

Bond markets to meet EU investment challenges

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Table of contents

Bond markets to meet EU investment challenges	3
Summary	3
Introduction: The EU needs investment – which bond markets can provide	5
The role of bond markets	6
The path forward	6
A. The EU needs deep, liquid and resilient bond markets	7
Primary markets	7
Securitisation	9
Secondary markets	10
The role of market makers	11
Repo and collateral markets	12
Short-term markets	14
B. EU citizens need to be able to save for their retirement by investing in bond markets	15
Primary markets	15
Funds	16
Financial inclusion and literacy	17
C. The EU’s leadership in sustainable finance needs to be reinforced	19
D. The EU needs a more efficient and integrated post-trade landscape	22
E. The EU should strengthen its support for digital bonds and the digital wholesale euro	24
Conclusion	26
Summary of recommendations	26
About ICMA	29
Annex: Size of bond markets and bonds vs equities	30
Size of bond markets – US vs EU	30
Size of EU corporate bond markets	31
Financing structure in EU and US for non-financial corporations	32
Bonds are different from equities	33

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Bond markets to meet EU investment challenges

Summary

The European Union (EU) needs investment – which bond markets can provide: The EU needs investment to fund its economic growth, support its competitiveness globally, and address challenges such as climate change, digital transition, and pensions for an ageing society. Cross-border capital markets development will be critical in achieving this. Bond markets have the capacity and potential to provide the largest source of financing for companies to underpin sustainable economic growth across the EU, as well as provide a relatively safe and attractive option for households to invest their savings. Further developing pan-European bond markets would not only provide a deeper pool of financing for EU economic investment and growth, but it would help to facilitate the flow of capital across EU borders, thereby reducing barriers to funding access, sharing risk more evenly, and reducing the overall cost of capital for EU corporates and institutions.

The EU needs deep, liquid and resilient bond markets: There is untapped potential for deepening liquidity and improving the functioning of EU capital markets so that they are better aligned to servicing the needs of society. EU primary institutional markets already function well based on the current established market processes and documentation requirements, and it is important to maintain the integrity of this market as well as take steps to encourage further market depth and ease of access where possible. In supporting and boosting the effective functioning of secondary markets, a key consideration for the EU agenda going forward will be the critical role of intermediaries, such as market makers who provide immediacy and fair value for investors needing to buy or sell bonds. In this respect, market liquidity is critical, and it needs to be factored into dealer banks' cost of capital. Related, ICMA would welcome a further review of the current regulatory framework around repo to help identify potential constraints and vulnerabilities. The same perspective on prudential calibration is equally relevant to underpinning and developing short-term markets and securitisation.

EU citizens need to be able to save for their retirement by investing in bond markets: ICMA believes that further unlocking the potential of bond markets requires both careful calibration of existing initiatives and fresh thinking around how to create new opportunities for access. Improvements to encourage the offer of bonds to retail investors in the EU would be welcome. One of the EU's core goals must be to make European investment funds even more attractive, accessible and safer for investors. While encouraging efficient avenues for collective investment, retail investors should not be shut out of direct access to the financial markets. Here, heightened financial awareness, education and affordable investment advice will also be important.

The EU's leadership in sustainable finance needs to be reinforced: EU issuers play a key role in stimulating the growing market for green investment. The next mandate is a crucial opportunity to take this further. In doing so, it will be important that EU regulatory initiatives do not unintentionally hinder sustainable finance market activity. For example, further efforts to create exhaustive definitions of greenwashing could create more issues than they solve as they risk market paralysis or regression because of excessive reputation or litigation fears.

The EU needs a more efficient and integrated post-trade landscape: ICMA recommends a revived focus on removing the remaining barriers in the EU to a more integrated post-trade process, so that market infrastructure can support deeper market liquidity and boost confidence in settlement and clearing mechanics. ICMA also urges the EU institutions (working closely with the industry) to carry out a robust impact assessment and to weigh carefully the benefits against all related costs and risks of adopting a T+1 settlement cycle. Shorter settlement cycles could be counterproductive where there is a trade-off with liquidity and access, potentially adversely impacting the competitiveness of EU capital markets.

The EU should strengthen its support for digital bonds and the digital wholesale euro: New technologies have far-reaching potential to modernise capital markets and reduce the cost of funding for firms. In particular, ICMA believes that, to unlock the benefits of digital bonds at scale, a wholesale digital euro is required.

In conclusion: Bond markets are a fundamental component of capital markets, providing a deep and diverse source of financing for both public and private sector institutions and corporations, whilst offering investors stable returns alongside risk diversification. Broadening and deepening of a truly cross-border EU bond market will be key to the EU meeting the identified challenges ahead and furthering its role as a global economic leader.

Introduction: The EU needs investment – which bond markets can provide

The EU needs investment to fund its economic growth, support its competitiveness globally, and address challenges such as climate change, digital transition, and pensions for an ageing society. Cross-border capital markets development will be critical in achieving this.¹ These policy objectives have been outlined e.g. in the European Commission's (EC, or the Commission) Capital Markets Union (CMU) 2020 Action Plan, and more recently confirmed by many EU authorities, including the European Central Bank (ECB).²

Bond markets have a vital role to play in supporting many of these priorities, particularly in providing the debt finance that EU-based companies and institutions need as part of their overall funding requirements to grow and innovate, as well as creating investable instruments for EU citizens. Bond markets also help to reduce an overreliance on banks, which in the EU remain the primary source of corporate funding through loans and the principal channel for individuals to deploy their savings in the form of deposits.

EU bond markets are already large. The total size of the EU market, including sovereign and corporate debt, is approximately USD25 trillion. This compares to a bond market size of USD53.6 trillion in the United States (US) (see Annex).³ However, when it comes to corporate bond markets, the EU and the US could not be more different. In the US, 65% of non-financial corporate debt financing is raised through the capital markets. In the euro area, this proportion is relatively small, with 85% of corporate debt depending on bank financing (see Annex).⁴ This not only places a natural limit on the amount of debt financing available to EU companies, but it makes the EU economy far more vulnerable to banking crises and less resilient in the face of financial shocks as banks' capacity to lend become constrained. Furthermore, it reduces the amount and diversity of investable EU financial assets.

Further developing pan-European bond markets would not only provide a deeper pool of financing for EU economic investment and growth, but it would help to facilitate the flow of capital across EU borders, thereby reducing barriers to funding access, sharing risk more evenly, and reducing the overall cost of capital for EU corporates and institutions.

The reinvigoration of the securitisation market in Europe should be a key priority. With appropriate structuring, securitisation has a key role to play in capital markets' development as a high-quality asset class, as well as providing an important mechanism for banks to free up balance sheet capacity, release capital and provide new lending into the real economy. In 2008, the size of the European securitisation market, including the United Kingdom, was 75% that of the US. In 2020, it was just 6%.⁵

1 Completion of EU Capital Markets Union would also involve addressing legislative differences at national level, such as different tax and insolvency regimes, as well as reforming pensions and improving financial literacy, which are a national responsibility.

2 EC, *Capital markets union 2020 action plan: A capital markets union for people and businesses*, 24 September 2020, https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/capital-markets-union/capital-markets-union-2020-action-plan_en
Christine Lagarde, President of the ECB, *A Kantian Shift for the Capital Markets Union*, 17 November 2023, <https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp231117~88389f194b.en.html>

3 Bank for International Settlements (BIS) Data Portal, *Summary of debt securities outstanding, notional amount outstanding*, data for 2023 Q1. (Sweden and Romania are not included in the calculations due to a lack of data in the BIS data portal) https://data.bis.org/topics/DSS/tables-and-dashboards/BIS_SEC_C1.1.0

4 French Banking Federation, *Developing Capital Markets in Europe*, February 2020, <https://www.fbf.fr/uploads/2021/09/BBF-Memo-9-Developing-capital-markets-in-Europe.pdf>

5 The European Stability Mechanism (ESM), *Blog: Reviving securitisation in Europe for CMU*, 15 July 2021, <https://www.esm.europa.eu/blog/reviving-securitisation-europe-cmu>

The role of bond markets⁶

Traditionally bonds have been an important part of the financing mix for both public entities and private enterprises, providing a relatively low-cost, long-term, stable source of funding, as well as a cheaper and less constraining source of capital compared to equity. Aside from their broad application of financing government budgets, corporate growth and infrastructure development, on a more bespoke basis bond markets have helped to fund renewable energy, social housing, universities, biotechnology, vaccination programmes, and other social projects.

For institutional investors, bonds are a critical asset class and a key source of risk diversification and stable returns. Institutional investors in bonds include sovereign wealth funds, central banks, commercial banks, insurance companies, pension funds, mutual funds, private banks and, increasingly hedge funds and other kinds of leveraged investors, in many cases offering investment options for the savings and pensions of EU citizens. Their appeal comes not only from a predictable, steady stream of income over the life of the bond, along with capital preservation, but also their relatively higher repayment status and so creditworthiness in the capital structure, compared to equities, as well as the ease to invest and disinvest through a well-established, transparent and liquid secondary market. Bonds also encourage high standards of transparency and corporate governance, by virtue of the information demanded by regulation for the benefit of institutional investors, which is typically made available to the public.

Bonds, particularly higher rated sub-classes such as sovereign bonds, also play a vital role in the plumbing of financial markets more generally through their use as high quality collateral, with central banks borrowing or lending bonds (as well as purchasing or selling bonds) to help transmit monetary policy into the wider economy, and banks and corporates pledging bonds to raise financing in a low-cost and low-risk manner through the repo market, as well as securing transactions in derivatives and, in doing so, helping to mitigate systemic risk.

In summary, bond markets are a fundamental component of capital markets, providing a deep and diverse source of financing for both public and private sector institutions and corporations, whilst offering investors stable returns alongside risk diversification. Broadening and deepening of a truly cross-border EU bond market will be key to the EU meeting the identified challenges ahead and furthering this role as a global economic leader.

The path forward

In the following five sections, ICMA sets out a number of recommendations (see the relevant boxes below and the summary of recommendations at the end of the report) to refine and enhance current EU market regulation. This will support the development of an efficient, effective, and internationally competitive EU bond market, enabling the bond market to serve the EU policy objectives mentioned above, as outlined by EU authorities.

We have headed these five sections under five broad goals, which collectively will facilitate access to markets and boost confidence:

- A. Build depth, liquidity and resilience in the EU's bond markets.
- B. Enable EU citizens to save for their retirement by investing in bond markets.
- C. Reinforce the EU's leadership in sustainable finance.
- D. Improve the efficiency and integration of the post-trade landscape across the EU.
- E. Strengthen support at the EU level for digital bonds and the digital wholesale euro.

