despite the very low levels of defaults in European securitisation. Therefore, AMIC is acting in cooperation with other industry bodies to encourage a sensible agreement at a political level on the STS securitisation framework and subsequently to achieve swift implementation of Solvency II amendments.

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Bail-in

By Katie Kelly

Members of the ICMA Bail-in Working Group (BIWG), a buy-side group reporting to the ICMA Asset Management and Investors Council (AMIC), recently attended meetings with the Single Resolution Board (SRB), the European Commission and the European Central Bank (ECB), in all cases to discuss the contents of a BIWG position paper from September 2016 relating to the operation of the bail-in mechanism. As a result of those meetings, a letter was sent to the ECB (copied to the SRB and the European Commission) on 20 December, which articulates further thoughts on two issues: (i) assessing and pricing bank credit risk and (ii) corporate governance and the rights of bondholders.

While the current abundance of demand for bank paper and search for yield remains a key driver for new issues, the BIWG urges some caution when judging market access and spreads in more normalised credit markets in the coming years, and believes that a more technical evaluation of risk will play a greater part in the process of relative value and price discovery in future.

As a fundamental starting point, the BIWG has previously highlighted concerns over unprecedented levels of bad loans exceeding tangible common equity, and while considerable progress has been made to improve the transparency and consistency of bad loan recognition, much remains to be done to effect a full "clean-up" of this situation and to ensure optimal conditions allowing banks full access to the capital markets.

Assessing and pricing bank credit risk involves two critical elements: first, determining the likelihood of a bail-in ("probability of default"); and second, evaluating the size of a potential loss ("loss given default"). In order to assess the probability of default, the "point of non-viability" (PoNV) needs to be determined, but with relatively little guidance over the definition of PoNV, and a lack of clarity over how it might be measured and applied, there is potential for a wide margin of "guestimation".

For assessing loss given default, the market is likely to use an analysis of a bank's capital stack to evaluate exposure, which may offer some assistance for measuring relative value between large, well-capitalised banks. However, this approach may not offer guidance for smaller institutions that nevertheless have important roles to play in the real economy.

Fundamentally, thorough balance-sheet analysis of banks is complicated, and there are several areas where assessment of a bank's risks remains challenging. The actual quantum of write-down on a bail-in is determined by regulatory action and calibration, but without an ability to readily evaluate the basis of a write-down, and no established rules giving details of how this might be handled, there is a danger that the "no creditor worse off" than in liquidation principle, which is a fundamental cornerstone of the bail-in mechanism, may in practice not be workable.

The BIWG also considers that there remains uncertainty around how the rights and obligations of all stakeholders are re-set to reflect the new state of affairs that a bail-in might bring about, given the shift in the risk-bearing dynamic from equity holders to bondholders. As post-conversion equity holders, the obligations of bondholders will now change, while their rights remain unadjusted. The BIWG believes that there should be a broader debate around the purposes and functions of banks in the real economy, but as a starting point, it has set out in the letter a few proposals for Additional Tier 1 (AT1) issues of securities. This includes ensuring that dividends (and discretionary bonuses) are only paid if AT1 coupons are paid and are above maximum distributable amounts, or making AT1 coupons cumulative in certain circumstances. The BIWG also proposes that AT1 holders should have a right to vote on dividend proposals in certain circumstances, such as in the case of a shortage of common equity, and that senior management could receive a variable compensation package in the form of AT1 instruments with a high trigger.

The BIWG is keen to explore these and other issues related to bail-in, and will seek to further the debate and clarify the issues with members of the buy-side community, regulators, representatives from the sell side and issuers so that a consensus among these groups will emerge.

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FCA interim market study into asset management

On 18 November 2016, the FCA published *its interim market study into asset management*.

The FCA found that price competition is weak in several areas of the industry. While the price of passive funds has fallen, active prices have remained stable. The FCA stated that, despite many firms operating in the market, the asset management industry has seen sustained, high profits over a number of years. The FCA also said that investors are not always clear about fund objectives, and fund performance is not always reported against an appropriate benchmark. Finally, the FCA found concerns about the way in which the investment consultant market operates.

The FCA proposes a package of remedies to make competition work better, and protect those least able actively to engage with their asset manager. These remedies include a strengthened duty on asset managers to act in the best interests of investors, reforms to hold asset managers to greater account, introducing an all-in fee to make it easy for investors to see what is being taken from the fund, and measures to help retail investors identify the most appropriate fund. The FCA also published a provisional decision to make a market investigation reference on investment consultancy services.

The FCA found that price competition is weak in several areas of the industry.

The FCA has requested feedback on both the proposed remedies and the provisional decision to refer investment consultancy services to the CMA. The deadline for response is 20 February 2017. The final report and remedies are expected during 2017.

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AMIC Council

On 7 November 2016, the AMIC Council met in London. The half-day conference included a keynote speech by the host BlackRock on economic trends in the market.

As usual, the conference also included several expert panels on topics of interest to the AMIC membership:

- Brexit and the practical implications for asset managers in capital markets;
- liquidity in secondary bond markets; and
- coping in a negative interest rate environment.

AMIC Chairman, Robert Parker, also provided participants with a presentation on some of the relevant trends and threats to asset management in the coming years.

AMIC produced a review for participants and AMIC members, which covered liquidity from an investor's perspective, a market outlook by an AMIC member and an article by ICMA's Andy Hill on the changing nature of secondary market corporate bond liquidity for the buy-side.

The next AMIC Council will be held in spring 2017. If you would like to know more, please contact the AMIC Secretariat.

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Green Bond Principles



by Nicholas Pfaff, Valérie Guillaumin and Peter Munro

The official sector is showing increasing interest in the green bond market with sovereigns entering the market as issuers, and with a growing policy dialogue. This may have important implications for the international green bond market. The Green Bond Principles (GBP) are the voice of the voluntary organization of the international green bond market in this context. The GBP continue to develop in parallel guidance for market participants based on the annual consultation of its members and observers and the output of its working groups.

Poland became in December 2016 the first sovereign to issue a green bond. Total issue size was €750 million, with green investors reportedly taking 61% of the issue and 93% of the bond being sold to investors outside Poland. The transaction was structured to be in line with the GBP, which required the Polish sovereign to overcome legal issues, especially in order to allow investors to have clarity on the management and traceability of proceeds. Sustainalytics was commissioned to prepare an external review that confirmed GBP alignment. France also just announced on 3 January 2017 a major sovereign green bond programme of up to €10 billion explicitly aligned with the GBP. It benefits from an external review by Vigeo-Eiris, and has many innovative features that will be undoubtedly closely studied by other potential sovereign issuers (eg Nigeria, Sweden).

The entry of sovereign issuers is potentially a key step forward in the green bond market's progress towards the mainstream. The GBP Executive Committee (GBP Excom) will be monitoring these transactions closely with a view to any necessary adaptations of the Principles that will support additional sovereign issuance while preserving the integrity of the market.

On the policy front, the European Commission established on 22 December a High Level Expert Group on Sustainable Finance (HLEG) composed of 20 senior experts coming from civil society, the business community and other non-public sector institutions. ICMA has been invited by the Commission to sit as an observer on the HLEG, and will speak for the green, social and sustainable bond markets. The HLEG will start its work in January 2017. The constitution of the HLEG follows the release by the Commission of a *Study on the Potential of Green Bond Finance for Resource-efficient Investments* calling for a common European Green Bonds Standard building on existing market-led initiatives.

The HLEG will submit to the Commission a set of policy recommendations aimed at facilitating the flow of public and private capital towards sustainable investments, and minimising possible risks to the EU financial system due to its exposure to carbon intensive assets. There will be a particular focus on environmental sustainability and, where relevant, social and governmental risks.

In this context of increasing policy interest from the European Commission, and of the GBP Secretariat's active participation as a knowledge partner in the G20 Green Finance Study Group (including co-authorship of the G20 GFSG report *Green Bonds: Country Experiences, Barriers and Options*), the GBP Excom launched an Official Sector Contact Group (OSCG) in London on 18 November hosted on this occasion by the UK Treasury and co-chaired by the People's Bank of China (PBOC). The objective of this group is to provide a regular and confidential forum for exchanges between the official sector and GB market participants, as represented by the GBP Excom. The next meeting should take place during the first quarter of 2017.

In parallel and in line with its governance framework, the GBP opened in November its annual consultation of members and observers. The GBP Executive Committee will review the feedback of the consultation especially through its working groups. The terms of reference of each of the working groups, summarising their priorities for the year to come, are now available online, enabling organisations that have expertise in the areas covered by the working groups to express their interest in contributing.

The consultation took the form of a questionnaire prepared by the working groups and forwarded to all GBP members and observers. It is composed of one general question – "In your opinion, what should be the Executive Committee's key areas of concern for the year to come?" – and of specific questions related to the subjects under review by certain working groups: use of proceeds categories; definitions of project eligibility and green taxonomies; impact reporting scope; survey on impact reporting practices; social project categories and impact reporting metrics. The consultation closed at the end of December 2016, and the GBP Secretariat received more than 50 detailed responses, which are currently being evaluated.

The GBP Excom's priority early in 2017 will be to review these responses and identify possible changes for the 2017 update of the GBP. It will also participate and monitor closely the increasingly active policy dialogue around the green bond market while promoting its further growth and development.

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Revised ICMA European private placement market guide *By Katie Kelly*

ICMA has been working with members of the European Corporate Debt Private Placement Joint Committee (ECPP JC, formerly known as the Pan-European Private Placement Working Group) on an update of the European Corporate Private Placement Market Guide (the Guide), which was originally released in February 2015. Produced in response to the evolution of the market, the Guide sets out a voluntary framework for common standards of best practice to encourage orderly growth of the European private placement market.

As well as general updates and fine-tuning of the language, the new version of the Guide (now named the *European Corporate Debt Private Placement Market Guide*) contains a code of best practice for amendments and waivers in private placement transactions, identifies complementarities and convergence between ECPP and the international Schuldschein markets, and annexes a clearing system certificate which is required for withholding tax exemption.

The Guide was released in October 2016 at an event in Brussels which was supported by the European Commission. Hosted by KBC, the event was extremely well attended, with standing room only. Olivier Guersent, Director General, DG FISMA (European Commission), made a keynote speech, highlighting the purpose of Capital Markets Union, being to provide a stable regulatory landscape through which to fund the European economy and encourage growth – with private placement playing an increasingly pivotal role. An investor/issuer discussion followed, during which a euro private placement issuer highlighted the importance of this form of funding for his business, while another issuer, looking to access the euro private placement market, shared his experience of US private placement. Participants from the buy side, an issuer, an arranger, an official from the European Commission and a representative of the German Association of Public Banks shared their views on the final panel. The panel touched upon many issues, including the recent development of the European private placement market, increasing investor demand, evolution in practice and processes, convergence with the Schuldschein market, policy considerations, including Capital Markets Union and Solvency II, and crucially, what needs to be done to encourage more issuance of, and investment in, European private placement. The event was wrapped up by a representative of the Banque de France, who made some very positive remarks about the expansion of the market, as well as on the Guide and the role ICMA has played in its development.

By the end of 2015, the European private placement market was estimated by Standard and Poor's at €33 billion, including Schuldschein issuance. An independent poll also indicated that 76% of investors and 53% of corporates were aware of the Guide and the model transaction documentation, indicating that the Guide has become a significant contributing factor in the development of this market. Next steps for the ECPP JC will include the Solvency II Working Group examining the calibration of capital charges for insurers' investment in private placement under a revision of Solvency II, and the Tax Working Group exploring issues surrounding funds investing in private placements.