For each of these sections, we provide a link to key EU objectives, and set them in the broader context of the functioning of bond markets.

⁶ ICMA, *Economic importance of the corporate bond markets*, 2013, <https://www.icmagroup.org/assets/documents/Media/Brochures/2013/Corporate%20Bond%20Markets%20March%202013.pdf>
ICMA Education, *Fixed Income Trading & Strategies*, 2022-2023, <https://www.youtube.com/playlist?list=PLSC5EZ95oGKMyyYtCq4lCYXnTcMS-hXqn>

A. The EU needs deep, liquid and resilient bond markets

Despite a decade of EU Capital Markets Union initiatives, there remains untapped potential for deepening liquidity and, relatedly, improving the functioning of EU markets so that they are better aligned to serving the needs of wider society.

This applies for primary markets, securitisation, secondary markets, repo and collateral markets, as well as short-term funding markets.

Primary markets

Key context

The international bond markets have evolved to (i) enable swift and resilient fundraising for borrowers (who can appoint underwriters), (ii) attract high numbers of global institutional investor orders and (iii) price and allocate new issues of hundreds of millions worth of bonds (or issue more opportunistic private placements to a very small number of investors), often all in the space of a day. The following 3-5 working days allow for settlement, finalisation of documentation, compliance checks and liquidation of existing investments to fund new allocations, if necessary.

This commoditised, swift nature of bond issuance is largely due to incremental developments of the overall financial markets ecosystem over decades (including, for instance, dedicated international clearing systems and debt issuance “programmes” which facilitate bond issuance by enshrining upfront issuer disclosure, contracts and logistical arrangements). Borrowers can fund themselves resiliently and repeatedly from a diverse investor universe, notwithstanding any volatility and narrow access “windows” (that may appear e.g. due to geopolitical or other macroeconomic factors impacting financial markets).

This is in sharp contrast with the more exceptional nature of initial and subsequent public offerings of equity, as well as with the issuance of dedicated investment products for retail investors.

It is vital that this ease of issuance in bond markets be retained and that any potential unintended consequences of measures taken with respect to primary market regulation are robustly assessed.

Importance of institutional markets

Institutional bond markets in the EU function reasonably efficiently under the existing regulatory and legal framework and it is vital that this is preserved (participants in these markets include such institutional investors as asset managers, pension funds, sovereign wealth funds, central banks, etc.). Further, while appreciating regulatory divergence may occur between the EU and the UK markets in this and other areas, ICMA strongly advocates for the maintenance of as much alignment and harmonisation as possible to ensure continuity and maximise the accessibility and market depth for EU issuers.

ICMA believes that further unlocking the potential of bond markets requires careful calibration of existing initiatives. ICMA particularly stresses that implementing regulations under the recent **Listing Act** should be well calibrated to avoid unintentionally increasing the regulatory burden on the issuance of corporate bonds via primary markets, rather than reducing them. For instance, there is a significant volume of new corporate sustainability disclosure requirements that have been adopted and are still coming into force across the world, including the EU's **Corporate Sustainability Reporting Directive (CSRD)**. This will need to be accounted for when considering detailed sustainability disclosure requirements under the revised **Prospectus Regulation's** technical implementing rules.⁷

Distinctly, the development of the **European Single Access Point (ESAP)** as a centralised source for accessing regulated information should improve investors' visibility of issuers (notably smaller issuers), and thus facilitate bond market access for both. The implementation of ESAP must deliver efficient search and download functionality for investors without imposing significant additional burdens on issuers publishing regulated information via the ESAP (in terms of procedural, content or format requirements).⁸

Changes to retail investor protection requirements under the **Retail Investment Strategy** dossier also need to be considered carefully in order to avoid disrupting institutional bond markets. This is particularly so in relation to rules on product governance, inducements, costs and charges and marketing communications under the **Markets in Financial Instruments Directive (MiFID) II**.⁹

Recommendations

Primary markets

Institutional bond markets in the EU function reasonably efficiently under the existing legal framework and it is vital that this is preserved, eg.

- **Listing Act:** Take into account the existing and upcoming requirements under **CSRD** when considering whether technical implementing rules under the **Prospectus Regulation** need to be prescriptively detailed.
- **Retail Investment Strategy:** Carefully calibrate retail investor protection requirements under **MiFID** in order to avoid disrupting institutional bond markets.

Implementation of **ESAP** must deliver efficient search and download functionality for investors without imposing significant additional burdens on issuers.

⁷ Council of the EU, *Listings [...]*, 14 February, 2024, <https://www.consilium.europa.eu/en/press/press-releases/2024/02/01/listings-on-european-stock-exchanges-council-and-parliament-agree-new-act/>

⁸ ICMA, *EC proposals for a European single access point: ICMA feedback*, 2022, <https://www.icmagroup.org/assets/documents/ICMA-ESAP-comments-March-2022.pdf?vid=2>

⁹ ICMA, *EU retail investment strategy (MiFID investor protection and PRIIPs): ICMA feedback*, 2023, <https://www.icmagroup.org/assets/documents/Regulatory/Prospectuses-Offerings-and-Listings/EU-retail-investment-strategy-MiFID-investor-protection-and-PRIIPs-ICMA-feedback.pdf>

Securitisation

Key context

In 2008, the size of the European securitisation market, including the United Kingdom, was 75% that of the US. In 2020, it was just 6%.¹⁰

Securitisation markets play a crucial role in the broader financial system for several reasons.

Capital formation: Securitisation allows financial institutions to convert illiquid assets, such as mortgages, auto loans or credit card receivables, into tradable securities. By doing so, it enables these institutions to free up capital for new lending activities, thereby facilitating economic growth and easing access to credit.

Risk management: Securitisation allows financial institutions to transfer credit risk from their balance sheets to investors who are willing to bear such risks in exchange for potential returns. This risk transfer mechanism helps to diversify and manage risk more efficiently within the financial system.

Enhanced liquidity: Securitisation markets provide investors with opportunities to invest in a wide range of asset-backed securities that offer varying risk profiles and yields. This diversification helps to enhance market liquidity by providing investors with alternative investment options and facilitating the trading of securities in secondary markets.

Interest rate management: Securitisation allows financial institutions to manage interest rate risk by matching the duration and cash flow characteristics of their assets and liabilities more effectively. For example, mortgage-backed securities can be structured with different maturities and interest rate characteristics to meet the needs of different investors.

Innovation and efficiency: Securitisation markets encourage financial innovation and the development of new financial products tailored to the specific needs of investors and issuers. This innovation promotes market efficiency by creating opportunities for risk-sharing, price discovery, and the allocation of capital to its most productive uses.

Overall, securitisation markets play a vital role in promoting financial intermediation, risk management, and efficient allocation of capital in the economy. However, this also comes with potential risks, such as information asymmetry and systemic risk, which need to be carefully monitored and managed by regulators and market participants.¹¹

The reinvigoration of the securitisation market in Europe should be a key priority. With appropriate structuring, securitisation has a key role to play in capital markets development as a high-quality asset class, as well as provide an important mechanism for banks to free up balance sheet capacity, release capital and provide new lending into the real economy.

ICMA would welcome a review of the current regulatory framework around securitisation. A new perspective on **prudential calibration (e.g. under the Capital Requirements Regulation (CRR) III and the Capital Requirements Directive (CRD) VI)** is particularly relevant to underpinning and developing securitisation.

¹⁰ ESM, *Blog: Reviving securitisation in Europe for CMU*, 15 July 2021, <https://www.esm.europa.eu/blog/reviving-securitisation-europe-cmu>

¹¹ Bank of England, *The case for a better functioning securitisation market in the European Union*, May 2014, https://www.ecb.europa.eu/pub/pdf/other/ecb-boe_case_better_functioning_securitisation_market_en.pdf

Basel Committee on Banking Supervision (BCBS), *Report on asset securitisation incentives*, July 2011, <https://www.bis.org/publ/joint26.pdf>

Recommendations

Securitisation

- A new perspective on **prudential calibration (e.g. under the CRR III and CRD VI)** is particularly relevant to underpinning and developing securitisation.

Secondary markets

Key context

For bond markets to fulfil their function of channelling investment flows into capital formation they require the existence of a liquid and efficient secondary market. It is here that investors are able to buy bonds without relying on the primary market for new issuances, as well as to sell existing bond holdings without needing to wait until bonds' maturity.

Thus, the secondary market is essential for investors to be able to execute their investment strategies and manage their risk. Furthermore, the secondary market is a continuous source of price information that not only allows investors to value their holdings, but also helps in the pricing process for new bond issuances, thereby underpinning confidence not only for investors but also issuers. Accordingly, primary markets and secondary markets go hand-in-hand, with the health of one directly impacting that of the other.

The health of the secondary market is usually described in terms of its "liquidity". Most definitions and measures of market liquidity try to reflect the ability of investors to execute a standard-sized trade, relatively quickly, without significantly moving the market price (capturing the three liquidity dimensions of depth, time, and cost). A further consideration is "resilience", which is generally taken to be the ability of the market to remain liquid in times of heightened volatility or market stress. Liquidity and resilience could also be viewed as a measure of market efficiency.¹²

In the same way that bonds are intrinsically quite different to other financial instruments, such as equities, so is the underlying structure of bond markets. Unlike equities, where there are usually one or possibly two classes of share per issuer, issuers will tend to issue multiple bonds over a period of time (this could range from tens to hundreds of issues).¹³ All these bonds will have different characteristics depending on the issuer's funding needs (including different maturities, currencies, early redemption features, and different ranking in the capital structure). Furthermore, due to their largely buy-to-hold nature, individual bonds rarely trade as frequently in the secondary market as equities (see Annex).¹⁴

Role of intermediaries

A key consideration for the EU agenda going forward will be the critical role of intermediaries, such as market makers, in the functioning of the secondary bond market. The willingness of market makers to show both buy and sell prices, even for bonds that they do not hold in their inventories, is vital given the heterogeneity of many bond markets (outside of the most actively traded government bonds) compared to share trading. Essentially, these market makers bridge the gap between the needs of sellers and buyers, providing immediacy and liquidity to both.