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International Regulatory Digest

by David Hiscock and Alexander Westphal

G20 financial regulatory reforms

On 12 October 2016, the BCBS published a final standard on the regulatory capital treatment of banks' holdings of total loss-absorbing capacity (TLAC) instruments. The standard seeks to limit contagion within the financial system if a global systemically important bank (G-SIB) were to enter resolution. This final standard, which will take effect at the same time as the minimum TLAC requirement for each G-SIB (ie 1 January 2019 for most G-SIBs), reflects changes made following public consultation, and includes the following elements:

- Holdings of TLAC instruments, and instruments ranking *pari passu* with subordinated forms of TLAC, that are not already included in regulatory capital must be deducted from Tier 2 capital.
- The deduction is subject to the thresholds that apply to existing holdings of regulatory capital and an additional 5% threshold for non-regulatory capital TLAC holdings only.
- To be eligible for the additional 5% threshold, G-SIBs' holdings must meet additional conditions, including being held in the trading book.

On 19 October, the FSB published a methodology for assessing the implementation of the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (Key Attributes) in the banking sector. This sets out essential criteria to guide the assessment of the compliance of a jurisdiction's bank resolution frameworks with the FSB's Key Attributes. It is designed to promote consistent assessments across jurisdictions and provide guidance to jurisdictions when adopting or reforming bank resolution regimes to implement the Key Attributes. The FSB will continue to monitor implementation of the Key Attributes and FSB jurisdictions have agreed to undergo an assessment of their bank resolution regimes on the basis of the assessment methodology.

On 19 October, the BCBS issued the eleventh progress report on adoption of the Basel regulatory framework, which sets out the adoption status of Basel III standards for each member jurisdiction of the BCBS as of end-September 2016. This shows that:

- all 27 member jurisdictions have final risk-based capital rules, LCR regulations and capital conservation buffers in force;
- 26 member jurisdictions have issued final rules for the countercyclical capital buffers;
- 25 have issued final or draft rules for their D-SIBs framework;
- 18 have issued final or draft rules for margin requirements for non-CCP cleared derivatives; and
- all members that are home jurisdictions to G-SIBs have the final G-SIB framework in force.

While members are now turning to the implementation of other Basel III standards, including the leverage ratio and the NSFR, some member jurisdictions report challenges in meeting the agreed implementation deadlines for some standards.

A meeting of the IOSCO Board, hosted by the Securities and Futures Commission (SFC) in Hong Kong on 20-21 October, focused on key issues facing securities regulators and global financial markets. The IOSCO Board discussed ways to advance the organisation's agenda for financial regulatory reform and also reviewed the progress of IOSCO's work on margin requirements, CCPs, asset management and market conduct. Nearly 100 securities regulators from more than 30 member jurisdictions attended the meeting, which was the first chaired by the new IOSCO Board Chairman, Ashley Alder, SFC Chief Executive Officer. Subsequently, IOSCO announced details of the newly elected chairs and vice chairs of the IOSCO Board committees.

On 28 October, IOSCO published a report on the implementation of the G20/FSB post-crisis recommendations aimed at strengthening securities markets. For this 2016 survey, IOSCO undertook the analysis for the following recommendations that relate to securities markets: hedge funds; structured products and securitisation; oversight of CRAs; measures to safeguard the efficiency and integrity of markets; and supervision and regulation of commodity derivative markets. IOSCO's implementation monitoring report finds that most responding jurisdictions have taken steps to implement the G20/FSB recommendations and IOSCO guidance in each reform area. Implementation is most advanced in relation to hedge funds, structured products and securitisation, and the oversight of CRAs – most jurisdictions had implemented these reforms by 2014, while implementation of G20/FSB recommendations in other areas continues to progress.

As the Basel III package nears completion, the emphasis is shifting to monitoring its implementation and assessing the impact of the reforms. Published on 7 November, *Adding It All Up: the Macroeconomic Impact of Basel III and Outstanding Reform Issues*, is a BIS working paper which presents a simple conceptual framework to assess the macroeconomic impact of the core Basel III reforms, including the leverage ratio surcharge that is being considered for G-SIBs. The authors use historical data for a large sample of major banks to generate a conservative approximation of the additional amount of capital that banks would need to raise to meet the new regulatory requirements, taking the potential impact of current efforts to enhance G-SIBs' TLAC into account. While keeping in mind that quantifying the regulatory impact remains subject to caveats, the results suggest that Basel III can be expected to generate sizeable macroeconomic net benefits even after the implied changes to bank business models have been taken into account.

Speaking at an IESE Business School conference, in London on 17 November, Jaime Caruana, BIS General Manager, said markets reflect an array of challenges facing banks. He argues that "While regulation is one element of the business environment that banks take into account in their capital allocation decisions, the underlying challenges to banking in recent times seem to be more deeply rooted in low profitability and unnecessarily costly funding. Repairing balance sheets and increasing capital through greater retention of profit as retained earnings would mitigate many of the problems facing the banking sector." Effects of regulation on banks will continue to be monitored.

On 17 November, the FSB met in London to discuss current vulnerabilities, ongoing policy work and its work plan for 2017. Concerning current market developments and vulnerabilities, it was noted that the financial system has continued to function well, despite bouts of uncertainty and risk aversion. Yet high sovereign and corporate debt levels remain a concern given ongoing economic uncertainty and signs of maturing credit cycles in some jurisdictions; and since July, global bond markets have repriced, with longer-dated yields rising markedly. The global financial system is seen as being more resilient as a result of the regulatory reforms introduced following the 2008 financial crisis and, in an environment of evolving risks, the importance of completing the implementation of the agreed reform programme, including Basel III, is emphasised.

With respect to G-SIFIs the FSB, in consultation with the BCBS, the IAIS and national authorities, approved the 2016 lists of identified G-SIBs and G-SIIs, ahead of their public release on 21 November. The Plenary also discussed the implementation to date of TLAC, where a majority of G-SIB home authorities have published policy proposals or consultation documents on TLAC implementation, and banks have issued substantial amounts of TLAC-eligible liabilities. The Plenary agreed on proposed guiding principles on internal TLAC, to be released for consultation before year-end.

The FSB reviewed progress on the work plan to enhancing the resilience, recovery planning and resolvability of CCPs, discussing public responses to the discussion note on CCP resolution that was released in August. In early 2017, the FSB will issue for public consultation a proposal for guidance on CCP resolution and resolution planning; and this work will be finalised by mid-2017, along with resilience and recovery guidance issued by the CPMI and IOSCO. Separately, the FSB discussed the responses received to its public consultation on proposed policy recommendations to address structural vulnerabilities from asset management activities; and will publish its final recommendations by end-2016.

In addition, FSB members discussed their work plan for reporting on the implementation and effects of G20/FSB reforms. This includes preparations for the third annual report to the G20, to be published in advance of the July 2017 G20 Summit; the development of a post-implementation policy evaluation framework to assess the effects of reforms; and workshops with academics and market participants in early 2017 to discuss approaches to analysing effects and evidence to date. Members discussed arrangements for undertaking a comprehensive review of the implementation and effects of OTC derivatives reforms as part of this work; and also discussed an interim report by the CGFS on its study on repo market liquidity and the impact of possible drivers.

The FSB agreed that it will undertake by July 2017 an assessment of progress in transforming shadow banking into resilient market-based finance, which will include an assessment of the evolution of shadow banking activities since the global financial crisis and related financial stability risks, and whether the policies and monitoring put in place by FSB members since then are adequate to address these risks. The Plenary also discussed the preliminary high-level findings from this year's annual monitoring exercise of the global trends and risks in the shadow banking system, the results of which will be published around end-2016. The FSB also discussed regulatory approaches to re-hypothecation of client assets, and measures of collateral re-use. The FSB will publish its recommendations, including the finalised collateral re-use measure for inclusion in the FSB's standards and processes for global SFT data collection and aggregation by end-2016.

Finally, members reviewed progress on the FSB's FinTech work plan, including recent stocktakes in conjunction with other international bodies on topics such as authorities' innovation facilitators, FinTech credit intermediation, and issues for authorities in the use of distributed ledger technology. Members noted the potential of FinTech to enhance financial resilience and also the need to remain vigilant to risks, including cyber risks, and agreed on a work plan to identify the supervisory and regulatory issues from a financial stability perspective.

A BCBS press release, on 1 December, reports that banking supervisors and central bankers from around the world attended the 19th International Conference of Banking Supervisors (ICBS) in Santiago, Chile. Delegates attending the ICBS discussed the Basel global standards and the new regulatory framework for the coming years. Discussions focused on the adjustments necessary to adapt to the new global regulatory framework, the revised standardised approach for credit risk, and the growing and important role of supervisory stress testing. The ICBS was held following a meeting of the BCBS, where very good progress was made towards finalising the Basel III post-crisis reforms. The package of reforms under review includes a revised standardised approach for credit risk, revisions to the internal ratings-based approach, a revised operational risk framework, a leverage ratio surcharge for G-SIBs and an aggregate output floor.

On 9 December, the BCBS announced that, with its publication of reports that assess the implementation of Basel standards in Indonesia, Japan and Singapore, the BCBS has completed its review of the implementation of the risk-based capital framework by all of its members; and that assessments of the implementation of the Basel framework's LCR will be completed by December 2017. The assessments were conducted under the BCBS's Regulatory Consistency Assessment Programme, established in 2012 to examine the consistency and completeness of member jurisdictions' prudential standards. During these assessments, more than 1,000 deviations and their materiality were identified, with the large majority of the deviations being rectified during these assessments.

On 16 December, the FSB issued for consultation, with comments required by 10 February, two proposals for guidance on the implementation of its resolution standards which form part of the overall policy framework to end "too-big-to-fail". *Consultation on Guiding Principles on the Internal TLAC of G-SIBs* makes proposals particularly covering: (i) the process for identifying material sub-groups; (ii) considerations relating to the determination of the size of the internal TLAC requirement, its composition and the trigger mechanism; and (iii) cooperation and coordination between G-SIB home and key host authorities. *Consultation on Guidance on Continuity of Access to FMIs for a Firm in Resolution* proposes guidance which seeks to address the risk of a bank in resolution being unable to maintain access to the clearing, payment, settlement and custody services provided by FMIs that are necessary to continue the provision of a firm's critical functions in resolution.

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European financial regulatory reforms

On 4 October 2016, EIOPA published its Single Programming Document, outlining EIOPA's strategic direction of its activities over the next three years (2017-2019) and covering its 2017 Work Programme. EIOPA's five priorities for 2017 are summarised as being consumer protection, enhancing a risk-based and preventive approach to conduct risk; policy, installing an evidence-based policy feedback loop; oversight, developing a risk-assessment framework; financial stability, developing EIOPA's data management capacities; and corporate support, reinforcing legal and technical expertise.

Then, on 5 October, the Joint Committee of the ESAs published its 2017 Work Programme. In 2017, the ESAs will focus on assessing both cross-sectoral opportunities and threats posed by the increasing digitalisation of finance and financial technology. In line with their mandate, the ESAs will continue cooperating closely through the Joint Committee to ensure cross-sectoral consistency as well as supervisory convergence, and monitor potential emerging risks for financial markets participants and the financial system as a whole.

And, on 11 October, ESMA published its 2017 Work Programme, which sets out its priorities and areas of focus for 2017 in support of its mission to enhance investor protection and promote stable and orderly financial markets. The programme reflects the shift in focus of ESMA's work, from building the single rulebook, towards ensuring its consistent application across the EU, as outlined in its 2016-2020 Strategic Orientation. The key areas of focus under ESMA's activities of supervisory convergence, assessing risks, single rulebook and direct supervision will be: converging supervisory practices on the implementation of MiFIDII/MiFIR; focusing on data quality; Level 2 work on the Benchmarks Regulation and on various initiatives under the umbrella of the CMU; and directly supervising CRAs and trade repositories, with a particular focus on their ancillary activities.