¹² ICMA, *Liquidity and resilience in the core European sovereign bond markets*, March 2024, https://www.icmagroup.org/assets/ICMA_BMLT_Liquidity-and-resilience-in-the-core-European-sovereign-bond-markets_March-2024.pdf

¹³ In support of this observation, we note ESMA's quarterly liquidity assessment, which is conducted by using trading data for equities and bonds. The number of available bonds is typically five times the number of available equities. 'The [ESMA] data covers the total number of trades and total volume over the period 1 July 2023 to 31 December 2023 and includes: 25,261 equity and equity-like instruments; 31,505 bonds [...]' <https://www.esma.europa.eu/press-news/esma-news/esma-publishes-data-quarterly-bond-liquidity-assessment-systematic-0>

¹⁴ For Volkswagen Group, we compared its equity (VOW.GR equity ticker) and bond turnover (turnover is defined as volume multiplied price for equity and notional traded for bonds.) To standardise the measures, we divided the equity turnover by the equity market-cap (market-cap is defined by total number of shares available in the market on a given day multiplied by the closing price of the same day.) The bond turnover was divided by the total outstanding amount for all bond instruments issued by the company. For the period August 2022 to January 2023, the equity daily turnover as a percentage of market cap averaged 0.018%. In the same way, we aggregated the turnover of six bonds (all of which were issued in sizes > €1 bn and tenor within five and ten years) and for the same period, the combined turnover as a percentage of total outstanding amount averaged 0.009%. Source: ICMA calculation using Bloomberg and Propellant data.

The role of market makers

Whereas equity markets see consistent flows of buyers and sellers, making it easy to execute transactions at any point in time and usually close to the last printed price (so meeting the definition of “liquid”), this is not the same for bond markets.

Here, with the exception of the most actively traded (“on-the-run”) government bonds, the probability of finding a matched seller and buyer, for the same size, at the same time, and particularly close to fair market value, is very low.

Therefore, for secondary bond markets to work requires the active involvement of intermediaries, such as market makers.

For certain bonds, market makers stand ready to show both bids and offers, even for bonds that they do not hold in inventory, so providing investors with the three dimensions of liquidity they require (fair value, depth and immediacy). A market maker will then take the other side of the trade (either buying or selling the bonds, depending on the client’s request), manage their risk as best they can, and look to trade out of the position over a period of time.

Essentially, market makers bridge the gap between the needs of sellers and buyers, providing immediacy and liquidity to both; and are generally the main source of liquidity in secondary bond markets.

Transparency

The transparency regime created by **Markets in Financial Instruments Regulation (MiFIR)** and **MiFID II** is of key importance.

ICMA has long advocated for increased and well calibrated transparency in the EU bond markets, and the establishment of a consolidated tape, which it sees as key to developing and growing a cross-border EU market.

Adequate transparency is essential for providing market integrity and investor confidence, facilitating price discovery as well as the ability to value investments. And while MiFIR did not give rise to the creation of a centralised consolidated tape, as had been hoped, there has been an improvement in the availability of post-trade market data and the creation of a reporting structure. Furthermore, the review of MiFIR and MiFID II that has been undertaken will help to deliver the much-supported consolidated tape for bonds.

In preparation for the **implementing rules from the review of MiFIR**,¹⁵ a vital consideration for regulators will be the calibration of deferrals with respect to when certain transaction details are made publicly available – something previously recognised in MiFIR and MiFID II.

For market makers to be able to perform their role, particularly in the case of larger than normal sizes or less liquid bonds, they need to be sure that they can take these positions onto their books and have enough time to trade out of them. It is therefore important that the wider market, particularly their competitors, do not have sight of what they hold on their books. This needs to be factored into any transparency framework to ensure that these trades are not revealed to the market too quickly.

It should also be noted that the publication of price alone, with no details about size, can provide a wealth of information, including whether it is a risk trade (i.e. it has been taken on to a market maker’s book), whether it is a client buy or sell, and a sense of the relative size of the trade.

¹⁵ ICMA, *Political agreement reached on MiFIR review*, 2023, <https://www.icmagroup.org/News/news-in-brief/political-agreement-reached-on-mifir-review/>

Cost of balance sheet

Another consideration for market makers is the cost of the balance sheet that is required to take down positions from clients. In recent years dealer balance sheets have shrunk, on aggregate, with the introduction of **Basel III** measures which have increased the cost of capital for market making.

While this has been a necessary development in order to support the banking system and to reduce systemic risk, there is also a need to consider the role of market makers, and the value they bring in the form of bond market liquidity and resilience, when calibrating prudential regulation. **CRR III** and **CRD VI**, along with the introduction of the **Fundamental Review of the Trading Book (FRTB)**, may result in even smaller dealer capacity, at a time when European authorities are considering how to grow the EU's capital markets.¹⁶

Recommendations

Secondary markets

- The **MiFIR** and **MiFID II** reviews that have been undertaken should help to deliver the much-supported consolidated tape for bonds.
- In preparation for implementing rules from the review of **MiFIR**, a vital consideration will be the calibration of deferrals with respect to when certain transaction details are made publicly available.
- There is also a need to consider the role of market makers, and the value they bring in the form of bond market liquidity and resilience, when calibrating prudential regulation. **CRR III** and **CRD VI**, along with the introduction of the **FRTB**, may result in even smaller dealer capacity, at a time when authorities are considering how to grow the EU's capital markets.

Repo and collateral markets

Key context

The market for repurchase agreements, better known as the repo market, is where securities, in particular bonds, are loaned and borrowed, usually against cash. Often referred to as “the oil that greases the machine”, the repo market is integral to the overall function of bond markets, as well as to financial market ecosystem more broadly. The repo market is used by both banks and non-banks, and for relatively short terms, which are entirely flexible, and can range from one day to a year, or even longer.¹⁷

The repo market serves a number of vital economic functions that can be summarised as follows:

- it offers an efficient and secure form of short-term wholesale funding providing a safer and more reliable alternative to unsecured deposits;
- it provides a flexible and low risk home for short-term investment;
- it enables market makers to perform their intermediary role, by allowing them to finance any long or short positions;
- it is a vehicle for collateral management, enabling firms to meet their margin requirements (by transforming securities into cash);
- it provides an additional source of returns for investors from lending their holdings;
- it helps to price underlying securities as well as related derivatives;
- it allows banks to manage their reserves and liquidity requirements; and
- it is the main tool used by central banks for monetary policy transmission.

¹⁶ EU Council, *Texts of the political agreement reached on the Capital Requirements Regulation III and the Capital Requirements Directive VI*, 8 December 2023, <https://data.consilium.europa.eu/doc/document/ST-15883-2023-INIT/en/pdf>; <https://data.consilium.europa.eu/doc/document/ST-15882-2023-INIT/en/pdf>

¹⁷ *The June 2023 ICMA European Repo market Survey*, published in December 2023, puts the size of the European repo market at €10.8tn. In terms of outstandings, the vast majority of repos (69.3%) are less than 3 months in term, with the most popular tenure being between 2 days and 1 week (24.7%). <https://www.icmagroup.org/assets/ICMA-Repo-Survey-December-2023.pdf>

Role of intermediaries and cost of balance sheet

The European repo market is generally considered to be in good health and has historically performed well during times of market stress, including during the Covid-19 induced market turmoil in early 2020.¹⁸

However, similar to the underlying bond markets, repo markets are highly reliant on bank intermediation and dealer balance sheets. This is mainly due to the fact that market makers (intermediaries) are required to provide a continuous stream of bids and offers to ensure immediacy. This is also because of the structure of repo transactions, which are subject to credit lines as well as ongoing margin maintenance, transacting in repo is easier for investors when they deal with limited number of liquidity providers.

Accordingly, there is a concern that any undue limitation on the ability of banks to play their intermediary role could be a risk to the functioning of the repo market, not least in times of market stress, which in turn would have serious implications for underlying bond market liquidity, as well as all the other functions listed in the box above. For example, if pension funds were unable to access the repo market to transform their government bond holdings into cash to meet margin calls against their derivatives holdings, this could either result in them becoming forced sellers of bonds or, worse, going into default.

In order to ensure the stability and efficiency of the repo market, ICMA would welcome a fuller review of the current regulatory framework around repo, in particular **CRR III** and **CRD VI**, to help identify potential constraints and vulnerabilities.

In this context, ICMA welcomes the mandate for the European Banking Authority (EBA) to review the regulatory requirements in relation to the capital reserves that banks have to put aside when entering into repo transactions (as mandated under the recently revised CRR framework). One specific problem is related to the recent EBA proposals on certain aspects of the Net Stable Funding Ratio (NSFR) framework, namely the Required Stable Funding factors for reverse repos. The proposed approach is more punitive than the one applied in other major jurisdictions, putting European institutions at a significant disadvantage compared to their international peers and adding further to the cumulative regulatory burden imposed on repo.¹⁹

Access to the repo market

Another important area is ensuring access to the repo market, particularly for buy-side firms which rely on the repo market as a source of funding and a secure home for short term investment. ICMA would welcome a review of existing constraints for the buy-side in relation to repo – including strict limitations for **Money Market Funds (MMFs)** and **Undertakings for the Collective Investment in Transferable Securities (UCITS)** funds to engage in repo (under **MMF Regulation (MMFR)** and the **UCITS Directive**). Removing barriers to facilitate non-bank access to central clearing for repo should be part of this consideration.

Reporting

Finally, ICMA looks forward to engaging with European authorities on the anticipated review of the **Securities Financing Transactions Regulation (SFTR)**, in order to address outstanding issues with the reporting rules, enhance data quality and consequently enhance the overall market transparency.²⁰

18 ICMA, *The European repo market and the COVID-19 crisis*, April 2020, <https://www.icmagroup.org/assets/documents/Regulatory/Repo/The-European-repo-market-and-the-COVID-19-crisis-April-2020-210420.pdf>

19 ICMA's European Repo and Collateral Committee (ERCC) publications of 18 September 2023 and 29 July 2022, <https://www.icmagroup.org/market-practice-and-regulatory-policy/repo-and-collateral-markets/icma-ercc-publications/icma-ercc-position-papers-and-responses-to-public-consultations/> EBA, *Report on specific aspects of the NSFR framework under Article 510(4), (6) and (9) of Regulation (EU) No 575/2013*, EBA/Rep/2024/01, January 2024, <https://www.eba.europa.eu/sites/default/files/2024-01/8d7c0d40-2d79-4763-bd9c-ad66c0bf4076/Report%20on%20specific%20aspects%20of%20the%20NSFR%20framework%20under%20Art%20510%20CRR.pdf>

20 ICMA, *SFTR website*, <https://www.icmagroup.org/market-practice-and-regulatory-policy/repo-and-collateral-markets/regulation/regulatory-reporting-of-sfts/>

Recommendations

Repo

ICMA would welcome:

- a fuller review of the current regulatory framework around repo, in particular **CRR III** and **CRD VI**;
- a review of existing constraints for the buy-side in relation to repo under **MMFR** and **the UCITS Directive**. Removing barriers to facilitate non-bank access to central clearing for repo should be part of this consideration;
- the anticipated review of the **SFTR**, in order to address outstanding issues with the reporting rules, enhance data quality and consequently enhance the overall market transparency.