Finally, on 12 October, the EBA published its detailed annual Work Programme for 2017, describing the specific activities and tasks of the Authority for the coming year, as well as a multiannual work programme, highlighting the key strategic areas of work in the coming years (from 2017 to 2020). For 2017, the EBA will focus on liquidity and leverage ratio, credit risk and credit risk modelling, recovery planning and early intervention, promoting convergence, and improving the framework for the protection of consumers and the monitoring of financial innovation. In addition, the EBA expects a considerable number of legislative reforms from the Commission that will affect the 2017 planned work, such as the review of the CRR and the consequence of the BCBS's revision of the trading book, the implementation of the TLAC requirements in the EU prudential regulatory framework, and changes to the securitisation framework.

On 20 October, the EBA responded to the European Commission's Call For Technical Advice on the criteria to identify the class of investment firms for which the prudential regime laid down in the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) is applicable. In general, the EBA recommends that only those investment firms that are currently identified as Global Systemically Important Institutions and Other Systemically Important Institutions (O-SIIs) remain subject to the full CRD/CRR regime – these being those investment firms most fitting the criteria of: (i) systemic importance; (ii) interconnectedness with the financial system; (iii) complexity; and (iv) bank-like activities.

Although this recommendation relies on the EBA guidelines for the identification of O-SIIs, some caveats should be considered when these guidelines are applied to investment firms. For this reason and in the context of the review of the overall regulatory framework, the EBA also notes that a specific set of guidelines might be necessary to identify systemic and bank-like investment firms. Further advice relating to the suggestion that a specific prudential regime should be designed for those investment firms for which the CRD/CRR is not applicable, will be provided by 30 June 2017. (The EBA launched a consultation in relation to this on 4 November).

On 24 October, the EBA published its response to the European Commission's Call for Advice on the review of the large exposures framework laid down in the CRR. The EBA's response is in the form of a report divided in three different sections and including also recommendations to entrust the EBA with additional mandates to further simplify and harmonise the large exposures regime. This report will support the Commission in its review of the large exposures framework as part of the overall CRR review. Amongst other things, the EBA considers it appropriate to strengthen the large exposures capital base by including only Tier 1 capital instead of allowing also a proportion of Tier 2 capital, as it is currently the case; recommends removal of a number of discretionary exemptions; and considers other ways to best achieve alignment to the BCBS standards.

On 25 October, the European Commission announced the adoption of its 2017 Work Programme, which sets out its key initiatives for the year ahead. This is the third Work Programme to be presented by the Juncker Commission, and the first to be adopted following the consultation with the European Parliament and Council which is foreseen in the Inter-Institutional Agreement on Better Law-Making and complements the structured dialogue with the European Parliament under the Framework Agreement. The Commission's agenda until the end of 2017 is grounded in the President's State of the Union address of 14 September and the 2017 Work Programme contains 21 key initiatives, reflecting the priority focus this year on agreeing and implementing the proposals already on the table from previous years.

The Work Programme consists of a political Communication and five annexes: Annex I includes the key initiatives to be presented in the year ahead, which focus on concrete actions to implement the ten political priorities of the Juncker Commission and includes REFIT proposals which deliver on the 10 priorities; Annex II

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The ESAs will focus on assessing both cross-sectoral opportunities and threats posed by the increasing digitalisation of finance and financial technology.

contains other key REFIT initiatives where the Commission will propose updated and improved legislation in the coming year; Annex III lists the priority pending legislative files where the Commission want the co-legislators in the European Parliament and Council to take the swiftest action to deliver results for citizens; Annex IV contains a list of intended withdrawals of pending proposals; and Annex V contains a list of existing legislation which the Commission intends to repeal.

Amongst the 21 key initiatives in Annex I, #9 is "Implementation of the CMU Action Plan", where new measures will include a framework for an EU personal pension product; a REFIT revision of EMIR; an Action Plan on retail financial services; and additional delegated legislation to facilitate funding of infrastructure corporates by institutional investors. #10 is "A strong Union built on a strong EMU", which includes review of the ESFS to strengthen the effectiveness and efficiency of oversight at both macro- and micro-prudential levels. The priority pending legislative files in Annex III include #16 CMU – Securitisation; #17 CMU – Prospectus; and #20 European Deposit Insurance Scheme.

On 4 November, the EBA published a report in response to two Calls for Advice to assist the European Commission in the adoption into European legislation of two new international frameworks proposed by the BCBS: (i) a new standardised framework for counterparty credit risk (CCR), the so-called SA-CCR, and (ii) a new market risk framework, the so-called fundamental review of the trading book (FRTB). In the report, the EBA focuses on the envisaged impact of these two new frameworks, for both large and small firms, and issues recommendations on their implementation.

On 18 November, the EBA published a list of public sector entities (PSEs), which it has compiled on its own initiative to enhance harmonisation in the treatment of exposures to EU PSEs when considering credit risk in accordance with the CRR. In particular, the list includes those PSEs that are treated as regional governments, local authorities or central governments due to their reduced risk level. The list was compiled using information provided by the applicable competent authorities and is based on the classification used in each individual country, hence there are some differences in the approaches and eligibility criteria for PSEs across countries. In the context of its future work programme, the EBA plans to review and further harmonise the criteria used for the eligibility of PSEs for such treatment.

On 22 November, the Commission announced its Start-up and Scale-up Initiative, which aims to give Europe's many innovative entrepreneurs every opportunity to become world leading companies. The Initiative brings together a range of existing and new actions to create a more coherent framework to allow start-ups to grow and do business across Europe, in particular:

- *Improved access to finance:* The Commission and the European Investment Bank Group are launching a pan-European venture capital fund of funds. The EU will provide cornerstone investments of up to a maximum budget of €400 million and the fund manager(s) must raise at least three times as much from private sources, triggering a minimum of €1.6 billion in venture capital funding. It will be managed by one or more professional and experienced fund managers ensuring a real market approach. This complements existing EU funding instruments such as the European Fund for Strategic Investments (EFSI), Europe's programme for small and medium-sized enterprises COSME and the EU's research and innovation funding programme Horizon 2020.
- *Second chance for entrepreneurs:* The Commission has tabled a legislative proposal on insolvency law. It will allow companies in financial difficulties to restructure early on so as to prevent bankruptcy and avoid laying off staff. It will also make it easier for honest entrepreneurs to benefit from a second chance without being penalised for not succeeding in previous business ventures, as they will be fully discharged of their debt after a maximum period of three years.
- *Simpler tax filings:* The Commission is also working on a range of taxation simplifications, including the recent proposal for a Common Consolidated Corporate Tax Base (CCCTB), which proposes to support small and innovative companies that want to expand their business across borders. Other initiatives include plans for a simplification of the EU VAT system and broadening the forthcoming guidance on best practice in Member States tax regimes for venture capital.

On 23 November, the Commission announced its adoption of a comprehensive package of proposals to further strengthen the resilience of EU banks, through amendment of the rules on capital requirements and on bank recovery and resolution, which will now be submitted to the European Parliament and to the Council for their consideration and adoption. The Commission also presented a Communication on the follow-up to the Call for Evidence on financial rules, launched in 2015, and a report on the review of EMIR (further described in the OTC (derivatives) regulatory developments section of this ICMA Quarterly Report).

The proposals to strengthen the resilience of EU banks amend the following pieces of legislation: (i) the CRR and the CRD, which were adopted in 2013 and which set out prudential requirements for credit institutions and investment firms and rules on governance and supervision; and (ii) the BRRD and the SRM Regulation, which were adopted in 2014 and which spell out the rules on the recovery and resolution of failing institutions and establish the SRM.

- These measures implement international standards into EU law, while taking into account European specificities and avoiding undue impact on the financing of the real economy; and taking into account the results of the Call for Evidence.
- The measures to increase the resilience of EU institutions and enhancing financial stability include: more risk-sensitive capital requirements; implementing methodologies that are able to reflect more accurately the actual risks to which banks are exposed; a binding leverage ratio; a binding NSFR; and a requirement for Global Systemically Important Institutions to hold minimum levels of capital and other instruments which bear losses in resolution – this requirement, known as TLAC, will be integrated into the existing MREL system applicable to all EU banks.
- To improve banks' lending capacity to support the EU economy, specific measures are proposed to: enhance the capacity of banks to lend to SMEs and to fund infrastructure projects; and to make CRD/CRR rules more proportionate and less burdensome for smaller and less complex institutions.
- And, to further facilitate the role of banks in achieving deeper and more liquid EU capital markets to support the creation of a CMU, adjustments to the proposed measures are envisaged in order to: avoid disproportionate capital requirements for trading book positions, including those related to market-making activities; reduce the costs of issuing/holding certain instruments (covered bonds, high-quality securitisation instruments, sovereign debt instruments, derivatives for hedging purposes); and avoid potential disincentives for those institutions that act as intermediaries for clients in relation to trades cleared by CCPs.

The Commission announced its adoption of a comprehensive package of proposals to further strengthen the resilience of EU banks.

Based on a thorough review and analysis of all responses received to the Call for Evidence and discussions during the public hearing in Brussels in May, the Commission has concluded that overall the financial services framework does not need to be changed. However, targeted follow-up actions to fine-tune the framework are proposed in the following four areas: removing unnecessary regulatory constraints on financing the economy; enhancing the proportionality of rules; reducing undue regulatory burdens; and making rules more consistent and forward-looking. Detailed follow-up actions are set out in the Commission's Communication and an accompanying Staff Working Document. The Commission will monitor progress in the implementation of the respective policy commitments and will publish its findings and next steps before the end of 2017. The Call for Evidence should not be seen as a one-off exercise; and the Better Regulation principles will continue to be applied rigorously when developing the Commission's legislative proposals by assessing their impact, minimising compliance costs and ensuring proportionality.

On 14 December, the EBA published its final report on the implementation and design of the minimum requirement for own funds and eligible liabilities (MREL). The report quantifies the current MREL stack and estimates potential financing needs of EU banks under various scenarios. It also assesses the possible macroeconomic costs and benefits of introducing MREL in the EU. Finally, the report recommends a number of changes to reinforce the MREL framework and integrate the international standards on TLAC in the EU's MREL. This report is addressed to the European Commission, which issued its banking reform package on 23 November, and will shed light on a number of technical issues still open for discussion as the European Parliament and Council deliberate on this package in the coming months.

On 21 December, the EBA published its third impact assessment report for the LCR, together with a review of its phasing-in period. The report shows a constant improvement of the average LCR across EU banks since 2011. At the reporting date of 31 December 2015, EU banks' average LCR was significantly above the 100% minimum requirement, which will have to be fully implemented by January 2018, and no strong evidence was found suggesting that the EBA should recommend an extension of the phasing-in period of the LCR. The report, which is based on liquidity data from 194 EU banks across 17 Member States, is the first publication after the implementation of the minimum binding standards in 2015 and accounts for the provisions of the Commission's Delegated Regulation on the LCR.

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Addressing the current debt-bias in taxation

On 25 October 2016, the European Commission presented a new package of corporate tax reforms, which have been submitted to the European Parliament for consultation and to the Council for adoption (on a unanimous basis). There are three separate initiatives within this package: (i) the Common Consolidated Corporate Tax Base (CCCTB); (ii) improved mechanisms to resolve double taxation disputes; and (iii) measures to tackle tax loopholes with non-EU countries.