Short-term markets

Key context

MMFs²¹ are important from the perspective of short-term markets, such as commercial paper.

In relation to MMFs (mutual funds that invest in cash, cash equivalents and short-term debt securities), ICMA notes the EC's report of July 2023 on the potential **MMFR Review**. The report highlights "*structural problems that are external to MMFs, and therefore also to the MMF Regulation, including those linked to the underlying short-term markets. These structural problems would merit a further assessment and are also currently the subject of a more in-depth analysis at the level of FSB.*"²²

ICMA supports carrying out the **Financial Stability Board (FSB)** analysis of the functioning of the **short-term markets** first, before any dedicated EU MMFR review is undertaken.

ICMA has previously engaged with consultative processes on MMFR review by European Securities and Markets Authority (ESMA), the EC and the UK Financial Conduct Authority (FCA).²³ In these responses ICMA highlighted the potentially negative unintended consequences of changes to the composition of certain MMF structures. In addition, ICMA suggested a shift of focus towards strengthening the efficiency and resilience of the underlying market, noting ICMA's *The European Commercial Paper and Certificates of Deposit Market White Paper* of September 2021.²⁴

Recommendations

Short-term markets

- ICMA would support carrying out the **FSB analysis** of the functioning of the **short-term markets** first (focus towards strengthening the efficiency and resilience) before any dedicated EU MMFR review is undertaken.
- As to the potential **review of MMFR**, ICMA has already highlighted the potentially negative unintended consequences of changes to the composition of certain MMF structures.

²¹ EU MMF size by total assets EUR 1.46 trillion, source: ESMA, *ESMA Market Report, EU MMF market 2023*, 8 February 2023, page 7, https://www.esma.europa.eu/sites/default/files/library/ESMA50-165-2391_MMf_market_2023.pdf

²² EC, *Report on the functioning of the Money Market Funds Regulation (MMF)*, July 2023, https://finance.ec.europa.eu/system/files/2023-07/230720-report-money-market-funds_en.pdf

²³ ICMA, *ICMA Asset Management and Investors Council (AMIC) response ESMA CP on MMFR Review*, <https://www.icmagroup.org/assets/documents/Regulatory/AMIC/ICMA-AMIC-MMF-CP-FINAL-300621.pdf>

ICMA, *Response to targeted consultation on the functioning of the Money Market Fund Regulation*, June 2022, <https://www.icmagroup.org/assets/Targeted-consultation-on-the-functioning-of-the-Money-Market-Fund-Regulation-May-2022.pdf>

²⁴ ICMA, *The European Commercial Paper & Certificates of Deposit Market, 2021*, <https://www.icmagroup.org/assets/documents/Regulatory/CP/ICMA-CPC-white-paper-The-European-Commercial-Paper-and-Certificates-of-Deposit-Market-September-2021-290921.pdf>

B. EU citizens need to be able to save for their retirement by investing in bond markets

For the EU to achieve its economic policy objectives, it is vital that investment opportunities which allow Europeans to safely make the most of their money and to save for their future are maximised.

We see key actions here in primary markets, funds management regulation and the development of financial knowledge among citizens.

Primary markets

Primary market issuance is the optimal entry point for retail investors to purchase bonds where regulation allows.

ICMA believes that further unlocking the potential of bond markets for a broader base of retail investor participation requires careful recalibration of existing rules and fresh thinking around how to create new opportunities for access to bond markets.

Recalibration of existing rules

On recalibration, there have long been (i) conceptual/liability concerns with preparing Key Information Documents (**KIDs**), and (ii) uncertainty regarding **the Packaged Retail Investment and Insurance products (PRIIPs) Regulation** scope. The combination of these two factors has materially contributed to disincentivising, and so reducing, corporate bond supply to direct retail investors. All of this is acknowledged on pages 111-112 of the EC's Impact Assessment accompanying its 2023 **Retail Investment Strategy** proposals.²⁵ (The retail summary requirements introduced in the 2010 review of the **EU prospectus regime**, the **MiFID** product governance regime and non-regulatory considerations also contributed.) In this respect, the bond markets are now primarily institutional in nature – with any retail exposure to corporate bonds being generally indirect: via funds or, for high net worth investors, on a discretionary (professionally managed) portfolio basis.²⁶

New ideas

New suggestions may include encouraging the offer of bonds to retail investors in the EU. For example, under the **EU Prospectus Regulation**, ICMA would favour enabling retail offering on the basis of institutional investor disclosure standards, since the retail level disclosure standard does not add value for retail investors in practice (as is currently being debated in the UK).²⁷

²⁵ EC, *Impact Assessment accompanying its 2023 Retail Investment Strategy proposals*, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023SC0278>

²⁶ ICMA, *EU Retail Investment Strategy proposals, Regulation amending the PRIIPs Regulation, Directive amending investor protection aspects of MiFID*, ICMA feedback, 28 August 2023, page 2, <https://www.icmagroup.org/assets/EU-RIS-proposals-ICMA-comments-2023.pdf>

²⁷ ICMA, *ICMA response to FCA Engagement Papers on new UK prospectus regime*, 2023, page 22, point 3, page 23, point 6b, <https://www.icmagroup.org/assets/ICMA-response-FCA-Engagement-Papers-1-to-6-v4.pdf>

Recommendations

Primary Markets

- ICMA believes that further unlocking the potential of bond markets for a broader base of retail investor participation requires both careful recalibration of existing rules (under the **PRIIPs Regulation, Prospectus Regulation and MiFID**) and fresh thinking around how to create new opportunities for access (e.g. under the **Prospectus Regulation**).

Funds

Key context

The success of the European fund management regulations as global benchmarks needs to be maintained.²⁸

These trusted legal frameworks enable both institutional and retail investors to buy bonds, equities, and other investment products, to which they might not otherwise have direct access, and as such offer options to invest savings into capital markets on a highly scalable basis. The safe and efficient regulatory environment for funds in place in the EU attracts local and third country investment into the EU economy.

Funds are also an important vehicle for retirement savings for EU citizens, particularly through the long-established and successful **Undertakings for the Collective Investment in Transferable Securities (UCITS)** investment funds which are subject to a harmonised set of EU rules. In the future, it is expected that the **European Long-Term Investment Fund (ELTIF)** will join alongside UCITS as a trusted flagship product.

Ensuring attractiveness of investment funds

European investment funds must be made even more attractive, accessible and safe for investors, providing better options for households to invest their savings.

In this context, ICMA welcomes the recent reviews of the rules for the management of alternative funds (the **Alternative Investment Fund Managers Directive (AIFMD)**) and long-term investment funds (the **ELTIF Regulation**).²⁹

In the immediate term, ICMA recommends that EU authorities preserve the success of these legal frameworks.

In particular, for the revised AIFMD, the implementing rules should be consistent and not overlap with other EU regulatory reforms covering the costs and labels of funds, respectively **RIS** and the potential future review of the **Sustainable Finance Disclosure Regulation (SFDR)**.

To ensure the success of the reviewed ELTIF, it is important that the forthcoming implementing rules are consistent with AIFMD and the Retail Investment Strategy (also in the area of cost disclosures).³⁰

28 "Net assets of investment funds domiciled in Europe, UCITS and AIFs, totalled EUR 19.8 trillion at the end of Q2 2023. Luxembourg and Ireland are the two largest domiciles of UCITS and AIFs, with a market share of 26% and 19%, respectively (Q2 2023). Germany, France and the United Kingdom follow in this ranking." EFAMA, *Our industry in numbers*, <https://www.efama.org/about-our-industry/our-industry-numbers>
"[T]here were only 57 ELTIFs operating in the EU as of October 2021, all of them domiciled in only four Member States (Luxembourg, France, Italy and Spain). Moreover, while the total size of the ELTIF market is steadily growing (from €1.5billion in 2020 to around €2.4billion in 2021), the size of the segment is trivial when compared to the overall EU AIF market (worth around €6.8 trillion at present)." European Parliamentary Research Service, *Amending the ELTIFs Regulation*, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/729320/EPRS_BRI\(2022\)729320_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/729320/EPRS_BRI(2022)729320_EN.pdf)

29 Alternative investment funds include all non-UCITS funds, namely funds of funds, real estate funds, hedge funds, private equity funds and "other AIFs" (fixed income, equity strategies and mixed funds). ICMA, *Quarterly Report*, Q1 2023, p.49, https://www.icmagroup.org/assets/documents/Regulatory/Quarterly_Reports/ICMA-Quarterly-Report-Q1-2023.pdf
ELTIFs are AIF focused on long term investments, eg for SMEs, infrastructure, real estate, green and digital transition. Official Journal of the European Union, *ELTIF Regulation*, 2015, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32015R0760>

30 ICMA, *Quarterly Report, Draft RTS under the revised ELTIF Regulation: AMIC response to ESMA*, Q4 2023, p. 39 https://www.icmagroup.org/assets/documents/Regulatory/Quarterly_Reports/ICMA-Quarterly-Report-Q4-2023.pdf

Regarding the EC's macroprudential policy workstream, ICMA welcomes the EC's recent report on potential systemic risks relating to non-bank financial intermediaries (**NBFIs**) and the recognition that, under the **UCITS Directive** and **AIFMD**, these EU investment products are already subject to a comprehensive set of rules providing macroprudential tools and provisions to manage risk.³¹

Recommendations

Funds

ICMA recommends that EU institutions preserve the success of the legal framework:

- For the revised **AIFMD**, the implementing rules should be consistent and not overlap with other EU regulatory reforms covering the costs (**Retail Investment Strategy**) and labels of funds (the **SFDR**).
- To ensure the success of the reviewed **ELTIF Regulation**, it is important that the forthcoming implementing rules are consistent with **AIFMD** and **RIS** (also in the area of cost disclosures).
- Regarding the EC's macroprudential policy workstream, ICMA welcomes the EC's recent report on potential systemic risks relating to **NBFIs** and the recognition that, under the **UCITS Directive** and **AIFMD**, these long established and successful EU investment products are already subject to a comprehensive set of rules.