If adopted, the CCCTB proposal, which is perhaps the most ambitious corporate tax reform ever proposed in the EU, will provide Member States with an entirely new system for taxing multinationals – in a way that will make the EU more business-friendly while also eliminating the main channels of profit-shifting. The proposed CCCTB is a harmonised system to calculate companies' taxable profits in the EU. It offers one set of rules for companies to determine their tax base, rather than multiple national ones, enabling businesses to file a single tax return for all of their EU activities. Companies in the CCCTB system will also be able to offset losses in one Member State against profits in another, thus enjoying the same treatment as purely domestic companies. Thereby the CCCTB should make it easier, cheaper and more attractive for companies to operate across the Single Market.

The CCCTB is also presented as an opportunity to address the fact that tax systems are perceived to favour debt over equity, because of the deductibility of interest expense. The proposal seeks to do this by introducing an element of tax deductibility for equity – the approach of linking this specifically to new equity raising should have the effect of making the measure roughly tax neutral, by facilitating that companies raise equity when they would otherwise have been raising debt (as these two alternatives become roughly tax equalised). This element of the CCCTB is further explained as follows:

The CCCTB will remove the incentive for debt accumulation:

The CCCTB will address the current debt-bias in taxation, which allows companies to deduct the interest they pay on their debts but not the costs of equity. This debt-bias is perceived to distort financing decisions, make companies more vulnerable to bankruptcy and undermine the stability of the overall economy. Therefore, the CCCTB introduces an "Allowance for Growth and Investment" (AGI), which will give companies equivalent benefits for equity as they get for debt. This will reward companies for strengthening their financing structures and tapping into capital markets. This initiative chimes with the Commission's CMU plan, which seeks to give businesses access to alternative, more diverse sources of funding.

What is the AGI in the CCCTB and how will it work?

Currently, almost all national systems allow interest payments from debts to be deducted, but do not have a similar benefit for equity. This encourages companies to take on debt, which can make them more vulnerable to shocks and more prone to bankruptcy. This goes against the goals of the CMU and makes the overall economy less resistant to shocks. The AGI aims to redress this debt-bias. It will allow a tax deduction for companies that choose to increase equity for financing (eg by issuing new shares or retaining profits) rather than take on debt (eg a loan). The deduction will be calculated by multiplying the change in equity by a fixed rate, which is composed of a risk-free interest rate and a risk premium – under current market conditions, the rate would be 2.7%. Companies will generally be allowed to continue these deductions for 10 years. This should encourage companies to seek diversified sources of financing and to tap capital markets. The Allowance is particularly beneficial for smaller companies that sometimes struggle to secure loans.

Example:

A company starts using the common base in January of year X.

In the same year it issues €10 million worth of new shares to invest in new premises.

The AGI rate for the year X is 3% (the rate will change from year-to-year).

That year, the company can deduct an AGI allowance from its tax base of €300,000 = €10 million multiplied by 3%.

The company will also get additional allowances for the following nine years after issuing this equity. The exact amounts of this allowance will depend on how the equity value develops.

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Financial benchmarks

On 10 November 2016, ESMA announced the finalisation of its technical advice to the European Commission on important aspects of future rules for benchmarks. In particular, ESMA provides advice on:

- how benchmarks' reference values can be calculated by using data reporting structures under existing EU rules such as MiFID II and EMIR;
- some of the criteria for deciding when third country benchmarks can be endorsed for use in the European Union (EU); and
- what constitutes making a benchmark figure available to the public.

Duly taking this advice into consideration, the European Commission is preparing the final rules for benchmarks, which should enter into force by 1 January 2018.

On 16 December, IOSCO issued guidance that seeks to increase the consistency and quality of reporting by Benchmark Administrators on their compliance with the *IOSCO Principles for Financial Benchmarks*, which were published in July 2013. The *Guidance on Statements of Compliance with the IOSCO Principles for Financial Benchmarks* sets out reasonable expectations about the level of detail that should be included in these statements. The aim is to enable market authorities, users of benchmarks and other market participants and stakeholders to understand the extent to which an administrator has implemented the Principles.

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Credit Rating Agencies

On 7 November 2016, IOSCO published a consultation report, for comment by 5 December, titled *Other CRA Products*, which seeks further insight into how market participants use non-traditional, products or services offered by CRAs. The objective of the consultation report is to clarify information provided by respondents to two survey questionnaires on other CRA products that IOSCO published on its website in 2015. The report also asks respondents to comment on IOSCO's current understanding of these CRA products and services and how they differ from the traditional issuer-paid or subscriber-paid credit ratings. IOSCO's specific questions for comment in the consultation report are primarily directed at CRAs, but users of other CRA products and other interested persons are also invited to respond.

On 15 November, ESMA published its final report on guidelines on the validation and review of CRAs' methodologies. The guidelines will increase the quality of the quantitative measures used by requiring CRAs to review their methodologies: (i) discriminatory power, meaning their ability to rank the rated entities in accordance to their future status (defaulted or not defaulted) at a predefined time horizon; (ii) predictive power, by comparing the expected behaviour of the credit ratings to the observed results; and (iii) historical robustness, through the assessment of other elements of the methodology such as the stability of the credit ratings assigned by the methodology.

These guidelines focus on quantitative measures as ESMA identified the industry requires more clarity in this area. However, ESMA believes that a good validation of methodologies strikes a balance between the application of quantitative and qualitative techniques. While stressing the importance of objectivity, which quantitative analysis brings to the process, validation should include both techniques. ESMA considers that implementing these guidelines will raise the overall standard of validation by CRAs while allowing sufficient flexibility for the CRAs to choose the approaches that are the most relevant to their business, size and activity areas. The guidelines will be translated into the official languages of the EU and become effective two months after their publication on ESMA's website.

On 1 December, ESMA launched its new database, the European Rating Platform (ERP), to provide access to free, up-to-date information on credit ratings and rating outlooks on its website. The ERP is an important element of ESMA's work, following the financial crisis, to increase transparency around credit ratings and help investors make informed decisions. The benefits of the new ERP include:

- allowing investors and other users of ratings to easily compare all credit ratings that exist for a specific rated entity or instrument;

ESMA announced the finalisation of its technical advice to the European Commission on important aspects of future rules for benchmarks.

- lowering information costs by centralising information; and
- helping smaller and new CRAs gain visibility in the market.

Since July 2011, ESMA has been solely responsible for the supervision, and registration, of CRAs in the EU. The ERP holds all individual credit ratings and rating outlooks issued by CRAs registered and certified with ESMA except for those issued under the investor-pays model. Users can also access rating history details from 1 July 2015 onwards, press releases accompanying the rating issuances and research reports for sovereign ratings. The rating information in the ERP is collected and published daily to ensure it remains up-to-date. In providing granular information on specific rated entities and instruments, the ERP complements the statistical data on CRAs' rating activities and rating performance which ESMA already publishes via its central repository database (CEREP). The ERP is part of a suite of registers and data available on ESMA's website which provide information to market participants, regulators and the general public.

On 16 December, ESMA published its annual market share calculation for EU registered CRAs. This market share calculation is designed to increase awareness of the different types of credit ratings offered by each registered CRA and to help issuers and related third parties considering appointing smaller CRAs. The calculation has been computed using CRAs' 2015 revenues from credit rating activities and ancillary services at group level. ESMA is considering whether further information would help issuers and related third parties to assess CRAs' experience and invites market participants to provide feedback on the information it should present in future.

On 20 December, the Joint Committee of the three ESAs published a report on good supervisory practices for reducing sole and mechanistic reliance on credit ratings. This report is directed at the nationally appointed Sectoral Competent Authorities (SCAs) for a wide range of financial institutions, such as credit institutions, investment firms, asset management companies and insurance undertakings. The purpose of the report is to provide for a level of cross sectoral consistency in the implementation of elements of the CRA Regulation regarding overreliance on credit ratings. To achieve this, the report recommends a common framework of non-binding good supervisory practices for SCAs. Taken together these practices set out in a simple and straightforward manner what steps SCAs can take to monitor their supervised entities reliance on credit ratings, and what steps can be taken to mitigate any such reliance where it is identified.

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OTC (derivatives) regulatory developments

Consistent with the requirements of EMIR, on 4 October 2016, the Commission adopted a new set of rules, which sets out the levels and types of collateral that OTC derivatives counterparties must exchange bilaterally if the transaction is not cleared through a CCP. The draft RTS under EMIR were submitted jointly by the three ESAs; and the Commission decided to endorse these standards with certain amendments, in particular concerning the concentration limits for pension scheme arrangements and the timeline for implementation. This decision takes the form of a Delegated Regulation and is now subject to an objection period by the European Parliament and the Council after which it will be published in the *Official Journal* – with implementation of the rules beginning one month after the entry into force of the Delegated Regulation.

On 14 November, ESMA published its final report, regarding the amended application of the clearing obligation that financial counterparties with a limited volume of activity in OTC derivatives need to comply with under EMIR. For a range of reasons covered in the report, in particular relevant EU legislations being under review or finalisation, ESMA proposes to postpone the phase-in period for central clearing of OTC derivatives applicable to financial counterparties with a limited volume of derivatives activity. ESMA's report proposes to amend EMIR's Delegated Regulations on the clearing obligation in order to prolong, by two years, the phase-in for financial counterparties with a limited volume of derivatives activity. ESMA is also proposing to align the three compliance dates for such firms in the Delegated Regulations regarding Interest Rate Swaps and Credit Default Swaps, the newly proposed compliance date being 21 June 2019. ESMA's final report was submitted to the European Commission for endorsement of the draft RTS presented in the Annex; and, from the date of submission, the European Commission should decide within three months whether or not to endorse the RTS.

Issued on 23 November, the Commission's report on the review of EMIR is part of a process that may lead to some targeted amendments of EMIR in early 2017. It explains issues that stakeholders have identified relating to the implementation of those requirements which already apply (namely, reporting to trade repositories and operational risk mitigation requirements) as well as issues encountered in preparing for the clearing and margin requirements. It also provides a summary of the areas where consultation responses and specific input received from EU bodies and authorities have shown that action could be necessary to ensure that the objectives of EMIR are met in a more proportionate, efficient and effective manner. A REFIT revision of

A REFIT revision of EMIR is planned for early 2017 in order to eliminate disproportionate costs and burdens.

EMIR is planned for early 2017 in order to eliminate disproportionate costs and burdens to small companies in the financial sector, corporates and pension funds and to simplify rules without putting financial stability at risk.

On 28 November, the Commission announced its proposed new EU rules for the recovery and resolution of CCPs, in the form of a draft Regulation subject to approval and adoption by the European Parliament and the Council of the EU. These proposed rules for CCPs set out provisions comparable to those for banks in the BRRD and are based on international standards – however, as CCPs are very different businesses to banks, this proposal contains CCP-specific tools that better align with CCPs' default management procedures and operating rules, especially to determine how losses would be shared. The proposed rules require CCPs and authorities to prepare for problems occurring, intervene early to avert a problem, and step in when things have gone wrong.

- *Preparation and prevention:* the proposed rules require CCPs to draw up recovery plans which would include measures to overcome any form of financial distress which would exceed their default management resources and other requirements under EMIR – this should include scenarios involving defaults by clearing members of the CCP as well as the materialisation of other risks and losses for the CCP itself, such as fraud or cyberattacks; and recovery plans are to be reviewed by the CCP's supervisor. Authorities responsible for resolving CCPs (ie resolution authorities) are required to prepare resolution plans for how CCPs would be restructured and their critical functions maintained in the unlikely event of their failure.
- *Early intervention:* this is intended to ensure that financial difficulties are addressed as soon as they arise and problems can be averted. The proposal grants CCP supervisors specific powers to intervene in the operations of CCPs where their viability is at risk but before they reach the point of failure or where their actions may be detrimental to overall financial stability. Supervisors could also require the CCP to undertake specific actions in its recovery plan or to make changes to its business strategy or legal or operational structure.
- *Resolution powers and tools:* in line with the guidance of the FSB, a CCP will be placed in resolution when it is failing or likely to fail, when no private sector alternative can avert failure, and when its failure would jeopardise the public interest and financial stability. In addition, it could be placed into resolution where the use of further recovery measures could compromise financial stability even when the conditions above are not met.
- *Cooperation between national authorities:* CCPs are cross border in nature, with the biggest CCPs operating internationally – so it is important that authorities cooperate across borders to ensure effective planning and orderly resolution if needed. The proposal establishes so-called resolution colleges for each CCP containing all the relevant authorities including ESMA and EBA. Existing colleges under EMIR and the newly set-up resolution colleges should jointly undertake the specific tasks allocated to them under this proposal, with ESMA to facilitate joint actions and act as a binding mediator if necessary.

On 15 December, ESMA opened a public consultation, for comment by 15 February 2017, on the extension of data available to the public in trade repositories as stipulated in EMIR. Public data has experienced several problems related to the comparison and aggregation of data across trade repositories. Therefore, ESMA is setting out several proposals to enhance the data made publicly available by trade repositories and to increase the transparency to the public in general as well as allowing to add the publication of certain figures that will be required by EU regulations such as MiFID II and the Benchmarks Regulation. This consultation, which ESMA will use in finalising amendments to technical standards, asks for views on ESMA's proposals related to:

- the avoidance of double counting of cleared derivatives;
- data aggregations for commodity derivatives and derivatives using benchmarks; and
- general technical aspects of publication of aggregate data.

On 16 December, the European Commission announced that it has determined that India, Brazil, New Zealand, Japan Commodities, United Arab Emirates and Dubai International Financial Centre have equivalent regulatory regimes for CCPs to the EU. The Commission has also determined that the rules governing certain financial markets in Australia, Canada, Japan and Singapore can be deemed equivalent to those in the EU.

On 19 December, ESMA published a Consultation Paper, for comment by 31 January 2017, on draft technical advice to the European Commission on formulating an EU Regulation on ESMA's fees for Trade Repositories (TRs) under the SFTR. ESMA, in order to ensure a level playing field across EMIR and SFTR, is also proposing some changes to the way ESMA's fees for TRs under EMIR are calculated. ESMA is required by law to charge TRs fees which are proportionate to the turnover of the trade repository concerned and which fully cover ESMA's expenditure relating to the registration, recognition and supervision as well as the reimbursement of any costs that the competent authorities may incur. ESMA will use the feedback received in finalising its advice for submission to the Commission by end of the first quarter or the beginning of the second quarter of 2017.

On 20 December, the Commission announced the further extension. of transitional relief for Pension Scheme Arrangements (PSAs), from central clearing for their over-the-counter (OTC) derivative transactions until 16 August 2018. PSAs – which encompass all categories of pension funds – are active participants in the OTC derivatives markets in many Member States and, without such extension, they would have to source cash for central clearing. Since PSAs hold neither significant amounts of cash nor highly liquid assets, imposing CCP clearing requirements on them would require very far-reaching and costly changes to their business model which could ultimately affect pensioners' income, so the Commission concluded that CCPs need this additional time to find solutions for pension funds. The upcoming targeted review of EMIR, announced under the Commission's 2017 work programme, will provide an in-depth opportunity to assess this issue.

On 22 December, ESMA presented the results of a peer review it conducted into how national competent authorities (NCAs) ensure that CCPs comply with margin and collateral requirements under EMIR. The report identified a number of areas where supervisory approaches differ between NCAs and includes recommendations to improve consistency in supervisory practices. ESMA compared the supervisory approaches of the 16 NCAs supervising the 17 CCPs established in the EU at the time of the launch of the review, on 1 September 2015. The review focused on margin and collateral requirements but also identified areas for improvement regarding risk model validation and regular reviews under on-going supervision.

ESMA's list of CCPs authorised to offer services and activities in the EU, in accordance with EMIR, has not been updated since 19 September 2016; whilst its list of third-country CCPs recognised to offer services and activities in the EU was last updated on 14 December. ESMA's *Public Register for the Clearing Obligation* under EMIR was last updated on 7 October; and its (non-exhaustive) list of CCPs established in non-EEA countries which have applied for recognition was last updated on 3 October.

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Market infrastructure

ECB: Market contact groups

On 30 November 2016, the Contact Group on Euro Securities Infrastructures (COGESI) met for its latest semi-annual meeting in Frankfurt. This was also the last meeting of the COGESI in its current composition. Going forward, the COGESI will be merged with the T2S Advisory Group (T2S AG) as part of the restructuring of the Eurosystem's advisory group set-up in the field of market infrastructure (AMI). The new structure that is currently being established will consist of two groups: the AMI SeCo, covering securities and collateral management and the AMI PAY, which will focus on all issues related to payments and TARGET2.

At its last meeting, COGESI members reviewed the recent developments on euro financial market infrastructures. This included two items presented by Godfried De Vidts, the Chairman of the ICMA ERCC and its representative on the Group: the ERCC's ongoing work in relation to intraday and overnight liquidity as well as the *Counterparty Gap*, a recently published ERCC study in relation to CCP trade registration. The main part of the meeting was however dedicated to the COGESI's important ongoing work in relation to the harmonisation of collateral management arrangements. As reported in previous editions of the ICMA Quarterly Report, this initiative comprises three work streams: WS1 on collateral mobility, WS2 on collateral holding and segregation and WS3 on collateral messaging. The ERCC, through its Operations Group, is contributing to all three work streams and is leading the work on collateral messaging. This important work will be continued in the AMI SeCo.

On 12 October 2016, members of the Bond Market Contact Group (BMCG) met in Frankfurt for their latest quarterly meeting. On this occasion, BMCG members discussed the impact of upcoming regulations on derivatives markets, introduced by presentations from Credit Agricole, APG and Eurex Clearing. This was followed by a review of central banks' experience with the reinvestment of QE programmes, based on some analytical reflections by Commerzbank and HSBC. In addition, Barclays and EFAMA introduced a discussion on the depth and liquidity of bond markets. As a final agenda item, Norges Bank provided a general overview of recent developments in bond markets and the outlook for the months ahead. A summary of the meeting as well as all the related presentations are available on the BMCG webpage. The next meeting of the Group will be held on 7 February 2017. Topics on the agenda include the ECB's Asset Purchase Programmes, a discussion on yield curve targeting, including some reflections on historical experience with previous attempts by central banks to control the yield curve, as well as an GDP-linked bonds and sovereign bond backed securities. The BMCG's full work programme for 2017 is now available on the webpage and includes, besides the issues to be covered at the January meeting, further topical discussions around Brexit, bond market liquidity, negative rates and FinTech, to name just a few.

The latest regular meeting of the Money Market Contact Group (MMCG) was held on 12 December in Frankfurt. At the meeting, members received updates from the ECB on the latest money market survey as well as on the ongoing implementation of the Money Market Statistical Reporting Regulation (MMSR). Furthermore, the MMCG assessed recent developments in money markets, including the evolution of repo rates, money market liquidity, as well as discussing any impacts from the recent Italian referendum on the money market. Another major topic on the agenda was the importance of the US money market funds reform and enhanced prudential standards in the US for European banks. The full summary of the meeting should be available in due course.

A further ECB contact group of interest to ICMA and its members is the Operations Managers Contact Group (OMCG), which had its latest regular meeting on 12 October 2016. Relevant topics that were discussed included the impact of Distributed Ledger Technology on the post-trade environment, introduced by a presentation by Klaus Loeber, senior adviser to the ECB. Members also reviewed at the meeting the impact on the UK's vote to leave the EU on operational tasks in the banking sector and had a discussion on confirmation and settlement processes, with Nordea providing a detailed example of their own setup. The OMCG will next meet on 9 March 2017 in Frankfurt.

Eurosystem: Vision on the future of financial market infrastructure

While the Eurosystem continues its strategic reflections on the future of financial market infrastructure in Europe, the outcomes are starting to become tangible. The project which was first publicly announced by Yves Mersch in October 2015 in a speech, centres around three components:

- a consolidation of TARGET2 and TARGET2-Securities (T2S);
- settlement services to support instant payments;
- a potential Eurosystem collateral management system (ECMS).

Following up on a first public consultation on the consolidation of T2 and T2S and the future RTGS services, to which the ICMA ERCC responded, the ECB's Market Infrastructure Board (MIB) has now formally established a Task Force which will further specify the proposals and frame the T2/T2S consolidation project.

An important milestone has also been reached in relation to instant payments, the second pillar of the Future Vision project. On 30 November 2016, it was announced that a framework for pan-European instant payment solutions has been adopted by the European Payments Council (EPC). In relation to the settlement of these payments, the Eurosystem has created a Task Force to define and specify the user requirements for a potential new TARGET instant payment settlement (TIPS) service. A Task Force has also been created to progress the work on the third pillar of the Future Vision, a common Eurosystem collateral management system. The internal Task Force will help to define the user requirements and assess the business case for developing such a new system in the course of 2017. Not directly linked to the Future Vision project, but certainly also noteworthy in this context is the ECB's ongoing focus on Distributed Ledger Technology, which is covered by another newly established Task Force set up by the ECB and comprising experts from financial institutions and central banks.

ECB: TARGET2-Securities (T2S)

Following the successful roll-out of T2S Migration Wave 3 in September, which saw the onboarding of five additional CSDs, T2S volumes have now reached nearly 50% of the total transaction volume expected after the full migration in 2017. Until the successful completion of the migration it is though still a long way to go. This was again demonstrated by the latest and final "dress rehearsal" for the upcoming migration wave (Wave 4) which was conducted on the weekend of 17-18 December but concluded only with delays. Wave 4 itself is scheduled to take place on 6 February 2017 and will see Clearstream Banking Frankfurt, the German CSD, join T2S, alongside CSDs from Austria, Hungary, Luxembourg, Slovenia and Slovakia.

The latest meeting of the T2S AG, the main advisory body to the Eurosystem on T2S-related issues, was held on 29-30 November 2016. As usual, the agenda of the meeting was dominated by T2S operations and harmonisation updates, including the experience of CSDs and market participants who migrated in the Third Wave on 12 September. At the meeting, AG members approved several relevant harmonisation documents, including the Seventh Harmonisation Progress Report which should be published in early 2017. As outlined at the start of this section, also for the T2S AG this was the last regular meeting before it is merged with the COGESI to form the two new Eurosystem advisory groups on market infrastructures: the AMI SeCo for securities and collateral management and the AMI PAY, covering payments and TARGET2 related issues.

European Commission: European Post Trade Forum (EPTF)

The EPTF was established by the Commission in early 2016 in the context of its CMU project to help undertake a broader review of remaining barriers to cross-border clearing and settlement in Europe. The ICMA is a member of the group, represented by ERCC Chairman Godfried De Vidts, alongside other major financial market associations, the ESCB, ESMA and a number of independent experts. The EPTF meets on a regular, mostly monthly basis, most recently on 15 December 2016. Summaries and other documents from the meetings are available on the EPTF webpage. In terms of progress, as the first stage of the EPTF work, which aims to take stock of current post-trade arrangements, is now mostly concluded, members have turned their attention to the concrete issues which have been identified as remaining barriers to cross-border clearing and settlement. Short descriptions of the individual barriers are currently being prepared by EPTF members and will form the core of the final EPTF report. In terms of next steps, the EPTF is due to conclude its work by spring 2017. Based on the EPTF findings, the Commission will then prepare and publish a wider market consultation which is expected later in the year and will set out the proposed way forward.