Financial inclusion and literacy

Key context

Financial literacy has a key role to play in underpinning an understanding of the financial ecosystem that supports the functioning of the real economy and provides options for households to invest their savings. Lack of familiarity with and knowledge of bond markets, wealth management tools, brokerage access, affordable financial advice and functioning of financial markets more broadly, is a factor hampering a greater participation of retail markets.

Bonds, in many cases, provide relative safety of investment (compared to equities) and at the same time excellent diversification opportunities. Familiarity with bonds will not only potentially boost direct purchases from investors (where regulation permits) but also, and more importantly, encourage more bond investment through mutual funds and savings plans which should be the principal and most effective route through which retail investment can access bond markets.

In some EU countries, there has been a recent surge in government retail-targeted bond issuance. Financial literacy aligns with issuing governments' ambitions of encouraging a culture of saving and investing beyond those individuals who are already financially sophisticated.

ICMA welcomes financial literacy initiatives at both global, EU and national levels, for instance the International Organisation of Securities Commissions' (**IOSCO**) **World Investor Week**, the joint **EC and the Organisation for Economic Co-operation and Development (OECD) financial competence frameworks** and the **Belgian Financial Services and Markets Authority's (FSMA) interactive financial education centre Wikifin Lab**.

Further initiatives to build financial knowledge and familiarity among citizens of bonds as an attractive "asset class" should be undertaken with urgency.

ICMA offers industry-leading education and training programmes in capital markets and would be very pleased to work with the appropriate authorities to devise suitable and relevant training programmes to boost the broad-based understanding of bond markets and how bonds can fit more effectively into an investment plan or portfolio.

³¹ EC, *NBFIs Report*, January 2024, [https://ec.europa.eu/transparency/documents-register/detail?ref=COM\(2024\)21&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=COM(2024)21&lang=en)

Recommendations

Financial inclusion and literacy

- ICMA welcomes financial literacy initiatives, for instance **IOSCO's World Investor Week**, the joint **EC and OECD financial competence frameworks** and **Belgian FSMA's** interactive financial education centre **Wikifin Lab**.
- **ICMA offers industry-leading education and training programmes in capital markets** and would be very pleased to work with the appropriate authorities to devise suitable and relevant training programmes to boost the broad-based understanding of bond markets.

C. The EU's leadership in sustainable finance needs to be reinforced

EU issuers (including the EC itself in its public issuer role) are central in the global sustainable bond markets that finance green and sustainable projects and investments. The EU has also developed a comprehensive regulatory framework for sustainable finance. The next mandate is a crucial opportunity to consolidate the EU's leadership position by ensuring that existing regulation meets its objectives while supporting a market that underpins the "Green Deal".

Key context

The EC's 2023 Strategic Foresight Report states that "Overall, additional investments of over EUR620 billion annually will be needed to meet the objectives of the Green Deal and RepowerEU. By far the greatest part of these will have to come from private funding."³² Total issuance of Green, Social, Sustainability and Sustainability-linked bonds (known collectively as sustainable bonds) globally amounted to USD863 billion in 2023. 97% of these sustainable bonds are issued under a global standard (the "Principles")³³ administered by ICMA.³⁴

EU issuers play a key role in this market and represent approximately 50% of total issuance.³⁵ Moreover, the EC itself is a major issuer of sustainable bonds. Between October 2020 and December 2022, the Commission issued EUR98.4 billion of social bonds under its SURE programme to ensure pandemic-related employment relief.³⁶ It has also issued EUR49 billion of green bonds under its NextGeneration EU Green Bonds programme of EUR250 billion.³⁷ The Commission's social and green bonds align with the ICMA Principles.

The EU has developed its own official label within this market with the **EU Green Bond Standard** that is consistent with the global standard represented by ICMA's Principles while being a verified official label requiring alignment with the EU Taxonomy. More broadly, the EU has been the global leader in developing legislation for sustainable finance with major initiatives such as the **Taxonomy Regulation, SFDR, CSRD**.

Calibration of existing initiatives

The EU is the global leader in terms of both market development and regulation of sustainable finance. It is, however, generally recognised, including by the Commission itself,³⁸ that several aspects of the EU's sustainable finance regulation (on which ICMA, and many other market stakeholders, have provided constructive feedback) may require calibration – in some cases potentially through amendments to primary legislation.

This is most recently illustrated by the Commission's **SFDR** consultation to which ICMA provided a detailed response³⁹ which identified, amongst other issues, the need for disclosure requirements and templates to be shortened, clarified, and refocused on most material issues. ICMA members also clearly and strongly supported an EU official categorisation system for sustainable funds.

32 EC, 2023 Strategic Foresight Report: Sustainability and people's wellbeing at the heart of Europe's Open Strategic Autonomy, 6 July 2023, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2023%3A376%3AFIN>

33 ICMA, *The Principles, Guidelines and Handbooks*, 2024, <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/> and ICMA analysis based on Bloomberg data.

34 ICMA, *Sustainable bonds aligned with GBP, SBP, SBG and SLBP in 2022, 2023*, <https://www.icmagroup.org/assets/documents/Sustainable-finance/Sustainable-bonds-aligned-with-the-Principles-in-2023-180324.pdf>

35 ICMA, *Sustainable Bond Market Data*, 2024, <https://www.icmagroup.org/sustainable-finance/sustainable-bonds-database/>

36 EC, *SURE*, 2023, https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/sure_en

37 EC, *NextGenerationEU Green Bonds*, 2023, https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu-green-bonds_en

38 EC, *Sustainable Finance Package 2023*, 13 June, https://finance.ec.europa.eu/publications/sustainable-finance-package-2023_en

39 ICMA, *Joint ICMA response to the EC's targeted consultation on the SFDR*, 2023, <https://www.icmagroup.org/assets/EU-Survey-Targeted-consultation-on-SFDR.pdf>

Usability of EU Taxonomy

More generally, the **EU Taxonomy**, which is at the centre of disclosure and alignment requirements of European sustainable finance regulations, faces important usability issues⁴⁰ that need to be pragmatically resolved. Key issues are, for example: (i) the requirement for highly granular data for Technical Screening Criteria and Do No Significant Harm (DNSH) purposes; (ii) the reliance on EU legislation and criteria in international markets; and (iii) inconsistency in the use of estimates and third-party data.

Greenwashing risks

Greenwashing risks in sustainable finance have been a key concern of European legislators and regulators. ICMA has contributed actively to the debate with a paper on “Market integrity and greenwashing risks in sustainable finance”⁴¹ underlining how these risks can be addressed by the **EU Taxonomy** and several other relevant EU regulations. The paper argues that the priority should be given to the implementation and optimisation of existing regulation with a focus on usability and international interoperability. Potential new initiatives, notably to create exhaustive regulatory definitions of greenwashing, could create more issues than they might solve as they would risk market paralysis or regression because of excessive reputational or litigation fears.

Transition finance

Transition finance has also been a top priority of the EU policy makers, market participants and other stakeholders in recent years.

ICMA's February 2024 report, *Transition Finance in the Debt Capital Market*,⁴² calls for the early adoption of transition plans by issuers before such may potentially be required by law and highlights the need for international consistency of transition plans including under the **European Sustainability Reporting Standards (ESRS) E1** (climate change).

The report also explores overlapping transition finance definitions and existing official sector guidance in the form of taxonomies (including the EU Taxonomy) and pathways and roadmaps (e.g. the EU's sector-based pathways).⁴³ It proposes a structure for an “integrated transition plan”, building on the International Sustainability Standards Board's (ISSB) International Financial Reporting Standards (IFRS) S2 (Climate-related Disclosures), the ESRS E1, the UK Transition Plan Taskforce (TPT) recommendation, and ICMA's Climate Transition Finance Handbook (CTFH).

ICMA also reiterates its earlier recommendation (see its **SFDR** consultation response) that all fund products (i.e. even those that do not have any sustainability claim) could disclose their exposures (percentage) to investees who implement “credible” transition plans. This could help reorient capital flows towards credibly transitioning entities by informing investor choices (especially those of retail) and incentivising investees to decarbonise.

40 ICMA, *Ensuring the usability of the EU Taxonomy*, February 2022, <https://www.icmagroup.org/assets/GreenSocialSustainabilityDb/Ensuring-the-Usability-of-the-EU-Taxonomy-and-Ensuring-the-Usability-of-the-EU-Taxonomy-February-2022.pdf>

41 ICMA, *Market integrity and greenwashing risks in sustainable finance*, 2023, <https://www.icmagroup.org/News/news-in-brief/icma-releases-new-paper-on-market-integrity-and-greenwashing-risks-in-sustainable-finance/>

42 ICMA, *Transition finance in the debt capital market*, 2024, <https://www.icmagroup.org/News/news-in-brief/icma-publishes-a-new-paper-on-transition-finance-in-the-debt-capital-market/>

43 EC, *Transition pathways for European industrial ecosystems*, https://single-market-economy.ec.europa.eu/industry/transition-pathways_en#overview-of-transition-pathway-progress-per-ecosystem

Recommendations

Sustainable finance

- Under **SFDR**, there is the need for disclosure requirements and templates to be shortened, clarified, and refocused on most material issues. ICMA members supported an EU official categorisation system for sustainable funds.
- The **EU Taxonomy** faces important usability issues that need to be pragmatically resolved.
- On **greenwashing risks**, the priority should be given to the implementation and optimisation of existing regulation with a focus on usability and international interoperability. Potential new initiatives to create exhaustive regulatory definitions of greenwashing could create more issues than they solve.
- ICMA calls for the early adoption of **transition plans** by issuers before such may potentially be required by law and highlights the need for international consistency of transition plans including under the **ESRS E1** (climate change). Under **SFDR**, all fund products could disclose their exposures to investees who implement “credible” transition plans.

D. The EU needs a more efficient and integrated post-trade landscape

Ensuring that the post-trade process works smoothly and on a timely basis contributes strongly to the attractiveness and competitiveness of the EU capital markets, and the next mandate is an opportunity to look at further optimisation here.

Key context

A safe and efficient post-trade process is key to the well-functioning of the financial market. This covers a whole range of activities, including the clearing and settlement of transactions, asset servicing and reporting, along with the related market infrastructures.

Unlike other major markets globally, the EU capital market remains fragmented. This is particularly visible in the post-trade space, reflected in the numerous national market infrastructures that continue to coexist (e.g. trading venues, central counterparties (CCPs) and central securities depositories (CSDs)), but also in a lack of harmonisation in tax frameworks, corporate actions, and other market specificities, as well as multiple currencies. All of these factors introduce additional friction into the post-trade process and mean that cross-border trading, clearing and settlement in Europe is still not as smooth and efficient as it could be. The key issues and barriers are well documented and have been pointed out in numerous reports and discussions, particularly in the context of the **Giovannini reports** and subsequent workstreams, including the final report of the **European Post-Trade Forum (EPTF)** (2017).⁴⁴ ICMA welcomes a renewed focus on the remaining barriers in the post-trade space (**the ECB's Advisory Group for Market Infrastructures for Securities and Collateral (AMI-SeCO) recent survey**),⁴⁵ which is also in line with recent **ECB President** comments.⁴⁶

ICMA supports improved efficiency initiatives in **clearing**. Acknowledging some of the important benefits which central clearing can bring while at the same time identifying issues around cost, market access and potential concentration risk, ICMA highlights the need for proportionately and well-calibrated clearing frameworks to support maximum market efficiency and is keen to play an active role in the debate.

Settlement efficiency

Partly as a result of the complexities and frictions mentioned above, there has been much regulatory focus in Europe on the efficiency and timeliness of settlement, which led to the **EU Central Securities Depositories Regulation (CSDR)** and the introduction of a harmonised settlement discipline regime. This includes cash penalties for settlement fails, as well as mandatory buy-ins (MBIs). Faced with significant industry concern, the MBI regime has never been applied and was redefined under **CSDR Refit**⁴⁷ as a last resort measure, which ICMA hopes will never need to be implemented. ICMA urges the Commission for continued caution in relation to MBIs given their potentially highly disruptive impact on the European capital market. Similarly, ICMA cautions against a major recalibration of the penalty regime, recognising that a penalty mechanism is unwarranted in a normal interest rate environment and this could harm the competitiveness of the EU market.⁴⁸

⁴⁴ ICMA, *European Post-Trade Forum (EPTF)*, 2017, <https://www.icmagroup.org/market-practice-and-regulatory-policy/market-infrastructure/european-post-trade-forum-epf/>

⁴⁵ ICMA, *ICMA ERCC responds to AMI-SeCo survey on remaining post-trade barriers in Europe*, January 2024, <https://www.icmagroup.org/News/news-in-brief/icma-ercc-responds-to-ami-seco-survey-on-remaining-post-trade-barriers-in-europe/>

⁴⁶ Christine Lagarde, President of the ECB, *A Kantian Shift for the Capital Markets Union*, 17 November 2023, <https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp231117~88389f194b.en.html>

⁴⁷ ICMA, *European Council and Parliament reach agreement on CSDR Refit*, 2023, <https://www.icmagroup.org/News/news-in-brief/european-council-and-parliament-reach-agreement-on-csdr-refit/>

⁴⁸ ICMA, *CSDR Penalties An ICMA briefing note on ESMA's proposals to revise the CSDR Penalty Mechanism*, March 2024, <https://www.icmagroup.org/assets/documents/Regulatory/Secondary-markets/CSDR-Settlement-Regulation/CSDR-Penalties-An-ICMA-briefing-note-on-ESMA's-proposals-to-revise-the-CSDR-Penalty-Mechanism-March-2024-110324.pdf>

At the same time, ICMA has always recognised the importance of improving settlement efficiency in Europe and has been working with members on other measures to optimise settlement, including through more technical solutions such as partial settlement and other tools, which will have a more meaningful impact and have not been sufficiently considered yet. ESMA's mandate under the CSDR Refit to explore those solutions is a great opportunity to achieve some tangible improvements.

T+1 settlement

Finally, the EU authorities are assessing whether, how and when the EU should follow other markets in adopting a T+1 settlement cycle, i.e. the proposal to shorten the time between trade execution and settlement from currently two days to a single day. Given the complexities in the EU outlined above, this will be a major undertaking which would require substantial investment. ICMA urges policy makers to take a cautious approach. The EU is not easily comparable with other markets and these specificities need to be carefully considered and addressed before attempting a move to T+1, which comes with major risks and could cause large-scale disruption if attempted prematurely, harming EU competitiveness,⁴⁹ not least with respect to less liquid asset classes such as corporate bonds.

Recommendations

Post-trade

- ICMA welcomes a renewed focus on the remaining barriers in the post-trade space (recent **ECB President comments and the ECB's AMI-SeCO survey**), following **Giovannini reports** and the **EPTF** in the past.
- In relation to **CSDR Refit** implementation, ICMA urges caution in relation to MBIs and against a major re-calibration of the penalty regime. However, ESMA's mandate under CSDR Refit to explore solutions such as partial settlement and other settlement efficiency tools is a great opportunity to achieve some tangible improvements.
- A move to a **T+1 settlement cycle** comes with major risks and could cause large-scale disruption if attempted prematurely, harming EU competitiveness, not least with respect to less liquid asset classes such as corporate bonds.
- ICMA supports improved efficiency initiatives in **clearing**. Acknowledging some of the important benefits which central clearing can bring while at the same time identifying issues around cost, market access and potential concentration risk, ICMA highlights the need for proportionately and well-calibrated clearing frameworks to support maximum market efficiency and is keen to play an active role in the debate.

⁴⁹ ICMA, "T+1" – the shortening of standard settlement cycles, 2024, <https://www.icmagroup.org/market-practice-and-regulatory-policy/repo-and-collateral-markets/t-1-the-shortening-of-standard-settlement-cycles/>

E. The EU should strengthen its support for digital bonds and the digital wholesale euro

The application of new and transformational technologies (specifically, distributed ledger technology (DLT) or blockchain) has far-reaching potential to modernise capital markets and reduce the cost of funding for issuers. It is an opportunity that Europe must seize, while at the same time ensuring that innovation takes place in a framework that ensures responsibility when it comes to resilience and conduct.

Key context

The European Investment Bank, the World Bank and other organisations have raised debt through digital bonds, i.e. DLT-based bonds.⁵⁰ Key benefits are that counterparty and other risks are mitigated, issuers obtain funding more quickly (same or next day, also referred to as “T+0” or “T+1” in industry jargon), and that investors receive interest payments faster. Additionally, DLT can help to trace how funds are used (e.g. for Green Bonds or Sustainability-linked Bonds) and measure the impact of sustainable projects.

DLT and blockchain regulation

It is important to acknowledge that DLT and blockchain in capital markets are fundamentally different to crypto assets such as Bitcoin. Regulation on a global level, notably the Basel Committee for Banking Supervision’s (BCBS) standard for the prudential treatment of banks’ exposure to crypto-assets, does not distinguish these characteristics sufficiently. This will hamper the development of digital bond markets as a source of funding, if underwriting and market making for such digital securities is penalised by regulation compared to traditional securities.⁵¹

The **EU DLT Pilot Regime Regulation** established a framework for a secondary market for digital securities i.e. to enable investors to buy or sell securities on exchanges. While this is a welcome initiative, applications from industry since the EU’s DLT Pilot Regime took effect in March 2023 are yet to take place. This may be due to the limitations of the EU DLT Pilot Regime: a limited lifespan of three years (which can be extended), temporary exemptions, rather than permanent changes in laws (notably of **CSDR**) and narrow limits for transactions in digital securities (e.g. in size of transactions). There is a risk that the regime might be too costly and uncertain for issuers and investors to invest resources in this, which would be a missed opportunity. More flexible limits, especially on the duration of the regime, and permanent changes in law would provide greater certainty for firms and strengthen the EU’s competitiveness.

Fragmentation of legal frameworks

At the same time, the **legal frameworks for digital bonds in EU Member States** remain fragmented. For example, a security is not defined in EU legislation, but in national laws. In recent years, a number of Member States have adopted new laws or changed existing legislation to accommodate digital securities (e.g. the Electronic Securities Act in Germany, passed in 2021). While it provides legal certainty in one jurisdiction, it has also led to greater divergence between EU Member States.

⁵⁰ For an overview of transactions see: ICMA, *Tracker of New FinTech Applications in Bond Markets*, 2023, <https://www.icmagroup.org/market-practice-and-regulatory-policy/fintech-and-digitalisation/fintech-resources/tracker-of-new-fintech-applications-in-bond-markets/>

⁵¹ ICMA, *ICMA co-signs joint trade association response to BCBS consultation on banks’ disclosure of crypto-asset exposures*, 2024, February, <https://www.icmagroup.org/News/news-in-brief/icma-co-signs-joint-trade-association-response-to-bcbs-consultation-on-banks-disclosure-of-crypto-asset-exposures/>

Wholesale digital euro

To unlock the benefits of digital bonds at scale, a wholesale digital euro (**Central Bank Digital Currency (CBDC)**) is required. Put simply, to buy a digital bond, an investor needs digital euro. It is therefore important that the ECB continues to prepare for a wholesale digital euro. This will increase the attractiveness of capital markets and facilitate access to funding for the real economy.

Standardisation and interoperability

Promoting market efficiency and avoiding market fragmentation are key priorities for ICMA and its members both from the public sector as well as the private sectors. For instance, ICMA has prepared standard terminology and a machine-readable presentation of information about bonds (notably **ICMA's Bond Data Taxonomy (BDT)**) and repo transactions (**the Common Domain Model (CDM)**). (Please also see the separate section on repo.)

These standards promote interoperability between the world of digital bonds and traditional securities and support efficient market functioning more broadly, e.g. by facilitating automation of bond trading and reporting. This will also help firms comply with EU regulations more efficiently and underpin the liquidity of bond markets.⁵²

Recommendations

Digital bonds and the digital wholesale euro

- At an international level, it is important to acknowledge that **DLT** and **blockchain** in capital markets are fundamentally different to crypto assets such as Bitcoin. Regulation on a global level, notably the **BCBS's standard for the prudential treatment of banks' exposure to crypto-assets**, does not distinguish these characteristics sufficiently.
- On the **EU DLT Pilot Regime Regulation**, more flexible limits, especially on duration of the regime, and permanent changes in law (e.g. **CSDR**) would provide greater certainty for firms.
- At the same time, the **legal frameworks for digital bonds in EU Member States** remain fragmented. For example, a security is not defined in EU legislation, but in national laws.
- To unlock the benefits of digital bonds at scale, a **wholesale digital euro** or **CBDC** is required.
- Promote market standardisation through the implementation of initiatives such as the **CDM** and ICMA's **BDT**.

⁵² For background materials see: ICMA, *FinTech and Digitalisation*, 2024, <https://www.icmagroup.org/market-practice-and-regulatory-policy/fintech-and-digitalisation/>

Conclusion

The size and scale of the international bond markets is already enormous, playing a major role globally as a highly effective source of financing.