Global Legal Entity Identifier System (GLEIS)

The Global LEI Foundation (GLEIF), operating arm of the GLEIS, is working to extend the depth of the reference data linked to the LEI. The information currently linked to LEIs, referred to as Level 1 data, covers the official name of a legal entity and its registered address. The plan is to gradually enhance this to include so-called Level 2 data which will provide information on direct and ultimate parent companies. A prototype exercise undertaken with a limited set of LEI issuing institutions has already been successfully concluded. Issuers participating in the exercise are now expected to include the Level 2 data as of early 2017. By the start of 2018, parent information should then be available for the majority of the LEI population.

In the meantime, the total number of LEIs issued globally continues to grow and has reached 480,000 by January 2017. The growth is partly driven by regulatory requirements already adopted in several jurisdictions. An interesting overview of global regulatory requirements in relation to the use of LEIs is available on the GLEIF website. In addition, the website contains a free LEI search tool which gives access to the full database of LEIs. The GLEIF also publishes on a monthly basis Data Quality Reports containing detailed assessments of the overall level of data quality within the LEI system.

BIS: Committee on Payments and Market Infrastructures (CPMI)

The CPMI's important work on globally harmonised data elements for OTC derivatives continues to progress. This comprises work on harmonised Unique Trade Identifiers (UTIs) and Unique Product Identifiers (UPIs), as well as other critical data elements. The latest publication in this context was a consultative report, issued on 19 October 2016, which contains proposals for a second batch of critical data elements other than UTI and UPI. This complements the ongoing work on UTIs and UPIs and a previous consultative report on a first batch of data elements published in September 2015. Stakeholders were invited to respond to the latest consultation by 30 November 2016.

On 8 November 2016, the CPMI published a report on *Fast Payments: Enhancing the Speed and Availability of Retail Payments*. The report sets out key characteristics of fast payments, takes stock of the different initiatives in CPMI jurisdictions, which have more than doubled since 2010, analyses supply and demand factors that may foster or hinder their development and sets out their benefits and risks.

On 15 December 2016, the CPMI released the final *Statistics on Payment, Clearing and Settlement Systems* in the CPMI countries for 2015. The preliminary figures had been published in September.

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Macroprudential risk

On 6 October 2016, the ESRB published a report entitled *Market Liquidity and Market Making*. This concludes that liquidity illusion remains a risk to financial stability, experience from the financial crisis having shown that, in normal times, liquidity conditions may be perceived to be ample but a sudden lack of liquidity can occur during times of stress. Market making plays an important role in a market functioning correctly, with market makers able to absorb temporary order imbalances by warehousing risk for short periods of time – whilst financing themselves through repo markets. Yet, there have been some signs of a decrease in the availability of repo market financing, though recent surveys for EU markets are showing a stabilising trend.

Measuring market liquidity raises important methodological issues and it is impossible to capture market liquidity comprehensively using only one measure, as every indicator has

The ESRB considers it very important to investigate the concerns that the leverage ratio could reduce liquidity in some financial markets.

its own advantages and disadvantages. The extent to which regulation has directly affected market making capacity is still subject to debate, with regulation having aimed at strengthening the resilience of market makers, decreasing their leverage and containing risks of liquidity illusion. But, market makers believe that regulation may have also had unintended consequences and anecdotal evidence suggests that market makers may have shifted their focus towards less capital intensive services. The quantitative data gathered by the ESRB show mixed evidence regarding developments in market liquidity. Across asset classes the results are mixed with most measures suggesting little or no decline in market liquidity over recent years. However, alternative measures suggest a possible deterioration in market functioning, especially for corporate bonds.

On 6 October, the ESRB also published a report entitled *Preliminary Investigation into the Potential Impact of a Leverage Ratio Requirement on Market Liquidity*, which provides technical input to the EBA. The ESRB has publicly stated that it considers the state of market liquidity to be relevant from a systemic risk perspective and has been investigating the topic since 2015. In the context of the international efforts to develop a harmonised leverage ratio requirement to which the EBA contributed with its report on the leverage ratio in August 2016, the ESRB considers it very important to investigate the concerns that the leverage ratio could reduce liquidity in some financial markets. The ESRB has prepared some preliminary further analysis – beyond what has already been done for the ESRB Handbook chapter – to investigate the potential positive and negative effects of the leverage ratio requirement on market liquidity; and this paper summarises the findings. It is important to remember that the analysis in this paper is necessarily limited, so the focus of this work has been to (i) set out the conceptual channels by which regulation, in particular the leverage ratio, may affect banks and their role in facilitating liquid markets, and (ii) to investigate whether there is any empirical evidence of an impact owing to the anticipation of a leverage ratio requirement.

Notwithstanding the difficulties involved, it has been possible to establish some important considerations for assessing the costs and benefits and to draw some initial conclusions about the impact to date of banks already anticipating the leverage ratio requirement. In summary, however, the final paragraph of the report's conclusions simply states that "It is difficult to comment currently on whether the introduction of the leverage ratio, or a particular calibration of it, is likely to significantly affect the future state of market liquidity. This preliminary analysis suggests there may be some costs associated with the leverage ratio for broker dealers, but that there are also expected to be benefits: the leverage ratio may help to ensure that banks can sustain the provision of services that are important to market liquidity, particularly taking account of stressed periods." Future and deeper theoretical and empirical investigation is then called for.

Macroprudential policy faces a range of challenges that stem from the difficulty to quantify its principal objective, financial stability, and from the absence of an established analytical paradigm to guide its conduct. Published by the CGFS, on 18 November, *Objective-Setting and Communication of Macroprudential Policies*, is a report in which it is argued that adopting a systematic policy framework that channels policy making through a set of predictable procedures can help address these challenges. One of the report's messages is that perhaps more than in other policy areas, a greater effort is required to explain the macroprudential policy framework and to ensure that the goal of maintaining financial stability is valued by the wider public. Such an appreciation facilitates policy actions early in the cycle, when instruments may be more effective and adjustment less costly.

On 21 November, the FSB, in consultation with the BCBS and national authorities, published the 2016 list of G-SIBs. The 2016 list comprises the same 30 banks as the 2015 list, but with four banks moved to a higher bucket and three banks moved to a lower bucket. The changes in the allocation across buckets of the institutions on the list reflect the combined effects of data quality improvements, changes in underlying activity, and the use of supervisory judgement. In conjunction with this, the BCBS released further information related to the 2016 G-SIB assessment. The FSB, in consultation with the IAIS and national authorities, published the 2016 list of G-SIIs. This identifies the same nine insurers as those on the 2015 list.

On 24 November, the ECB released its latest *Financial Stability Review*, indicating that: (i) the euro area financial system has shown resilience and systemic stress has remained relatively low; (ii) risks of global asset market corrections have intensified, partially due to political uncertainty and expected US policy changes; and (iii) vulnerabilities remain significant for euro area banks due to structural factors and despite the steepening of the yield curve. The ECB has singled out four systemic risks to financial stability over the next two years: (i) global risk repricing leading to financial contagion, triggered by heightened political uncertainty in advanced economies and continued fragilities in emerging markets; (ii) adverse feedback loop between weak bank profitability and low nominal growth, amid challenges in addressing high levels of non-performing loans in some countries; (iii) re-emerging sovereign and non-financial private sector debt sustainability concerns in a low nominal growth environment, if political uncertainty leads to stalling reforms at the national and European levels; and (iv) prospective stress in the investment fund sector amplifying liquidity risks and spillovers to the broader financial system.

The chapter on financial markets (at page 46) states that global financial markets have witnessed a number of sharp – but short-lived – asset price corrections in recent years. This trend has continued over the past six months, as demonstrated, in particular, by higher asset price volatility following the outcomes of the UK referendum and the US election. In addition to temporary bouts of volatility, global markets have been characterised by an environment of accommodative monetary policy and subdued growth expectations, which have led investors to search for yield. In this environment, global bond yields across the credit spectrum have remained low. The low-yield environment also prevailed in euro area bond markets, influenced by ECB asset purchases. Notwithstanding the broad resilience of the financial system to recent market turbulence, risks of further asset price corrections have increased; and, as a result, investor buffers need to be capable of withstanding a possible reversal of risk premia. Market liquidity conditions in euro area bond markets appear mixed; and remain difficult to interpret in the context of central bank purchases and the mixed signals coming from various sources.

On 30 November, the Bank of England published its latest *Financial Stability Report* (FSR), which sets out the view of its Financial Policy Committee on the UK financial system's stability and an assessment of any risks to it. Concerning financial market stability this FSR states (at page 5) that, following the US election, expectations of expansionary fiscal policy in the United States have helped push up advanced economy sovereign bond yields, partly or fully reversing their falls in the first half of 2016. Since the July report, however, real yields in the UK have fallen and are close to historic lows. Term premia in advanced economy government bond yields have risen but remain low compared to historical averages. Alongside continued low levels of estimated liquidity risk premia in corporate bond spreads, the risk of a further adjustment in fixed income markets remains. An adjustment could be amplified by fragile market liquidity, potentially impacting the supply of finance to the real economy.

The chapter on market-based finance (at page 34) notes that this is an important component of the UK financial system supporting the provision of financial services to the real economy; and that the provision of market-based finance relies on the resilience of market liquidity, which remains uneven. Core financial markets have functioned effectively since the July report, though the "flash event" in the sterling exchange rate underscores the concern that liquidity in some markets may have become more fragile in recent years. Core intermediaries, such as dealers, continue to be resilient; but the willingness of dealers both to extend repo financing and intermediate investment flows has been declining. Market liquidity could be tested by high demand for liquidity services during stress, including from open-ended investment funds and insurers. (A later chapter, at page 42, specifically covers the topic of financial stability risk and regulation beyond the core banking sector). It could also be challenged during a period of adjustment related to the UK's new trading relationship with the EU.

On 28 November, the ESRB published a report on the macroprudential issues arising from low interest rates and structural changes in the financial system of the EU, which has been jointly prepared by the Advisory Scientific and Advisory Technical Committees (ASC and ATC) of the ESRB and the Financial Stability Committee of the ECB. The report analyses potential

The provision of market-based finance relies on the resilience of market liquidity, which remains uneven.

macroprudential issues arising from both a prolonged period of low interest rates and structural changes and discusses what impact these may have on financial markets and the real economy over a long-term horizon. The analysis in the report takes a forward-looking and holistic approach by considering all major sectors in the financial system as well as cross-sectoral spillovers and contagion channels (annexes to the report cover these aspects in more detail).

> **Concerns remained regarding the increasing interconnectedness of the asset management sector with the banking and insurance sectors.**

The ESRB has identified three main areas of risk related to financial stability: (i) the sustainability of certain financial institutions' business models; (ii) broad-based risk taking; and (iii) the move towards a market-based financial system. There is already evidence that some of the identified financial stability risks may develop over time as interest rates and growth remain low, while other identified risks can only be subject to conjecture at present. The report discusses a series of policy options to mitigate and prevent the emergence of the financial stability risks that have been identified; and also discusses the financial stability risks that could arise from a gradual increase in interest rates from their current levels.

The policy options in the report are not to be taken as ESRB recommendations within the meaning of the ESRB Regulation, but rather as a set of proposals for further consideration by the relevant stakeholders. Furthermore, the policy options should be considered from a holistic and system-wide perspective given interrelations between the risks and the need to mitigate regulatory arbitrage. Examples of policy options include the monitoring of credit standards by macroprudential authorities, the review of the risk-free rate within the Solvency II framework, and the development and operationalisation of resolution frameworks for insurers.

On 1 December, ESMA published its updated risk dashboard for the third quarter of 2016. The overall assessment of risk levels in EU markets under ESMA's remit, remains unchanged for the time being, characterised by continued very high credit and market risks. The risk outlook is stable across all risk categories, reflecting market signs of absorption of the uncertainty and volatility following the UK referendum on 23 June 2016. However, as the outcome of the US election has shown, economic and political uncertainty remain important risk sources going forward. No significant disruptions in the functioning of EU markets were observed in 3Q 2016 and EU financial markets proved to be resilient during the period of high market volatility observed at the beginning of 3Q 2016.

Considering some of the specific risk categories: (i) market risk remained very high, yet now with a stable outlook, as markets continued to be highly reactive to political and event risks; (ii) liquidity risk remained high, yet now with a stable outlook; and EU corporate bond markets continued to register liquidity pressures for most of 3Q 2016. In the wake of the UK referendum, signs of stress in the government bond collateral markets were also observed with increased levels of repo specialness; whilst, on the other hand, sovereign bid-ask spreads decreased slightly. Market liquidity concerns emerged also in the recent price developments in UK property markets and related redemption suspensions or withdrawal discounts of several real estate funds observed in July 2016 – this highlighted the potential vulnerability of funds that offer daily redemption while investing in potentially illiquid assets; and (iii) contagion risk remained high, yet now with a stable outlook as tensions after the UK referendum have eased. Concerns remained regarding the increasing interconnectedness of the asset management sector with the banking and insurance sectors and the associated potential for spillovers.

On 2 December, the EBA published its ninth report on risks and vulnerabilities in the EU banking sector. The report is accompanied by the EBA's 2016 transparency exercise, which provides essential data, in a comparable and accessible format, for 131 banks across the EU. Overall, banks have further strengthened their capital position, allowing them to continue the process of repair. The report identifies as the key challenges in that process the remaining high levels of non-performing loans and sustained low profitability. Operational risks also appear to be on the rise and volatility in funding markets remains high.

Published on 6 December, *Implementation of the Countercyclical Capital Buffer Regime in the European Union*, is an ESRB macroprudential commentary. The countercyclical capital buffer (CCyB) is the main instrument in the macroprudential toolkit in the EU to mitigate procyclicality in the financial system. The BCBS, the EU's capital rules for banks (CRDIV/CRR) and the ESRB have laid down the general framework for the use of this instrument. Within this broad framework, Member States have the flexibility to accommodate national specificities and many have made use of this option. This Commentary provides some first information on the different practices of Member States both in calculating the credit-to-GDP gap, which is the main reference indicator for activating the CCyB, and in using additional indicators.

On 8 December, EIOPA published its December 2016 FSR in the (re) insurance and occupational pensions sectors of the EEA. The report presents the evidence that the European macroeconomic environment remains fragile, while insurers and pension funds are challenged by prolonged low interest rates and by a number of geopolitical risks. This FSR also highlights that the low interest rate environment continues to be the main challenge for European insurers and Institutions for Occupational Retirement Provision; and that advances in technology bring new risks and opportunities challenging existing business models substantially. This FSR includes two thematic articles: the impact of the monetary policy interventions on the insurance industry; and a possible approach how the long-term rate should be updated based on regulatory preferences.

On 15 December, EIOPA announced the results of its 2016 EU-wide stress test for the European insurance sector. This year's exercise assessed insurers' vulnerabilities and resilience to two severe market developments: a prolonged low yield environment and a "double-hit" scenario. The "low-for-long" scenario reproduced a situation of entrenched secular stagnation driving down yields at all maturities for a long period of time, while the "double-hit" scenario reflected a sudden increase in risk premia combined with the low yield environment. The severity of the scenarios goes beyond the Solvency II capital requirements.

In the first vulnerability assessment conducted after the implementation of the Solvency II regulatory framework, participating undertakings calculated the impact of these severe stress scenarios on their balance sheets with reference to 1 January 2016. The exercise involved 236 insurance undertakings at the solo level from 30 European countries, with market coverage of 77% in terms of the relevant business (life technical provisions excluding health and unit linked) and included medium- and small-sized undertakings.

On the baseline (pre-stress), results indicated that on an aggregated level undertakings were adequately capitalised from a Solvency II perspective with an overall Solvency Capital Requirement ratio of 196%. The impact of both stress scenarios is of similar magnitude in terms of the reduction of the average assets over liabilities ratio, however not equally spread among undertakings or national markets. The different identified levels of vulnerabilities were corresponding to the different market characteristics and/or balance sheet structures.

These results provide a quantified estimation of the insurance sector vulnerability to the low interest rate environment and to a pronounced reassessment of risk premia. The revealed vulnerabilities deserve a supervisory response; and to ensure coordinated supervisory actions, EIOPA issued recommendations to the National Supervisory Authorities (NSAs). EIOPA, in its coordinating role, will support the NSAs and undertakings in the follow-up of these recommendations.

The General Board of the ESRB held its 24th regular meeting, on 15 December. The repricing of risk premia in global financial markets and the weaknesses in financial institutions' balance sheets were highlighted by the General Board as the main risks to financial stability in the EU. The General Board endorsed the publication of the ESRB report, *The Macroprudential Use of Margins and Haircuts*; and was updated on the recent consultation with the private sector stakeholders conducted by the ESRB High-Level Task Force on Safe Assets. Finally, the General Board approved adverse scenarios prepared jointly by ECB staff and the ESRB Task Force on Stress Testing for the 2017 EU-wide stress test of CCPs by ESMA. Alongside of this, the ESRB released the 18th issue of its risk dashboard, which in overall summary reflects that systemic risks as indicated by market indicators have shown a decreasing trend over the last quarter.

Published on 20 December, *Bank Networks: Contagion, Systemic Risk and Prudential Policy* is a BIS working paper in which the authors present a network model of the interbank market, in which optimizing risk averse banks lend to each other and invest in non-liquid assets. Market clearing takes place through a tâtonnement process which yields the equilibrium price, while traded quantities are determined by means of an assortative matching process. Contagion occurs through liquidity hoarding, interbank interlinkages and fire sale externalities. The resulting network configuration exhibits a core-periphery structure, dis-assortative behaviour and low density. Within this framework, the authors analyse the effects of a stylized set of prudential policies on the stability/efficiency trade-off. Liquidity requirements unequivocally decrease systemic risk, but at the cost of lower efficiency (measured by aggregate investment in non-liquid assets). Equity requirements also tend to reduce risk (hence increase stability), though without reducing significantly overall investment. On this basis, the results provide general support for the Basel III approach based on complementary regulatory metrics.

Stakeholders expressed some support for an expansion of the macroprudential toolset beyond the banking sector.

Financial Contagion with Spillover Effects: a Multiplex Network Approach, is an ESRB working paper, published on 21 December, which presents a comprehensive model of financial contagion encompassing both direct and indirect transmission channels. The authors introduce direct contagion through a two-layered multiplex network to account for the distinct dynamics resulting from collateralized and uncollateralized transactions. Moreover, the spillover effects of fire sales, haircut pro-cyclicality and liquidity hoarding are specifically considered through indirect transmission channels. This framework allows the authors to analyse the determinants of systemic crisis and the resilience of different financial network configurations. Four experiments then examine the benefits of counterparty diversification; the positive effect of higher initial capital and liquidity levels; the possibility of controlling the maximum haircut rates; and the fundamental role played by fire sales and market liquidity.

On 21 December, the Commission published a feedback statement on its consultation on the functioning of the EU macroprudential framework. There was broad support amongst stakeholders for some revisions to the macroprudential toolset to clarify their purpose and remove certain overlaps between instruments. Stakeholders also supported simplifying the use of certain macroprudential instruments, either by amending the pecking order of use, or amending the activation mechanisms associated with certain instruments. Stakeholders expressed some support for an expansion of the macroprudential toolset beyond the banking sector. There was also some support for amending the role and functioning of the ESRB, in order to facilitate the application and coordination of macroprudential policy in the EU.

On 22 December, the EBA published report on cyclicality of banks' capital requirements aiming at clarifying whether risk-sensitive bank capital requirements as laid down in the CRR and CRD create unintended pro-cyclical effects by reinforcing the endogenous relationships between the financial system and the real economy. This report, which has been drafted in close cooperation with the ESRB and the ECB is in response to a request by the European Commission. Against the background of the weak evidence on the existence of pro-cyclical effects due to the CRDIV/CRR framework, this report recommends that the EU retains its current risk-sensitive framework for bank regulatory capital. If pro-cyclicality risks were to become more material, the EU financial regulatory framework has various tools at its disposal, which could in principle be used; and accordingly, there should be regular monitoring.

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ICMA Capital Market Research

The Counterparty Gap: A study for the ICMA European Repo and Collateral Council on the Trade Registration Models used by European Central Counterparties for Repo Transactions
Published: 27 September 2016
Author: Prepared for ICMA by John Burke, independent consultant

Remaking the Corporate Bond Market: ICMA's 2nd Study into the State and Evolution of the European Investment Grade Corporate Bond Secondary Market
Published: 6 July 2016
Author: Andy Hill, ICMA

Evolutionary Change: The Future of Electronic Trading in European Cash Bonds
Published: 20 April 2016
Author: Elizabeth Callaghan, ICMA

Perspectives from the Eye of the Storm: The Current State and Future Evolution of the European Repo Market
Published: 18 November 2015
Author: Andy Hill, ICMA

Impact Study for CSDR Mandatory Buy-ins
Published: 24 February 2015
Author: Andy Hill, ICMA

The Current State and Future Evolution of the European Investment Grade Corporate Bond Secondary Market: Perspectives from the Market
Published: 25 November 2014
Author: Andy Hill, ICMA

Continually Working to Develop Efficient and Effective Collateral Markets
ERC Occasional Paper
Published: 4 September 2014
Author: David Hiscock, ICMA

Covered Bond Pool Transparency: the Next Stage for Investors
Published: 21 August 2014
Author: Prepared for ICMA by Richard Kemmish Consulting Ltd

Collateral is the New Cash: The Systemic Risks of Inhibiting Collateral Fluidity
Published: 3 April 2014
Author: Andy Hill, ICMA

Avoiding Counterproductive Regulation in Capital Markets: A Reality Check
Published: 29 October 2013
Author: Timothy Baker, Senior Adviser to ICMA

Collateral Damage: the Impact of the Financial Transaction Tax on the European Repo Market and its Consequences for the Financial Markets and the Real Economy
Published: 8 April 2013
Author: Richard Comotto, ICMA Centre

Economic Importance of the Corporate Bond Markets
Published: 8 April 2013
Author: Timothy Baker, Senior Adviser to ICMA

ICMA Women's Network
Networking. Progression. Support.

Winter Event with Julia Hoggett

The ICMA Women's Network (IWN) winter event took place on 22 November 2016 and was generously hosted by Nomura in London. The event was opened by Maria Bentley, Senior Managing Director, Global Head of Human Resources, Wholesale, at Nomura. Maria spoke of the progress made to date in the financial industry towards diversity and further opportunities to develop inclusive culture. Martin Scheck, Chief Executive of ICMA, reinforced ICMA's commitment to, and support of, the work of IWN and introduced Julia Hoggett, Head of Wholesale Banking, Supervision Division, Financial Conduct Authority.

Julia engaged with the audience from the very start by candidly sharing her professional journey. What emerged was a message of societal, inclusive diversity – that diversity awareness should start in schools from a young age and the importance of having an inclusive workplace, challenging unconscious bias and actively engaging in diversity discussions within an organisation, the industry and society as a whole. Delegates were encouraged to find, and be, role models, share experiences, continue to raise awareness and engage in debates and discussions. Julia also highlighted the importance of groups and networks such as IWN in creating a safe environment where everyone can share experiences, raise diversity issues relevant to the individual and continue to question the *status quo*.