Harnessing the further great potential of EU bond markets is essential to meet the EU's investment needs, address the significant challenges of financing pan-regional sustainable economic growth in the future and help to deliver an effective Capital Markets Union, while enabling EU citizens to invest for their retirement.

The focus on bond markets relative to other sources of financing should be increased with key decision makers redoubling their efforts to work with industry practitioners on making improvements to the EU bond market to enhance efficiency and accessibility, supported by proportionate and well-structured regulation, taking international harmonisation and consistency into consideration where possible.

The EU has demonstrated strong global leadership in sustainable finance, and bond markets are vital to help the EU deliver its goals in this space. While continuing to drive the highest standards, it is essential that actions are taken to encourage the broadest involvement by both issuers and investors and activity is not discouraged by overly burdensome disclosure and alignment requirements.

Digitalisation and the application of transformational technologies present huge opportunities to improve efficiencies, mitigate risk and reduce cost across all areas of market activity. In this regard it is critical that key stakeholders help to set frameworks that drive consistency of standards, integration and interoperability of processes.

Summary of recommendations

Institutional

Primary markets

Institutional bond markets in the EU function reasonably efficiently under the existing regulatory and legal framework and it is vital that this is preserved, e.g.:

- **Listing Act:** Take into account the existing and upcoming requirements under **CSRD** when considering whether technical implementing rules under **the Prospectus Regulation** need to be prescriptively detailed.
- **Retail Investment Strategy:** Carefully calibrate retail investor protection requirements under **MiFID** in order to avoid disrupting institutional bond markets.

Implementation of **ESAP** must deliver efficient search and download functionality for investors without imposing significant additional burdens on issuers.

Securitisation

- A new perspective on **prudential calibration (e.g. under the CRR III CRD VI)** is particularly relevant to underpinning and developing securitisation.

Secondary markets

- The **MiFIR and MiFID II** reviews that have been undertaken should help to deliver the much-supported consolidated tape for bonds.
- In preparation for implementing rules from the review of **MiFIR**, a vital consideration will be the calibration of deferrals with respect to when certain transaction details are made publicly available.
- There is also a need to consider the role of market makers, and the value they bring in the form of bond market liquidity and resilience, when calibrating prudential regulation. **CRR III and CRD VI**, along with the introduction of the **FRTB**, may result in even smaller dealer capacity, at a time when authorities are considering how to grow the EU's capital markets.

Repo

ICMA would welcome:

- a fuller review of the current regulatory framework around repo, in particular **CRR III and CRD VI**.
- a review of existing constraints for the buy-side in relation to repo under the **MMFR and UCITS Directive**. Removing barriers to facilitate non-bank access to central clearing for repo should be part of this consideration.
- the anticipated review of the **SFTR**, in order to address outstanding issues with the reporting rules, enhance data quality and consequently enhance the overall market transparency.

Short-term markets

- ICMA supports carrying out the **FSB analysis** of the functioning of **the short-term markets** first (focus towards strengthening the efficiency and resilience), before any dedicated EU MMFR review is undertaken.
- As to the potential **review of MMFR**, ICMA has already highlighted the potentially negative unintended consequences of changes to the composition of certain MMF structures.

Retail

Primary markets

- ICMA believes that further unlocking the potential of bond markets for a broader base of retail investor participation requires both careful recalibration of existing rules (under **PRIIPs, Prospectus Regulation and MiFID**) and fresh thinking around how to create new opportunities for access (e.g. under the **Prospectus Regulation**).

Funds

ICMA recommends that EU institutions preserve the success of the legal framework:

- For the **revised AIFMD**, the implementing rules should be consistent and not overlap with other EU regulatory reforms covering the costs (**RIS**) and labels of funds (the **SFDR**).
- To ensure the success of the reviewed **ELTIF Regulation**, it is important that the forthcoming implementing rules are consistent with **AIFMD and RIS** (also in the area of cost disclosures).
- Regarding the EC's **macroprudential policy workstream**, ICMA welcomes the EC's recent report on potential systemic risks relating to **NBFIs** and the recognition that, under the **UCITS Directive** and **AIFMD**, these long established and successful EU investment products are already subject to a comprehensive set of rules.

Financial inclusion and literacy

- ICMA welcomes financial literacy initiatives, for instance **IOSCO's World Investor Week**, the joint **EC and OECD financial competence frameworks** and **Belgian FSMA's** interactive financial education centre **Wikifin Lab**.
- **ICMA offers industry-leading education and training programmes in capital markets** and would be very pleased to work with the appropriate authorities to devise suitable and relevant training programmes to boost the broad-based understanding of bond markets.

Sustainable finance

- Under **SFDR**, there is the need for disclosure requirements and templates to be shortened, clarified, and refocused on most material issues. Our members supported an EU official categorisation system for sustainable funds.
- The **EU Taxonomy** faces important usability issues that need to be pragmatically resolved.
- On **greenwashing risks**, the priority should be given to the implementation and optimisation of existing regulation with a focus on usability and international interoperability. Potential new initiatives to create exhaustive regulatory definitions of greenwashing could create more issues than they solve.
- ICMA calls for the early adoption of **transition plans** by issuers before such may potentially be required by law and highlights the need for international consistency of transition plans including under the **ESRS E1** (climate change). Under **SFDR**, all fund products could disclose their exposures to investees who implement “credible” transition plans.

Post-trade

- ICMA welcomes a renewed focus on the remaining barriers in the post-trade space (recent **ECB President comments and the ECB's AMI-SeCO survey**), following **Giovannini reports** and the **European Post-Trade Forum (EPTF)** in the past.
- In relation to **CSDR Refit** implementation, ICMA urges for caution in relation to MBIs and against a major re-calibration of the penalty regime. However, ESMA's mandate under CSDR Refit to explore solutions such as partial settlement and other settlement efficiency tools is a great opportunity to achieve some tangible improvements.
- A move to a **T+1 settlement cycle** comes with major risks and could cause large-scale disruption if attempted prematurely, harming EU competitiveness, not least with respect to less liquid asset classes such as corporate bonds.
- ICMA supports improved efficiency initiatives in **clearing**. Acknowledging some of the important benefits which central clearing can bring while at the same time identifying issues around cost, market access and potential concentration risk, ICMA highlights the need for proportionately and well-calibrated clearing frameworks to support maximum market efficiency and is keen to play an active role in the debate.

Digital bonds and the digital wholesale euro

- At an international level, it is important to acknowledge that that the DLT and blockchain in capital markets are fundamentally different to crypto assets such as Bitcoin. Regulation on a global level, notably the **BCBS's standard for the prudential treatment of banks' exposure to crypto-assets**, does not distinguish these characteristics sufficiently.
- On the **EU DLT Pilot Regime Regulation**, more flexible limits, especially on duration of the regime, and permanent changes in law (e.g. **CSDR**) would provide greater certainty for firms.
- At the same time, the **legal frameworks for digital bonds in EU Member States** remain fragmented. For example, a security is not defined in EU legislation, but in national laws.
- To unlock the benefits of digital bonds at scale, a **wholesale digital euro** or **CBDC** is required.
- Promote market standardisation through the implementation of initiatives such as the CDM and ICMA's BDT.

About ICMA

The International Capital Market Association (ICMA) has existed for more than 50 years to promote resilient, well-functioning, international and globally coherent debt securities markets, which are essential to fund sustainable economic growth and development. In doing so, ICMA has been a constant pioneer in setting standards and principles to underpin the integrity, efficiency, and development of bond markets.

ICMA also recognises and supports the important role of regulation in bond market development: creating a level playing field for issuers, investors, intermediaries, and infrastructures; ensuring protection and fairness for investors; maintaining the highest standards of participant behaviour; providing market integrity; creating a nurturing environment for capital formation and investment flows; securing market stability; fostering innovation; and adhering to international standards, while remaining globally competitive.

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

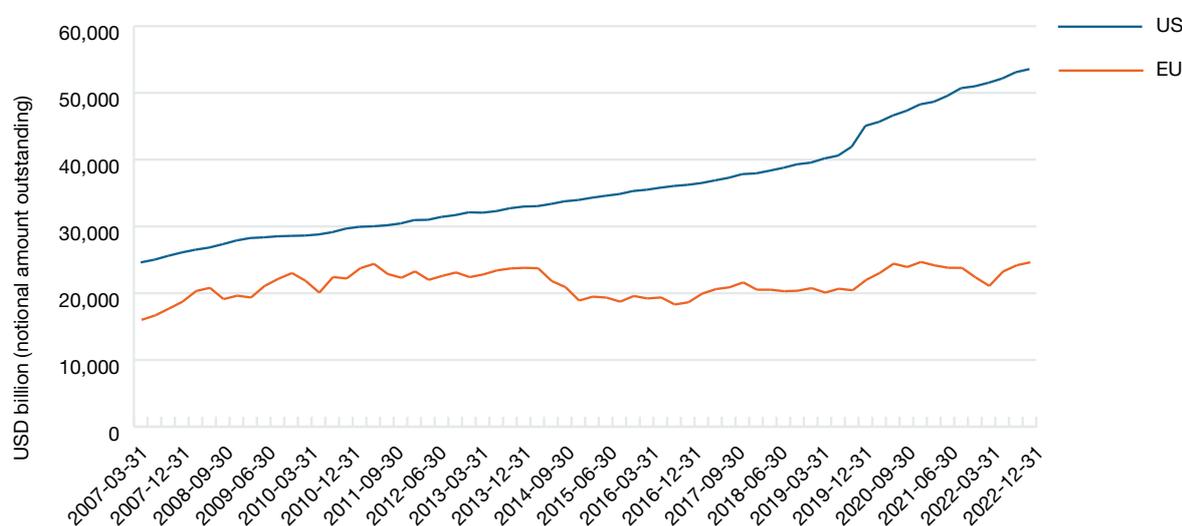
ICMA currently has over 620 members in 68 jurisdictions worldwide. ICMA brings together members from all segments of the wholesale and retail debt securities markets, through regional and sectoral member committees, and focuses on a comprehensive range of market practice and regulatory issues which impact all aspects of international market functioning. ICMA prioritises three core areas – primary markets, secondary markets, repo and collateral: with two cross-cutting themes of sustainable finance and FinTech.

Annex: Size of bond markets and bonds vs equities

Size of bond markets – US vs EU

EU bond markets are already large, with EU sovereign and corporate debt estimated to have a size of USD25 trillion. This compares to a bond market size of USD53.6 trillion in the US.

Figure 1: US and EU bond markets (corporate and sovereign bonds)

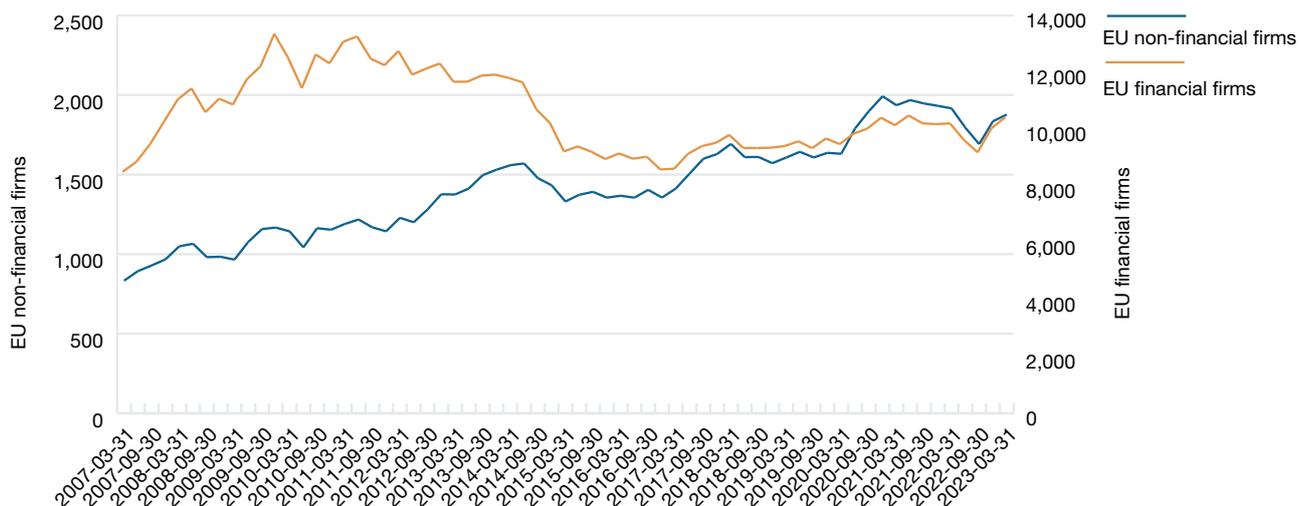


Source: BIS Data Portal, Summary of debt securities outstanding, notional amount outstanding, data from 2007 Q1 to 2023 Q1, note these figures exclude Romania and Sweden due to a lack of data on the BIS data portal, https://data.bis.org/topics/DSS/tables-and-dashboards/BIS,SEC_C1,1.0

Size of EU corporate bond markets

In the case of non-financial corporate debt, the size of the EU bond market grew from around USD0.8 trillion in 2007 to around USD1.9 trillion in 2023. Financial sector firms' outstanding debt in EU rose from USD8.4 trillion to USD10.4 trillion in 2023.

Figure 2: EU corporate bond market (USD billion) - notional amount outstanding

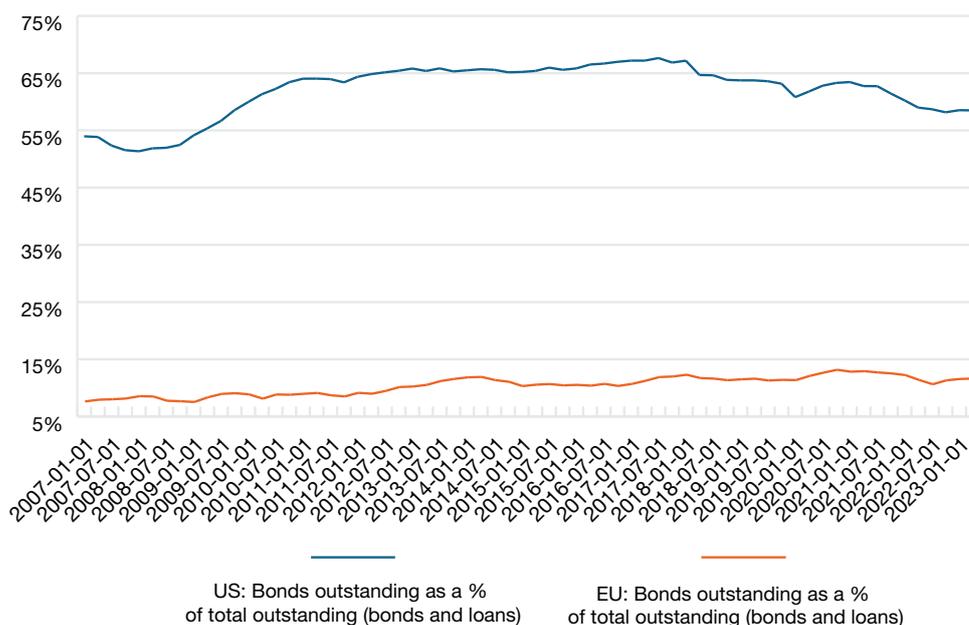


Source: BIS Data Portal, Summary of debt securities outstanding, notional amount outstanding, data from 2007 Q1 to 2023 Q1, note these figures exclude Romania and Sweden due to a lack of data on the BIS data portal, https://data.bis.org/topics/DSS/tables-and-dashboards/BIS_SEC_C1,1.0

Financing structure in EU and US for non-financial corporations

From a structural perspective, US and EU markets are different. EU non-financial corporations rely on loans for their funding needs to a greater extent than US non-financial corporations. From 2007 to 2023, on average, the size of EU non-financial corporate bonds outstanding notional represented 10% of total non-financial corporate debt (with total debt defined as the sum of outstanding bonds and loans). In the US the average observation instead was 62%. The same trends were observed in 2016 by Demary, Hornik and Watfe⁵³.

Figure 3: Financing structure in EU and US for non-financial corporations



Source: ICMA calculated using: BIS Data Portal, Summary of debt securities outstanding, https://data.bis.org/topics/DSS/tables-and-dashboards/BIS,SEC_C1,1.0

ECB Data Portal, Loans vis-à-vis euro area Non-MFIs, <https://data.ecb.europa.eu/data/datasets/BSI/BSI.M.LU.N.A.A20.A.1.U2.2200.Z01.E>

Board of Governors of the Federal Reserve System (US), Financial Accounts of the United States - Z.1, <https://www.federalreserve.gov/releases/z1/>

⁵³ Institut der deutschen Wirtschaft Köln, *SME Financing in the EU: Moving Beyond One-Size-Fits-All*, 2016, https://www.iwkoeln.de/fileadmin/publikationen/2016/277619/IW-Report_2016-11_SME-Financing-in-the-EU.pdf

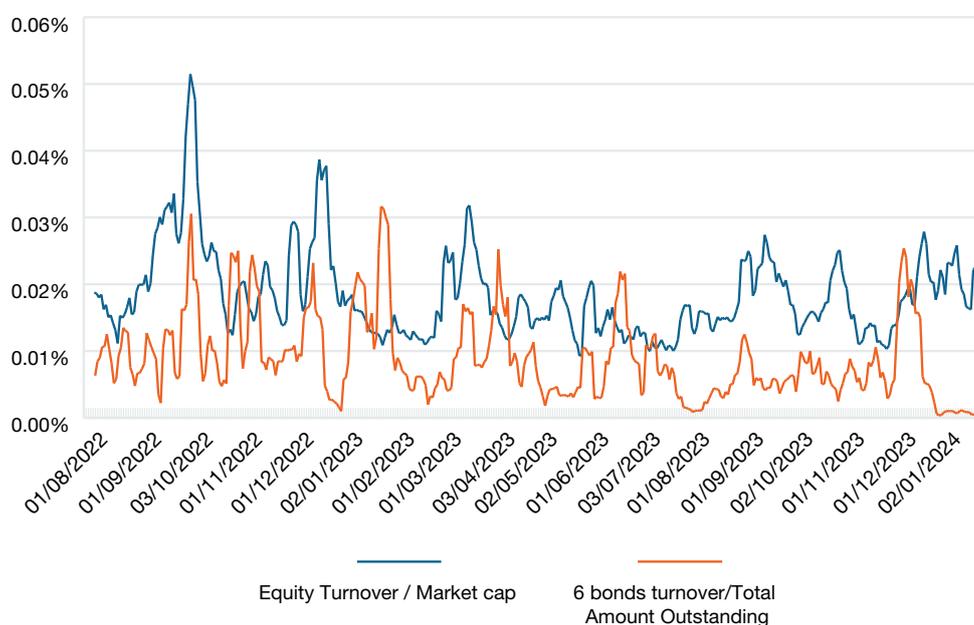
Bonds are different from equities

The structure of bond markets is different to the structure of equity markets. Unlike equities, where there are usually one or possibly two classes of share per issuer, private sector companies, governments and other issuers tend to issue multiple bonds over a period of time (this could range from tens to hundreds of issues).⁵⁴

All these bonds have different characteristics depending on the funding needs of the issuer (including different maturities, currencies, early redemption features, and different ranking in the capital structure).

Furthermore, due to their largely buy-to-hold nature, individual bonds do not trade nearly as frequently in the secondary market as equities.⁵⁵

Figure 4: Turnover comparison (5 day moving average)



Source: ICMA calculation using Bloomberg and Propellant data

⁵⁴ In support of this observation, we note ESMA's quarterly liquidity assessment, which is conducted by using trading data for equities and bonds. The number of available bonds is typically five times the number of available equities. 'The [ESMA] data covers the total number of trades and total volume over the period 1 July 2023 to 31 December 2023 and includes: 25,261 equity and equity-like instruments; 131,505 bonds [...]' <https://www.esma.europa.eu/press-news/esma-news/esma-publishes-data-quarterly-bond-liquidity-assessment-systematic-0>

⁵⁵ For Volkswagen Group, we compared its equity (VOW.GR equity ticker) and bonds turnover (turnover is defined as volume multiplied price for equity and notional traded for bonds.) To standardise the measures, we divide the equity turnover by the equity market-cap (market-cap is defined by total number of shares available in the market on a given day multiplied by the closing price of the same day.) The bond turnover was divided by the total outstanding amount for all bond instruments issued by the company. For the period August 2022 to January 2023, the equity daily turnover as a percentage of market cap averaged 0.018%. In the same way, we aggregated the turnover of six bonds (all of which were issued in sizes > €1 bn and tenor within five and ten years) and for the same period, the combined turnover as a percentage of total outstanding amount averaged 0.009%.

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