Delegates emerged from Julia's talk energised and inspired. Many spoke of the event being a catalyst for further development and evolution of diversity issues. Further discussion and debate continued as a part of a lively structured networking event where delegates and hosts had the opportunity to share their own views and experiences. We received great feedback from the event on both the quality of the speaker and the networking afterwards.

IWN will be arranging further events in 2017 and we look forward to welcoming as many delegates as possible from ICMA member firms. Please keep an eye out for more details in the New Year.

Reiko Masada, Citi
IWN Steering Committee

Diary 2017

DATE	ICMA Workshops
21 February *Register*	European Regulation: An Introduction for Capital Market Practitioners, London, 21 February How much do you know about the new regulations that are already in force and impacting your daily work in the capital market and the ones that are still in the pipeline? Against a background of far-reaching regulatory change, ICMA's one-day, fast-track course on European regulation for capital market practitioners gives an overview of the new regulatory landscape for financial institutions in Europe.
1 March *Register*	Bond Syndication Practices for Compliance Professionals and Other Non-Bankers, London, 1 March This workshop aims to give compliance professionals an in-depth and thorough understanding of the current practices that are involved in launching a deal in the international debt capital market.
22-24 March *Register*	Repo and Securities Lending under the GMRA and GMSLA, London, 22-24 March The workshop analyses how repo and securities lending transactions operate within the framework provided by the Global Master Repurchase Agreement (GMRA) and the Global Master Securities Lending Agreement (GMSLA), and highlights the issues that need to be addressed by users.

ICMA Conferences, Lectures and Seminars

DATE	Event
17 January *Register*	AFME/ICMA Capital Market Lecture with Paul Andrews, Secretary General of IOSCO, London, 17 January AFME and ICMA members are welcome to join us for lunch in London to hear the views of this global standard setter on some of the issues facing global securities markets.
19 January *Register*	ACI and ICMA 2017 Economic Panel and New Year's Event, Brussels, 19 January ACI and the ICMA Belgian region members are invited to attend The Economic Panel, featuring economists from ICMA member firms in conversation, followed by the New Year's Event at *La Tentation*.
20-22 January *Register*	ICMA Annual Charity Ski Weekend 2017, Zermatt, 20 -22 January Organised by the ICMA Switzerland and Liechtenstein region. The ICMA Region for Switzerland & Liechtenstein annual charity ski event is one of the main social gatherings in the calendar year for the Association. Open to all ICMA's global membership, the weekend attracts well over 150 professionals and provides ICMA members, and non-members the opportunity to combine business, networking and pleasure all in aid of charity.
7 February *Register*	Annual NCMF/ICMA Seminar on Bond Market Developments, Oslo, 7 February This year the ICMA/NCMF Annual Seminar focuses on the rapid rise in the popularity of green bonds. Growth, internationalisation and diversification continue, supported by underpinned by voluntary guidelines and standards, such as the Green Bond Principles. There will also be an update session on MiFID II and its impact on markets, featuring international and local experts.

Diary 2017

DATE

25 January
Register

ICMA Future Leaders
Career Progression, Education, Networking.

ICMA Future Leaders Networking Event: FinTech for Fixed Income Professionals, Amsterdam, 25 January Start the New Year with insights from FinTech experts on where innovative technology is taking the fixed income market, followed by an opportunity to meet other market professionals, including members of the ICMA Future Leaders Committee. The fintech panel will feature contributions from leaders in market automation, including: Oscar Kenessey, Head of Trading Fixed Income, Derivatives and Currencies, NN Investment Partners; Usman Khan, Co-founder & CTO, Algomi; and Sjoerd Rietberg, CEO, Flowtraders.

2 February
Register

ICMA Future Leaders Launch Event: Career Progression and Networking, Milan, 2 February The first ICMA Future Leaders networking event will take place in Milan on the evening of Thursday, 2 February 2017. The featured keynote speakers will be Massimo Mocio, Head of Global Markets at Banca IMI and Luca Bagato, Head of Sales and Business Development at EuroTLX. The presentations will be followed by a networking drinks reception, which will be an opportunity to meet other professionals from all areas of the Italian fixed income market.

ICMA Future Leaders was set up by ICMA to reach out to the "next generation" of market professionals and help them to tap into ICMA's services, which are open to employees of all ICMA member firms. ICMA Future Leaders' events run throughout the year in major European financial centres and are open to fixed income professionals in all areas of the business at ICMA member firms. At these you can meet your peers and be part of the wider ICMA community.

2 February
Register

ICMA Women's Network France: "Negotiation Skills for Women" Paris, 2 February The theme of the second evening event organised by the ICMA Women's Network (IWN) French Committee will be "Negotiation skills for women".

IWN
ICMA Women's Network
Networking. Progression. Support.

Vincent François a former negotiator at Groupe d'Intervention de la Gendarmerie Nationale (GIGN), the special operations unit of the French Armed Forces, which is part of the National Gendarmerie and is trained to perform counter-terrorist and hostage rescue missions in France or anywhere else in the world) will lead the session. The presentation will be illustrated by lessons learned on successful and less successful negotiations.

This will be followed by "Speed debriefing" and organized networking.

Save the Date!

ICMA PRIMARY MARKET FORUM, HONG KONG, 2 MARCH

JAPAN SECURITIES SUMMIT, LONDON, 8 MARCH

ICMA ERCC AGM, ZURICH, 20 MARCH

THE 49TH ICMA AGM AND CONFERENCE LUXEMBOURG, 3 - 5 MAY, 2017
Registrations open 31 January

ICMA Executive Education

Courses 2017

ICMA Executive Education is a unique partnership between ICMA and the ICMA Centre, Henley Business School, University of Reading. We work together to develop the highest quality of training, delivered by current and former financial markets practitioners.

We currently offer a suite of seven examined qualifications, three of which are available to study online, as well as 15 non-examined training programmes, held in various locations throughout the year.

Our candidates come from a range of institutions including those from both the buy and sell side, stock exchanges, central banks, CSDs, data vendors, regulators, accounting firms and the financial press.

In addition to our public offerings, we are able to deliver any of our programmes on an in-house basis, tailored to suit the specific requirements of each firm.

As a result of the continuing high standard of content within our training, ICMA Executive Education has been confirmed as an "Approved Provider" under the CFA Institute's Continuing Education Programme. Candidates who study with us will receive a designated number of credit hours which can be used towards study with the CFA. In addition, the majority of our advanced qualifications are recognised by the UK's Financial Skills Partnership and the FCA.

In 2016, almost 900 candidates from 54 countries, throughout Africa, Asia and Europe participated in ICMA Executive Education programmes.

Two brand new qualifications designed for candidates in the early stages of their financial markets careers were introduced in October 2016, the "Introduction to Fixed Income Qualification (IFIQ)" and "Introduction to Primary Markets Qualification (IPMQ)". These have equipped successful candidates to go on to study for ICMA advanced qualifications namely the Fixed Income Certificate and the Primary Markets Certificate.

From February 2017, we will be partnering with Pearson Vue to deliver the exams for our online qualifications. This will allow us to extend the geographic range for potential online candidates with better coverage particularly in Central and Latin America, Central Africa and Australasia.

Book now for ICMA Executive Education programmes in 2017.

Foundation Qualifications

Financial Markets Foundation Qualification (FMFQ) Online
Next start date: **1 February 2017**
(register by 24 January 2016)

Securities Operations Foundation Qualification (SOFQ) Online
Next start date: **1 February 2017**
(register by 24 January 2016)

Introduction to Primary Markets Qualification (IPMQ)
London: **6-8 March 2017**

Introduction to Fixed Income Qualification (IFIQ)
London: **13-15 March 2017**
London: **11-13 October 2017**

Securities Operations Foundation Qualification (SOFQ)
London: **20-22 March 2017**
Brussels: **15-17 November 2017**

Financial Markets Foundation Qualification (FMFQ)
London: **8-10 May 2017**
London: **6-8 November 2017**

Advanced Qualifications

ICMA Fixed Income Certificate (FIC) Online
Next start date: **1 February 2017**
(register by 24 January 2016)

ICMA Operations Certificate Programme (OCP)
Brussels: **27-31 March 2017**
Brussels: **20-24 November 2017**

ICMA Fixed Income Certificate (FIC)
London: **24-28 April 2017**
Amsterdam: **23-27 October 2017**

ICMA Primary Market Certificate (PMC)
London: **8-12 May 2017**
London: **27 November - 1 December 2017**

Training Programmes

Collateral Management
London: **3-4 April 2017**

Trading & Hedging Short-term Interest Rate Risk
London: **2-3 May 2017**
London: **16-17 October 2017**

Trading the Yield Curve with Interest Rate Derivatives
London: **4-5 May 2017**
London: **18-19 October 2017**

Corporate Actions – An Introduction
London: **22-23 May 2017**

Credit Default Swaps – Pricing, Application & Features
London: **30-31 May 2017**

Credit Default Swaps – Operations
London: **1 June 2017**

Securitisation – An Introduction
London: **22-23 November 2017**

For more information, please contact: education@icmagroup.org or visit www.icmagroup.org/education

Glossary

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
ASEAN	Association of Southeast Asian Nations
ASF	Available Stable Funding
AuM	Assets under management
BBA	British Bankers' Association
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBIC	ICMA Covered Bond Investor Council
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDS	Credit default swap
CFTC	US Commodity Futures Trading Commission
CGFS	Committee on the Global Financial System
CICF	Collateral Initiatives Coordination Forum
CIF	ICMA Corporate Issuer Forum
CMU	Capital Markets Union
CNAV	Constant net asset value
CoCo	Contingent convertible
COGESI	Contact Group on Euro Securities Infrastructures
COP21	Paris Climate Conference
COREPER	Committee of Permanent Representatives (in the EU)
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
DMO	Debt Management Office
D-SIBs	Domestic systemically important banks
DVP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
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
ECPC	ICMA Euro Commercial Paper Committee
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)
EFSF	European Financial Stability Facility
EFSI	European Fund for Strategic Investment
EFTA	European Free Trade Area
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMDE	Emerging market and developing economies
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
ESA	European Supervisory Authority
ESG	Environmental, social and governance
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
ETP	Electronic trading platform
ESG	Environmental, social and governance
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
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
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
HMRC	HM Revenue and Customs
HMT	HM Treasury
HY	High yield
IAIS	International Association of Insurance Supervisors
IASB Board	International Accounting Standards
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositaries
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
KfW	Kreditanstalt fűr Wiederaufbau
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
MAD	Market Abuse Directive
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
MMCG	ECB Money Market Contact Group
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
NSFR	Net Stable Funding Ratio (or Requirement)
OAM	Officially Appointed Mechanism
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
ORB	London Stock Exchange Order book for Retail Bonds
OTC	Over-the-counter
OTF	Organised Trading Facility
PCS	Prime Collateralised Securities
PD	Prospectus Directive
PD II	Amended Prospectus Directive
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSEs	Public Sector Entities
PSI	Private Sector Involvement
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RM	Regulated Market
RMB	Chinese renminbi
ROC	Regulatory Oversight Committee of the Global Legal Entity Identifier System
RPC	ICMA Regulatory Policy Committee
RSF	Required Stable Funding
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted assets
SEC	US Securities and Exchange Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SLL	Securities Law Legislation
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
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
STORs	Suspicious transactions and order reports
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 European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TRs	Trade repositories
UKLA	UK Listing Authority
VNAV	Variable net asset value

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